BANCA UBAE
مصرف اليوباي

ANNUAL REPORT 2017

Report and Financial Statements 2017

Your partner for International Business

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 2017)	Eur 59,481,206

Listed by percentage:

67.55%	Libyan Foreign Bank, Tripoli
10.79%	UniCredit S.p.A., Rome
5.39%	Eni S.p.A., 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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HEAD OFFICE - ROME

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P.O. Box	290
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Fax	+39 06 4204641
Swift	UBAI IT RR
Web	www.bancaubae.it

MILAN BRANCH

Address	Piazza A. Diaz, 7 20123 Milan, Italy
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Fax	+39 06 42046415
Swift	UBAI IT RR MIL

TRIPOLI (LIBYA) REPRESENTATIVE OFFICE

Address	Omar Mukhtar Street – Omar Mukhtar Investment Complex
Telephone	+218 21 4446598 / 4447639
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BOARD OF DIRECTORS 2015-2017
Appointed by Shareholders' Meeting on 30 April 2015

Chairman Sharef S.A. Shalabi

Vice Chairman Alberto Rossetti

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

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

BOARD OF STATUTORY AUDITORS **
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 2016).

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

Executive Directors

Global Head of Business Development Area	Massimo Castellucci
Head of Administrative/IT & Organization Area	Fabio Fatuzzo
Head of Credit & Risk Area	Giovanni Gargasole
Head of Finance Area	Antonino Sprizzi

Human Resources	Barbara Camilli
Internal Audit	Mirella Biasco
Compliance & Anti Money-Laundering	Annabella Colesanti
Risk Management	Alessia Monterosso

Head of Tripoli Representation Office	Mahmud Ali Elesawi

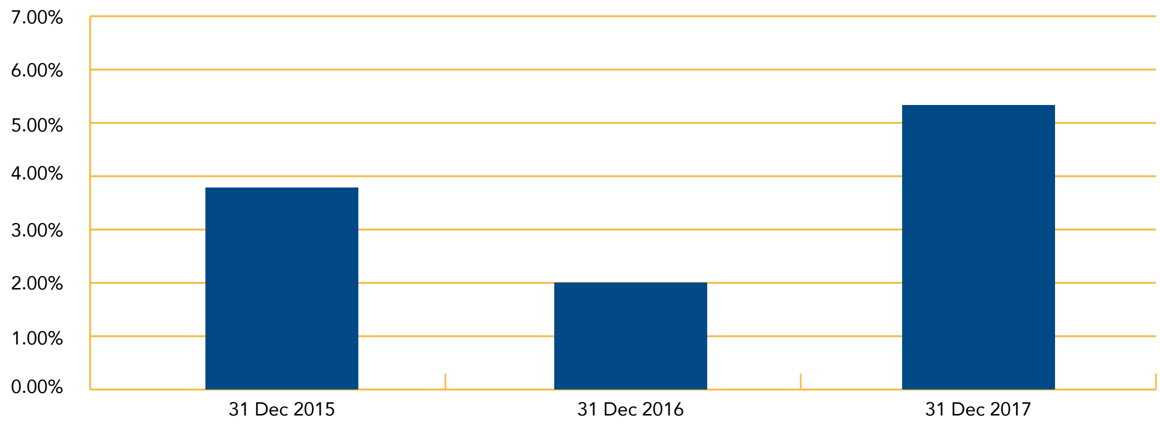
YOUR BANK FOR INTERNATIONAL BUSINESS

SUMMARY OF DATA, ECONOMIC AND FINANCIAL INDICES, CORPORATE GRAPHS

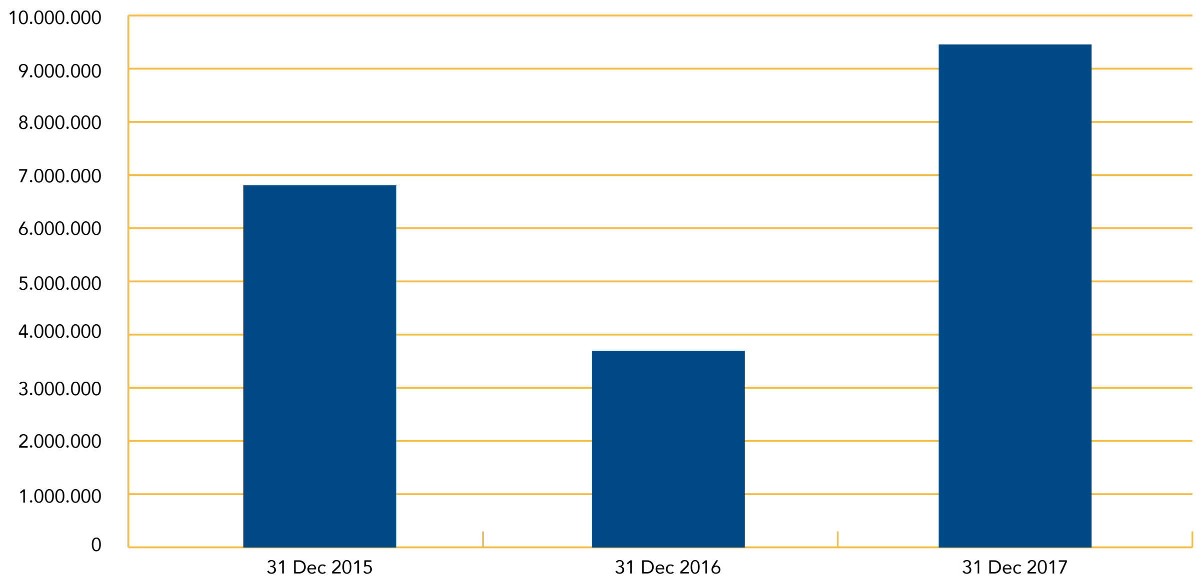
FINANCIAL DATA	31 DEC 2015	31 DEC 2016	31 DEC 2017	
FINANCIAL ASSETS	€ 591,166,976	€ 891,306,449	€ 333,687,880	
BANKS FINANCING	€ 643,263,680	€ 697,618,403	€ 601,794,546	
DEPOSITS TO BANKS	€ 1,163,243,204	€ 887,343,094	€ 1,441,828,720	
CUSTOMER FINANCING	€ 325,664,738	€ 354,394,696	€ 384,773,968	
EARNING ASSETS	€ 2,723,338,598	€ 2,830,662,642	€ 2,762,085,114	
TOTAL ASSETS	€ 2,786,816,993	€ 2,880,648,136	€ 2,845,669,200	
DEPOSITS FROM BANKS	€ 2,088,170,384	€ 1,963,258,630	€ 1,823,128,436	
FREE DEPOSITS AND A/C WITH BANKS	€ 313,003,182	€ 328,165,602	€ 528,984,184	
SUBORDINATED LOANS	€ 100,000,000	€ 100,000,000	€ 100,000,000	
CUSTOMER FUNDING	€ 143,298,742	€ 237,813,177	€ 125,798,327	
TOTAL FUNDING	€ 2,644,472,308	€ 2,629,237,409	€ 2,577,910,947	
RESERVES	€ 53,489,480	€ 57,596,542	€ 59,485,155	
SHARE CAPITAL	€ 159,860,800	€ 159,860,800	€ 159,860,800	
NET PROFIT	€ 6,847,514	€ 3,552,894	€ 9,439,548	
GROSS WORTH	€ 220,197,794	€ 221,010,236	€ 228,785,503	
NET INTEREST INCOME	€ 18,557,121	€ 21,347,896	€ 18,660,858	
NET COMMISSIONS	€ 13,247,423	€ 12,960,836	€ 17,088,479	
NET FINANCIAL INCOME	€ 5,355,805	€ 2,724,623	€ 17,454,094	
NET TRADING INCOME	€ 37,160,349	€ 37,035,068	€ 53,206,857	
OPERATING CHARGES	€ (29,678,348)	€ (29,032,088)	€ (29,647,472)	
NET OPERATING PROFIT	€ 7,482,001	€ 8,001,267	€ 23,559,385	
NET PROFIT	€ 6,847,514	€ 3,552,894	€ 9,439,548	
TURNOVER LETTERS OF CREDIT OIL	€ 614,583,147	€ 5,110,434	€ 150,935,354	
TURNOVER LETTERS OF CREDIT NO OIL	€ 870,597,969	€ 1,330,899,456	€ 1,777,681,945	
TURNOVER GUARANTEES	€ 100,781,752	€ 125,118,475	€ 122,617,313	
OUTSTANDING GUARANTEES	€ 384,143,173	€ 454,428,397	€ 447,204,573	
GROSS WORTH/TOTAL ASSETS	7.90%	7.67%	8.04%	
LOANS/DEPOSITS RATIO	40.35%	45.91%	41.94%	
INTERBANK RATIO	75.23%	69.17%	86.88%	
IMPAIRED LOANS/EARNING ASSETS	0.16%	0.05%	0.05%	
ROE NET PROFIT/PAID CAPITAL	3.88%	2.01%	5.35%	
ROE NET PROFIT/GROSS WORTH	3.11%	1.61%	4.13%	
ROI NET PROFIT/ FUNDING & EARNING ASSETS	0.13%	0.07%	0.18%	
ROA NET PROFIT/TOTAL ASSETS	0.25%	0.12%	0.33%	(*)
OPERATING CHARGES/NET TRADING INCOME	79.87%	78.39%	55.72%	
NET PROFIT/NUMBER OF EMPLOYEES	€ 36,230	€ 18,505	€ 48,161	
NUMBER OF EMPLOYEES	189	192	196	
TOTAL CAPITAL RATIO	17.04%	16.12%	17.89%	
CET1/TIER I CAPITAL RATIO	11.67%	11.04%	12.33%	
BANKING OWN FUNDS	€ 317,448,747	€ 316,202,581	€ 321,957,894	

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

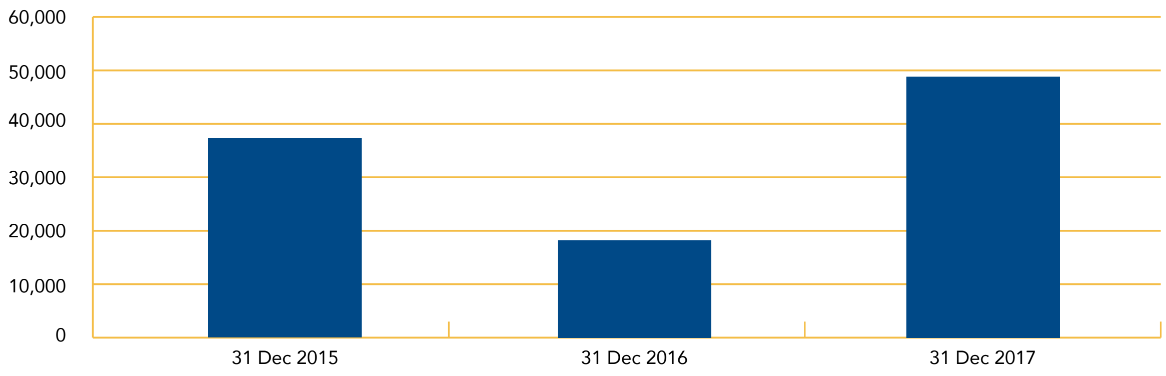
ROE



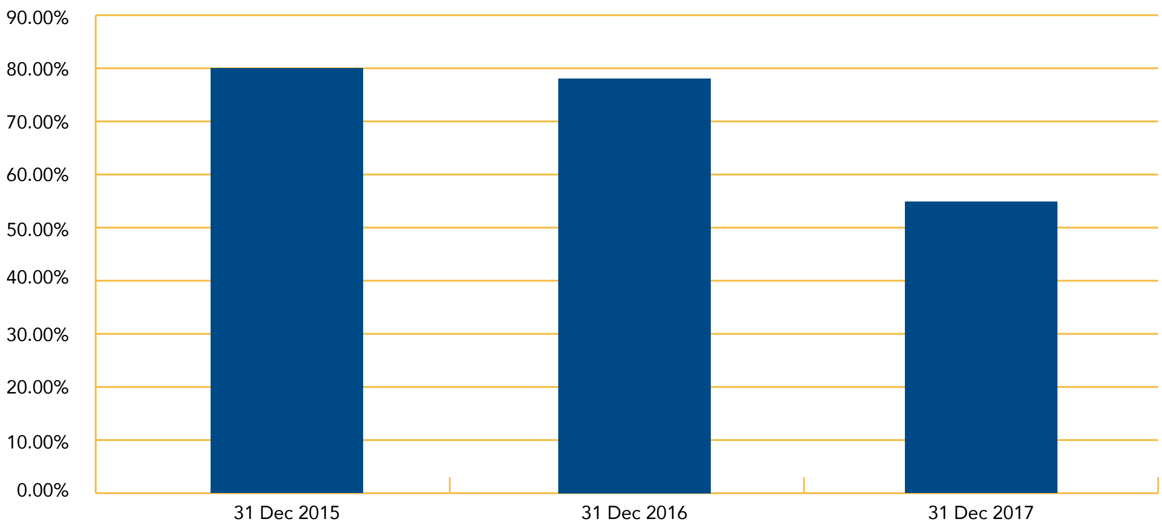
Net Profit



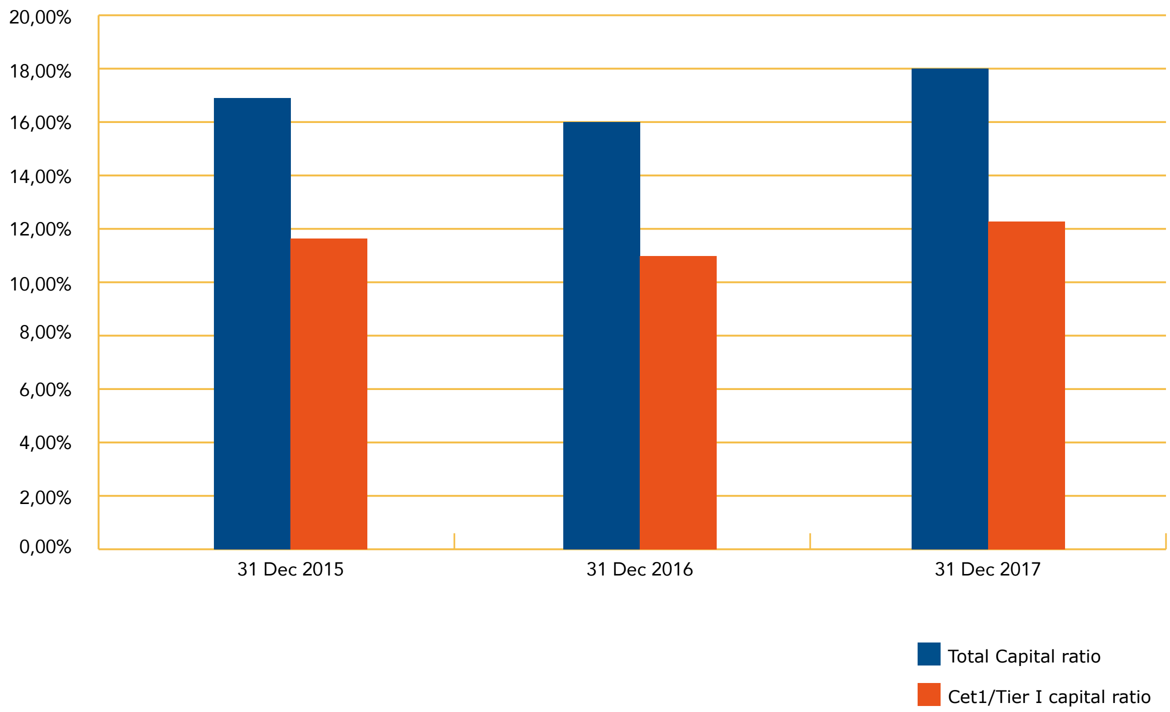
Net Profit / Number of Employees



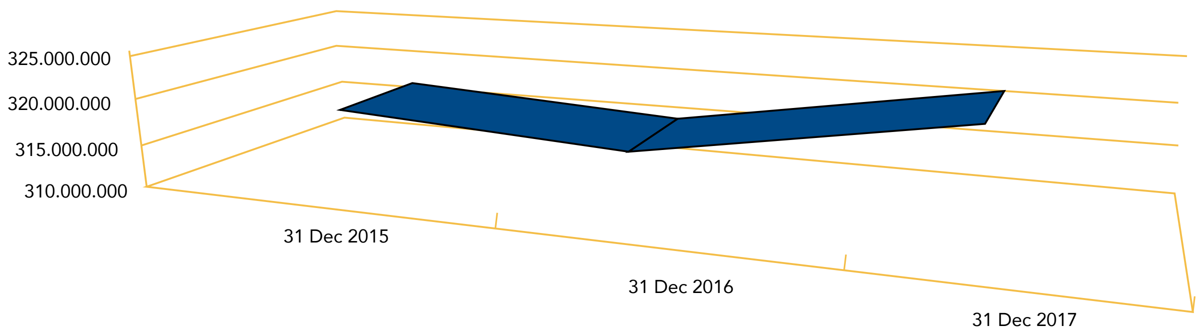
Operating charges / Net Trading Income



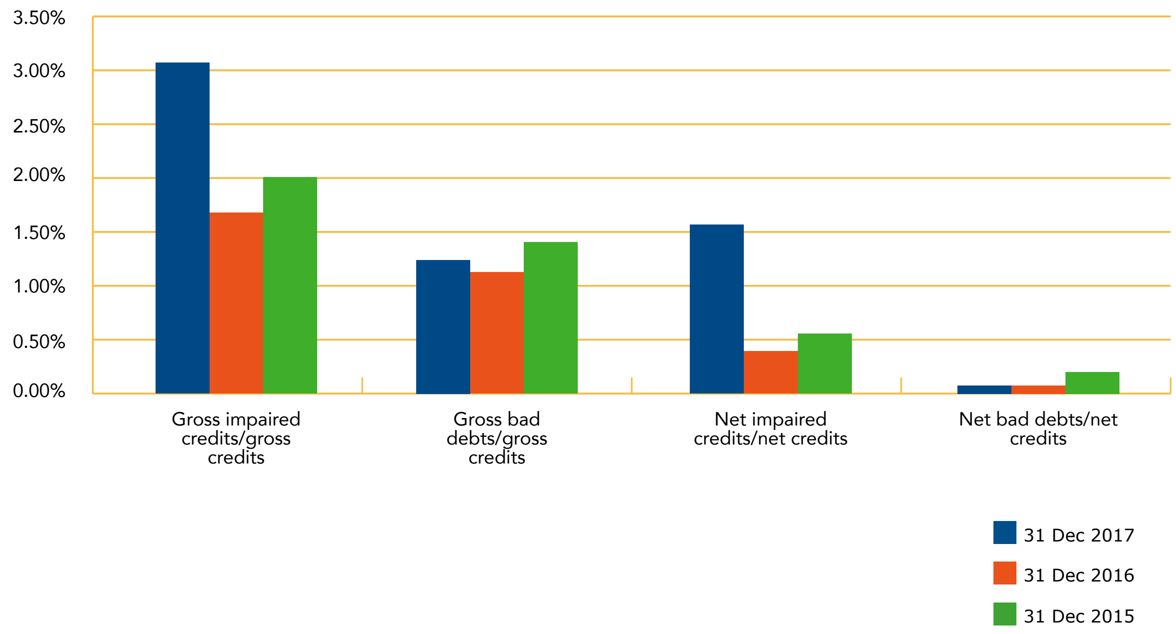
Capital Ratio



Banking Own Funds



Risk Ratios



3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
Gross impaired credits/gross credits
Gross bad debts/gross credits
Net impaired credits/net credits
Net bad debts/net credits
31 Dec 2017
31 Dec 2016
31 Dec 2015

Boardroom

ANNUAL REPORT
1 January - 31 December 2017

Mr. Sharef S.A. Shalabi

CHAIRMAN’S STATEMENT

To all shareholders

2017 was the year of Italy’s economic recovery in the wake of accelerating growth in almost all Eurozone countries with advanced economies.
The signals of economic growth in Italy were significant especially regarding household consumption, corporate investments and industrial production.

The IMF recently stated that Italy’s GDP in 2017 stood at +1.5% representing the best result of the last ten years, also because it was achieved in a period of political uncertainty and slow recovery of the domestic banking sector; however, as viewed by international observers, these two factors seemed to indicate a risk of decline in the economic growth scenario.

Other positive signs in addition to the GDP were the rise in employment with the unemployment rate at the end of the period dropping to 11% (previously 12.7%) and above all, industrial production and exports especially to non-European countries, both showing significant growth percentages.

Oil was one of the main assets in 2017. After the mid-year tension, oil prices began to recover in value to around 64 USD at the end of the year. The possible listing in 2018, confirmed by estimates of futures, forecast a price that may occur in two scenarios: neutral or positive.

The estimates of operators and traders forecast a consolidation of the demand for crude oil against supply which remains limited, due to the cuts in production made in 2017 under OPEC’s direction. It is worth noting that oil production in the USA is increasing.

The Bank closed its 2017 balance sheet with an important positive result, especially in light of the available assets.

Significantly, the ROE (net profit/own resources) rose from 1.61% in 2016 to a solid 4.13% in the current year, as well as the Liquidity Coverage Ratio which stands at around 204%, well above the limit set by the Oversight Body.

The "Tier 1 ratio" and "Total capital ratio" which reached 12.33% and 17.89% respectively, are certainly sufficient to meet the limits set by the oversight regulations on the soundness of banks.

Also in this year, as fully described in the management report, Banca UBAE managed to optimise its returns by developing business opportunities in countries considered to be at high political and economic risk, by carefully using the liquidity available from time to time, and by effectively assessing the risks that the Bank was undertaking.

The commercial and financial action, supported by a steady but progressive containment of costs, enabled the Bank to reduce the cost income ratio at the end of December 2017 down to 55.72% (against 78.39% in 2016). The ratio of net profit to number of personnel stood at Euro 48,000 circa for each employee in service in 2017.

On the purely commercial front, activities to support internationally-oriented customers have intensified with the result of consolidating workflows to many of the countries of interest to the Bank as well as opening up promising new markets, the first of which is Pakistan followed by Senegal, Ivory Coast, and Uganda.

Worth noting is customer assistance, especially through trade and commercial business with countries that are traditionally targets of Italian exports, such as Libya, Bangladesh and Lebanon, but also with Algeria, for issuing contractual guarantees to take part in tenders for the country's civil works.

On the domestic market, UBAE continued to sign collaboration agreements with regional banks in order to obtain and mediate important international contracts, without prejudice to the clientele belonging to the Italian partner bank whose responsibilities include KYC (Know Your Customer) and AML (Anti-Money Laundering) procedures.

The network of branches in Italy – considering all the partner banks involved in the above strategy – exceeded 1000 domestic units at the end of 2017; these agreements are publicised on the Bank's website whose layout and graphic style have been updated to make the site more user-friendly.

During 2017, the Bank obtained a BB rating from the international Fitch agency, but with a "negative" outlook due only to the question of the Bank's assets. The Fitch agency highlighted the capacity repeatedly shown by Banca UBAE to hold "Sound Asset Quality" and, most importantly, the relatively low percentage of impaired loans.

The activities of the factoring desk at the Milan branch continued in a prudent and gradual manner, with more specialised staff and increased revenues, as well as the implementation of IT support systems which communicate with the Bank's IT provider Cedacri. As we know, the specific customer target takes the form of medium to large corporate entities from all product sectors, with a turnover of at least 30 million euros, net equity of not less than 10 million euros, and with positive results for the last two certified financial statements.

For our Bank, the year 2017 also saw the strengthening of existing control and organisational structures to respond in a more incisive way to the many European regulations and obligations amongst which – to name a few –: the measures of adequate verification required by FATF-GAFI, the implementation of the Business Continuity Plan, and the tasks and duties of the new accounting standard IFRS9.

The latter governs the new rules for classifying, measuring and assessing financial instruments and related accounting procedures, which is mandatory from 1 January 2018.

It should be noted here that the impact of IFRS9 requires a revision of the credit pricing models used by Banca UBAE in order to optimise the adjusted returns for the newly assumed risks, thus introducing a new pricing policy correlated with customer classifications as required by the new accounting standard.

Against this background, there will be an immediate review of the Bank's commercial strategies in early 2018, in order to arrange the required safeguards against the risk of a possible worsening of creditworthiness; at the same time, we shall make a concerted effort to deal with customer relations more effectively.

The significant organisational and operational challenges that await the Bank in 2018 include those introduced by the Banca d'Italia with the 20th update of circular no. 285 on 17 December 2017, containing oversight provisions for banks. As indicated in the relative act of enactment, the amendments are aimed at adapting national legislation to the evolution of the European regulatory framework, including the European Banking Authority Guidelines, in particular regarding large exposures, individual limits and aggregated concentration of exposures to what are known as "shadow banking" entities – in other words, banks that are registered in countries deemed "not equivalent" from a regulatory point of view.

In the hope that the shareholders will look with renewed confidence to the Bank and support its regular development in every aspect – business, equity and organisation – I would like to thank the management and all the employees for their dedication and commitment that enabled us to achieve important economic results in 2017. The Bank is certainly confirmed as a point of reference for professionalism and prestige at the service of internationally-oriented customers.

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

EUR/mn

COUNTRIES	2017		2016		2015	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS
1. LIBYA	2,786	1,090	1,816	1,076	3,420	1,488
2. ALGERIA	4,958	3,178	4,269	3,710	3,020	4,143
3. EGYPT	1,824	2,918	1,537	3,087	1,985	2,951
4. BANGLADESH	1,382	728	1,323	509	1,287	474
5. PAKISTAN	629	757	599	622	578	440
6. MAURITANIA	109	31	105	31	139	27
7. TUNISIA	2,215	3,194	2,243	2,924	2,300	3,033
8. ANGOLA	346	282	409	189	876	259
9. BAHREIN	110	251	123	264	79	203
10. LEBANON	41	1,517	35	1,168	37	1,188
11. GERMANY	65,347	55,877	59,454	52,713	56,809	51,023
12. MOROCCO	1,005	1,885	836	1,613	797	1,469
13. OMAN	56	656	50	816	77	651
14. SAUDI ARABIA	3,409	3,943	2,561	4,191	3,354	5,138
15. SRI-LANKA	398	256	340	236	366	186
16. UK	11,404	23,130	10,996	22,478	10,575	22,484
17. JORDAN	45	701	43	764	50	666
18. YEMEN	9	61	4	52	6	60
19. ETHIOPIA	49	277	52	325	58	307
20. SPAIN	21,175	23,194	19,535	20,968	18,391	19,854
21. QATAR	1,170	933	848	905	1,343	986
22. KUWAIT	1,207	1,162	929	1,103	184	777
23. MALTA	456	1,685	351	1,568	272	1,563
24. IRAQ	2,821	571	2,944	619	3,365	917
25. TURKEY	8,301	10,094	7,474	9,599	6,621	10,005
26. FRANCE	35,210	46,164	32,547	43,923	32,109	42,548
27. MOZAMBIQUE	402	40	368	44	360	55
28. CROATIA	1,614	3,006	1,488	2,549	1,400	2,583
29. SWITZERLAND	11,178	20,611	10,600	19,015	10,847	19,239
TOTAL	179,658	208,192	163,880	197,061	160,707	194,716
UBAE'S SHARE	38	1,687	2	1,323	601	840
%	0.02	0.81		0.67	0.37	0.43

Entrance to the Rome Headquarters in Via Quintino Sella, 2

THE BANK’S ACTIVITIES

Brief Summary

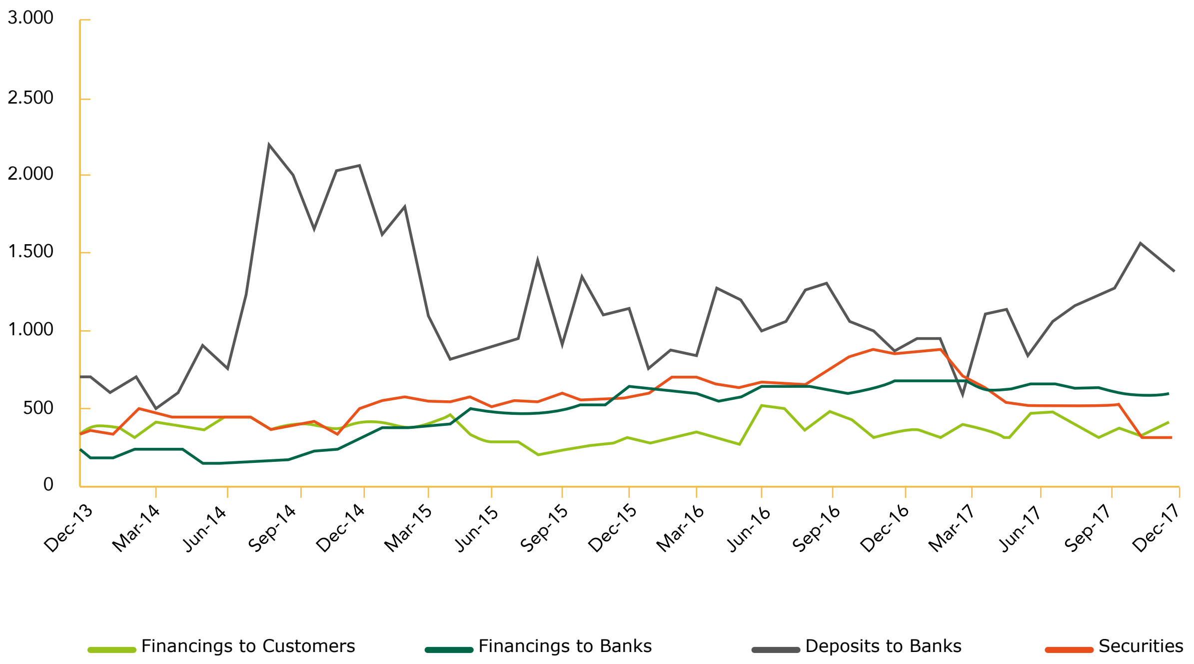
BANKING OPERATIONS IN 2017

Loans and Advances

The Bank's activities are broadly aimed at supporting financial intermediation operations for commercial transactions with counterparties carrying out import/export activities or construction works for infrastructures in the reference countries, with limited interventions in the retail market.

In the year under review, despite strong economic growth, the result was still affected by uncertainties relating to international trade policy decisions on one hand and the negative consequences, still present, generated by the lengthy financial crisis that has characterised world markets in recent years.

In this context, the Bank's loans to "non-bank" counterparties increased, while loans to the banking sector remained substantially in line with those of the previous year. The above is reflected in the graph showing the Bank's performance in the loan segment over the last few years:



As regards the exclusively financial loans to corporate counterparties, in consideration of their riskiness and their non-relevance to the Bank's core business, they have tended to be limited and in any case disbursed to customers to whom UBAE already provides assistance for trade finance transactions.

In general, the 2017 credit risk was adequate for the Bank's capital scale.

Operations on foreign markets

In 2017, commercial activities towards countries of interest represented the strength of the Bank – as had already happened in previous years – from which it was able to derive considerable profits.

The international situation in which the Bank operated showed significant progress: in the United States the Gross Domestic Product (GDP) accelerated to 2.6%. The BRIC countries, in particular Brazil (+1%) and Russia (+2%), returned to growth.

Economic growth strengthened in the Eurozone. Inflation on prices recorded in September 2017 remained however at 1.4%.

The Governing Council of the ECB considered it necessary to maintain a high level of monetary accommodation and the GDP grew 2.3%.

First estimates show that the Italian economy accelerated significantly at least based on the favourable performance of some indicators (such as industrial production, commercial traffic and export of goods and services). The GDP in 2017 increased to good levels (+1.5%).
Economic growth, sustained mainly by domestic demand, appears widespread and inflation recovered from the high levels reached in previous years at 1.3% at the end of 2017.

In this economic scenario – characterised by a growing international situation and by a marked recovery in international trade – the risks for the global economy might arise not only from a sudden rise in volatility on the financial markets (which stood at all-time lows in 2017), but also from a possible aggravation of geopolitical tensions and from the different economic policies implemented in various geographical areas.
These factors could translate into increases in risk premiums with negative repercussions on the economy especially for the euro.

In the countries of traditional Bank interest, economic forecasts predict a certain growth: in North-Africa and in the Middle East, positive changes with significant percentages can be seen in some economic indices.

In recent years, these geographical areas have suffered from long-term stagnation, and countries have found themselves in a vulnerable position due to rising inflation and widespread unemployment.

Currently, the region is facing major changes; the commercial and financial agreements made with the International Monetary Fund by some countries (Egypt, Tunisia, Yemen, Morocco) will influence the changes making them very dynamic although some identifiable risks remain such as inflation, still very high, public spending at high levels, and cuts in oil production by OPEC.

Estimates by the International Monetary Fund point to Libya as the Country that will grow more financially; in fact, if the world economy grows by 3.6% in 2017 and 3.7% in 2018, Libya will do so by 55% and 31% respectively.

In this economic scenario, still weakened by the long crisis, the Bank has been able to respond efficiently and effectively thanks to the market position acquired in recent years, addressing new business opportunities and laying the foundations for important developments in the coming years.

To this end, promotional and marketing actions continued, aimed not only at countries of interest in order to consolidate acquired market shares by combating international competition, but also new markets in the growth phase.

Constant efforts have been made to develop business activities by identifying objectives, both in relation to customers and products; this policy has enabled the Bank to fully exploit the positive signs of local and global economies, thus achieving the desired results.

UBAE's activities oriented towards correspondent banks have been noteworthy, especially by developing commercial operations aimed at implementing and confirming the number and value of letters of credit and international guarantees including those not linked to oil activities. This policy proved to be successful in order to limit the decrease in commercial activities related to importing and exporting crude oil; the latter transactions which, although recovering in 2017, have not yet reached the levels of previous years as they are influenced by an average price of crude oil which is still not high enough, and by geopolitical crises that have arisen during the year.

In this situation, the Bank has been able to take steps to expand the range of services to support its customers operating in countries with a tradition of Italian exports, such as Libya, Bangladesh, Lebanon, Turkey, Egypt, and Algeria with assistance aimed at analysing and evaluating new business opportunities and, at the same time, supporting the country with commercial and financial interventions.

This positive strategy by the management involved signing collaboration agreements with Italian regional banks enabling UBAE to develop business opportunities with customers of these banks. UBAE benefited from this initiative and achieved satisfactory results with a positive effect on the balance sheet.

Revenues from commercial activities amounted to Euro 33.99 million (previously Euro 28.11 million) of which 44.5% deriving from commissions on letters of credit and guarantees, 53.3% from financing transactions and commercial discounts, and 2.2% from factoring activities.

With particular reference to the geographical origin of the above revenues, it should be noted that they were generated for 78.55% from abroad and 21.45% from Italy.

The new operations relating to factoring conducted mainly by the business desk at the Milan branch also achieved a good result reaching appreciable volumes by the end of 2017, and in any case with large margins for improvement.

At the same time, Banca UBAE continued to carry out careful analysis and monitoring of customers in order to face any potential risks (credit, market, reputational and operational).

Thanks to an effective commercial boost in 2017, promotional actions continued in order to develop work abroad; several missions took place aimed at implementing existing activities and at identifying new business opportunities with a view to diversifying income sources in the banking and corporate segments involved in international trade.

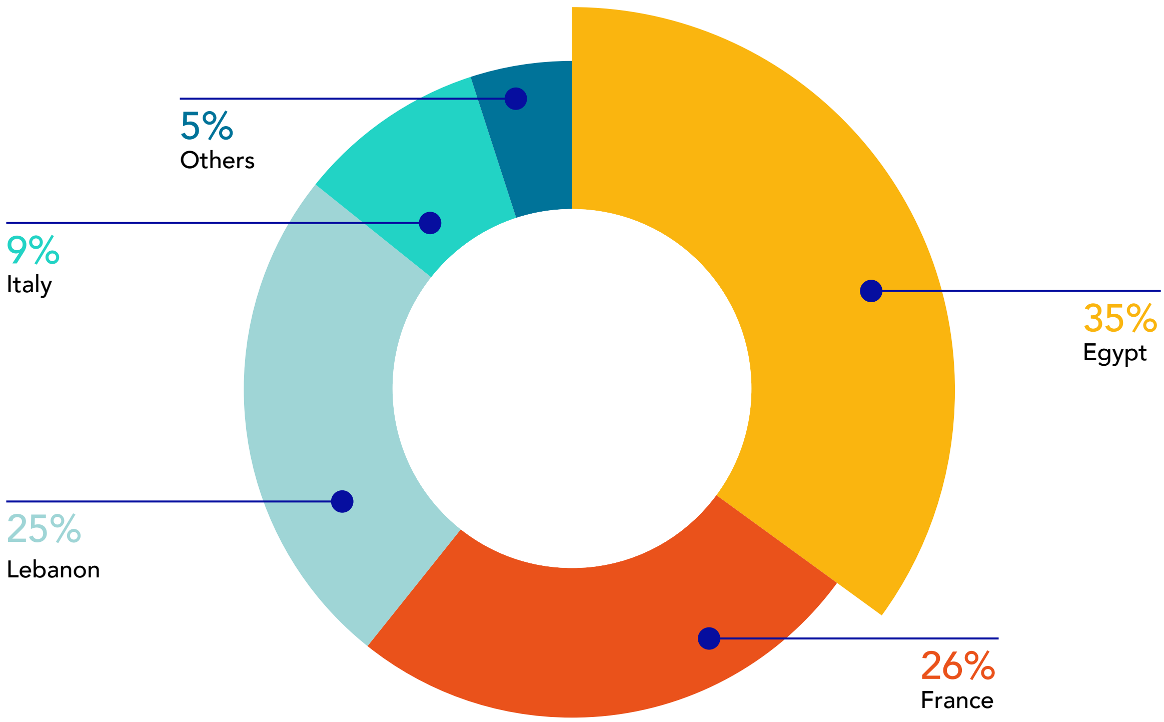
The Bank has also been fairly successful with actions aimed at expanding into new markets such as Pakistan, Senegal, Ivory Coast and Angola which have started to bring in the first important results which, of course, will be consolidated in coming years.

In addition, during the year the Bank also gave impetus to greater lending to large companies in Italy as well as to regional banks with an increase in spreads, taking full advantage of the ability to use the credit lines granted to them.

The credit risk linked to such operations is also mitigated by the acquisition of insurance coverage from companies specialised in the sector.

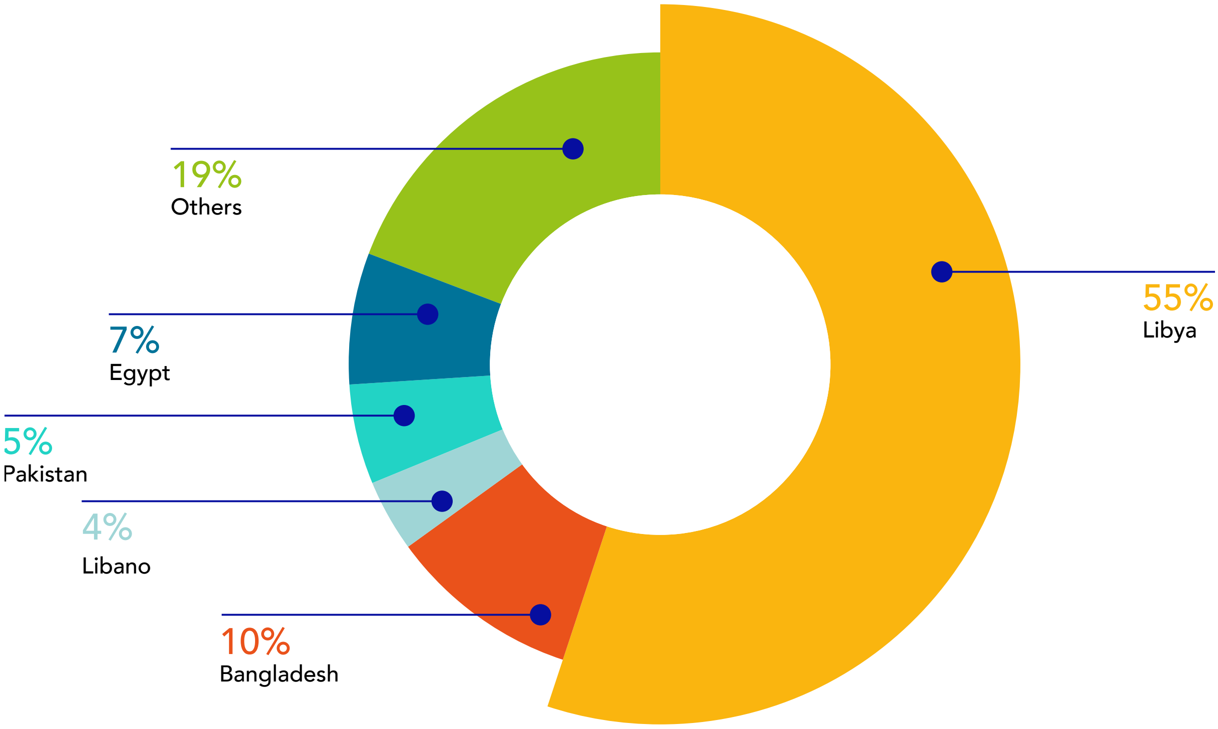
The composition by country of origin of the business generated by **letters of credit** received and intermediated can be represented as follows:

OIL L/Cs - Turnover 2017



NON OIL L/Cs - Turnover 2017

L/Cs - commissions 2017

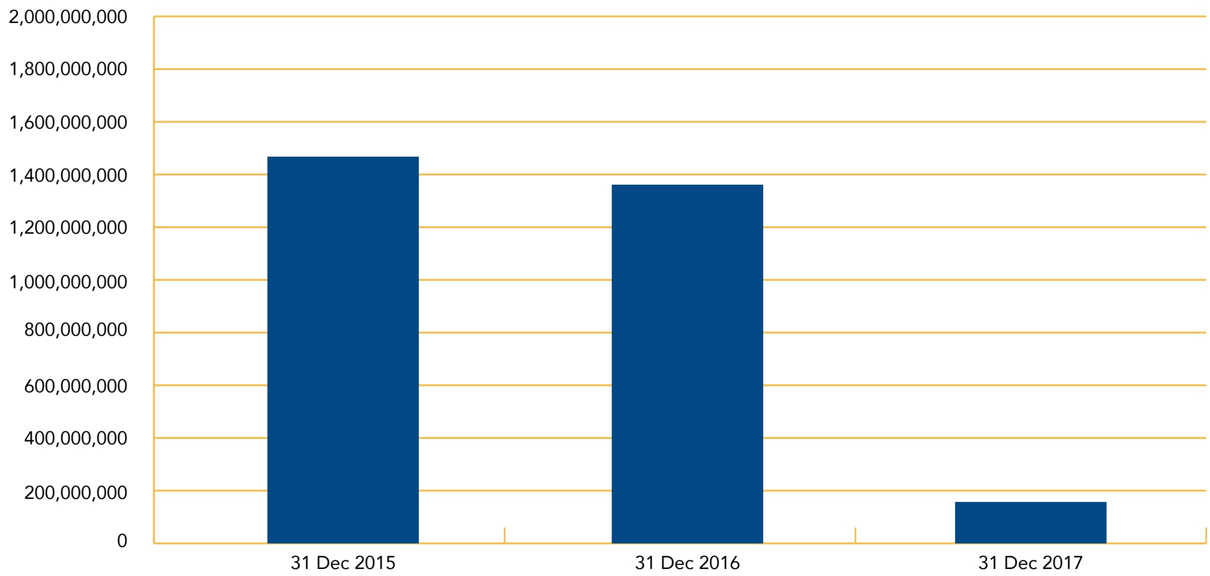


Analysis of annual data shows the following trend:

EUR/000

	2017		2016		2015	
	VALUE/NO.	+/- %	VALUE/NO.	+/- %	VALUE/NO.	+/- %
LETTERS OF CREDIT: NUMBER	2,831	111.90	3,000	(56.38)	3,063	(18.54)
NON OIL LETTERS OF CREDIT: TURNOVER	1,777,680	33.57	1,330,900	52.87	870,598	(43.17)
OIL LETTERS OF CREDIT: TURNOVER	150,940	n.a.	5,110	(99.17)	614,583	(35.10)
% OF TOTAL EXPORTS		0.81		0.67		0.43
% OF TOTAL IMPORTS						0.37
COMMISSIONS ACCRUED	11,278	44.18	7,822	8.55	7,206	(23.22)

Turnover Letters of Credit



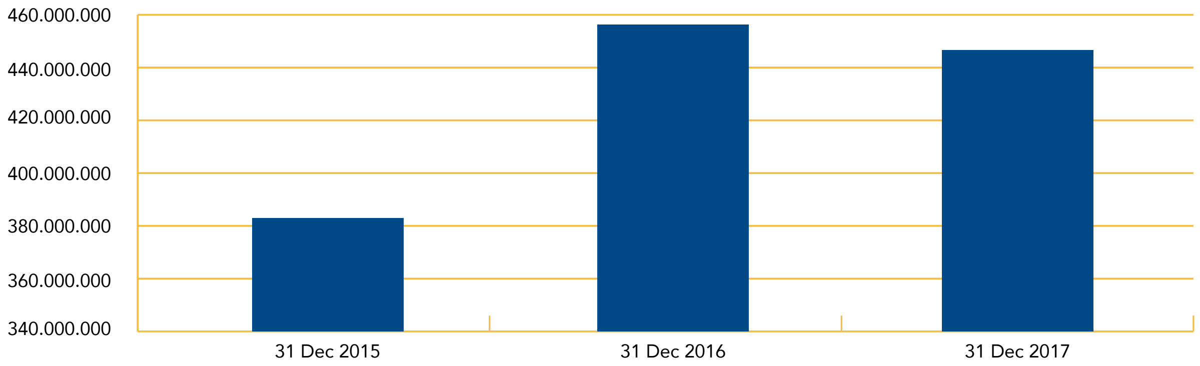
The increase in the values recorded in 2017 shows, as illustrated above, the positive consequences of the actions implemented by UBAE. All the indicators – as shown in the table – benefited from the strategy implemented by the Bank, attesting to more than satisfactory results.

Analysis of the **guarantees sector** shows the following trend:

EUR/000

	2017		2016		2015	
	VALUE/NO.	+/- %	VALUE/NO.	+/- %	VALUE/NO.	+/- %
GUARANTEES ISSUED IN YEAR	122,617	(2.00)	125,118	24.15	100,782	(64)
GUARANTEES: OUTSTANDING AT EoY	447,205	(1.59)	454,428	18.30	384,143	(9.61)
COMMISSIONS RECEIVED	3,955	11.53	3,546	(9.01)	3,897	1.25

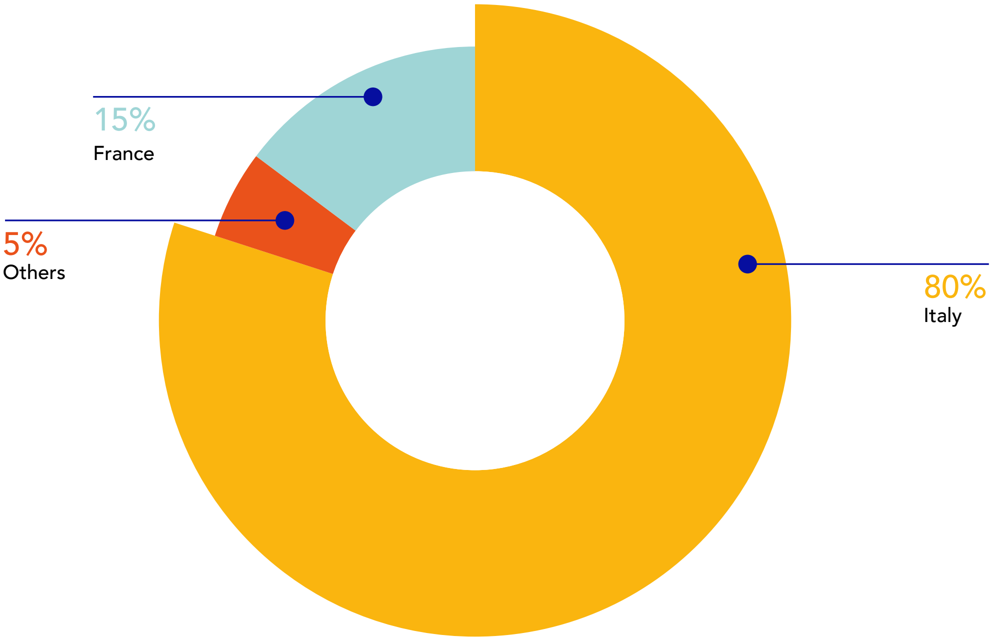
Outstanding Guarantees



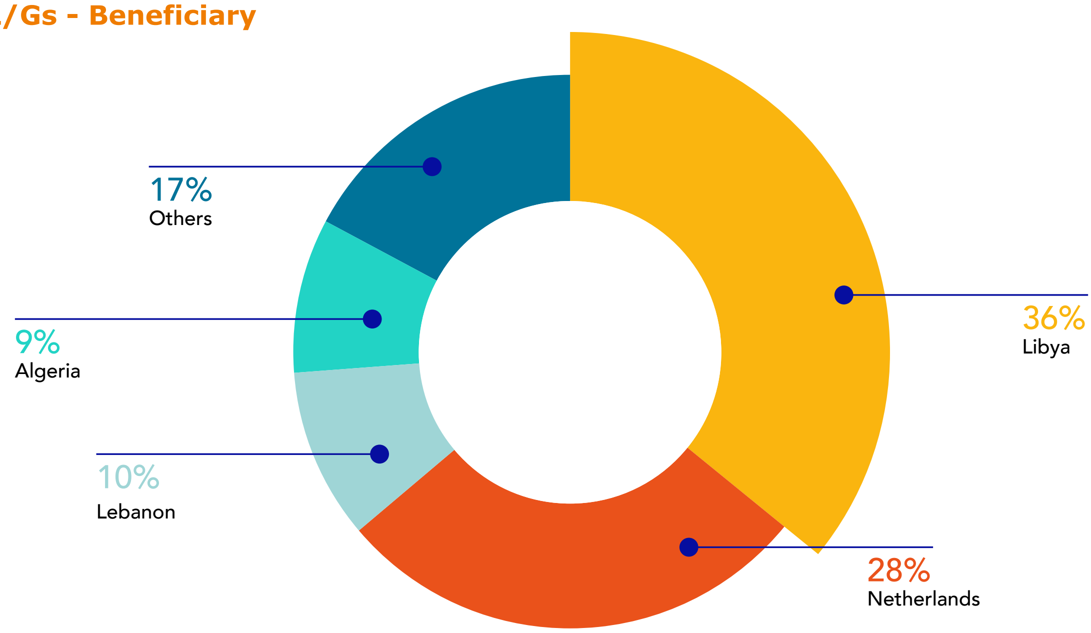
Guarantees – issued mainly on behalf of Italian companies with a high credit standing for exports and/or significant orders in foreign markets of interest – have shown a turnover in line with the figures for the previous year. The stabilisation of volumes throughout 2017 has produced good economic returns; in fact, the revenues reached satisfactory values and increased compared to the previous year (+11.53%).

It is expected that the Bank’s efforts in this sector will have a full return on earnings as early as next year.

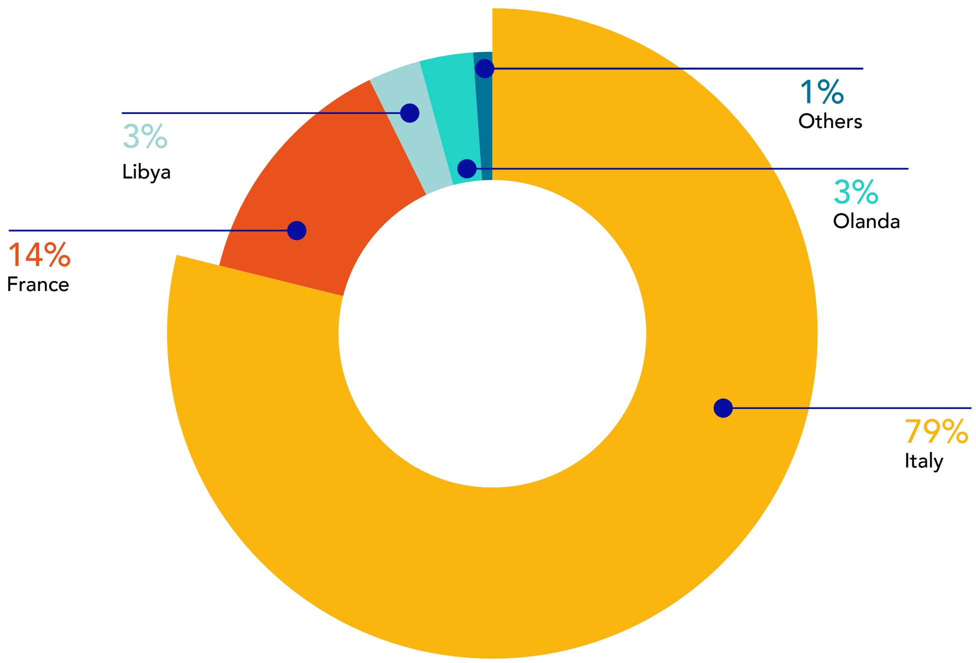
L/Gs - Applicant



L/Gs - Beneficiary



L/Gs - Commissions 2017



Activities on financial markets

During the 2017 financial year, the Bank took steps to find more profitable forms of investment for the financial resources collected by institutional counterparties as well as by customers.

Average volumes managed during the year recorded values substantially in line with those of the previous period.

The collection of funds during the course of 2017 has been fairly regular, settling on values that are certainly quite good; this trend confirms the shareholders' trust in the Bank's ability to identify risk and return targets based on prudent administration of available funds and their more profitable management.

During 2017, Banca UBAE continued to pursue its business objectives by allocating funds raised to support initiatives exclusively linked directly or indirectly to commercial operations.

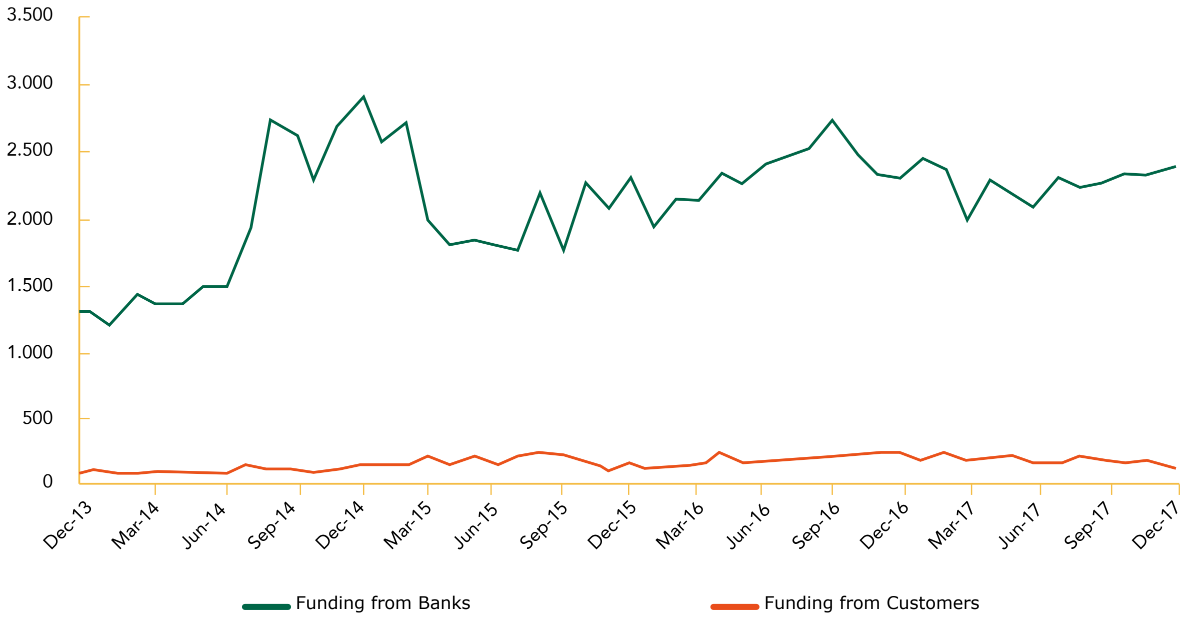
In this role the Bank was facilitated by the Libyan Foreign Bank which renewed two security agreements with UBAE, for a total of USD 415 million and EUR 100 million for the duration of one year aimed principally at consolidating the deposits thus enabling the Bank to carry out financial transactions with group companies in full compliance with the current Banca d'Italia regulations on large exposures and related parties.

The average total deposits in the period (amounts due to banks and customers) and the percentage change compared to the previous quarter of 2017 are summarised in the following table:

FUNDING 2017 EUR/000

FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER	
VALUE	+/- %	VALUE	+/- %	VALUE	+/- %	VALUE	+/- %
2,439,590	(5.41)	2,341,874	(4.01)	2,427,029	3.64	2,472,326	1.87

The 2017 trend in the main funding items is shown below, compared with previous years:



Managing financial activities

Operations in this segment were stable during the year at satisfactory average levels and in line with previous values; during the year the Bank continued to ensure acceptable returns and risks, aligned with those generated by other types of investments.

In December 2017, there was a decrease in the volumes of the securities portfolio due to two distinct factors:

- some securities classified in the HTM portfolio were reimbursed by issuers because they reached maturity;
- the securities classified in the AFS portfolio were sold, given the excellent performance achieved on financial markets; the Bank's income statement benefited very positively from this operation.

During 2017 the Bank continued to redefine the scale of its securities portfolio, adapting them to its business needs in order to continue carrying out financing operations to credit institutions, also in the form of private placement of securities that may be deductible via the ECB, and to open up its business to forms of investment in bond products issued by governments and central banks residing in the MENA region.

The composition of the portfolio at the end of the year reflects investments made mainly in bonds issued by supervised intermediaries, Italian government securities and those issued by foreign governments or central institutions (non-EU) with an average residual life of 2.4 years for the trading portfolio and 1.8 years for the investment portfolio (HTM). The use of synthetic products, aimed at mitigating the interest rate risk, changed the average duration to 1.65 years for the trading portfolio and 0.31 years for the investment portfolio. In essence, the Bank maintained a portfolio of securities with a very low risk profile for credit and interest rates.

Given the low risk appetite, the Bank's policy has been to limit investments in the equity market with the aim of minimising the risks that could arise from this sector, preferring investments in the bond segment – at variable rate and fixed rate – by linking the latter to synthetic products suitable for limiting risks caused by the volatility of interest rates.

The positive economic results of the sector – operating in a market accomodating by the economic policies on interest rates adopted by the European Central Bank – were achieved notably in investment and trading activities (securities, derivatives and foreign exchange).

Investments in securities were managed consistently with the following guidelines:

a) Investment portfolio (i.e. to be held until expiry or when available for sale):

- variable rate issues with higher profitability than the interbank rate, to be held in the portfolio until maturity;

- fixed rate issues with maturities mostly in the short term (also as a result of hedging instruments) and issued mainly by the Italian government, in order to ensure compliance with the regulatory threshold established for the Liquidity Coverage Ratio (LCR);

- fixed rate securities issued mainly by Italian banks (private placement); these investments were also made with a view to managing liquidity risk in order to increase the Bank's liquidity buffer.

Given the continuing uncertainty of the financial markets (and responding to its customers' needs), UBAE has decided to postpone the use of new technical forms and instruments for managing the portfolios, such as harmonised products and Undertakings for Collective Investment-UCI (OICR in Italian).

Interbank activities

Activity in this sector has continued to be influenced above all by the monetary policies that the ECB has also adopted throughout 2017 in order to provide significant support for loan conditions.

During the year, the ECB's Board of Directors decided to leave interest rates unchanged and it is expected that they will remain at current levels for a prolonged period.

As for the unconventional monetary policy, the ECB's Board of Directors proceeded to buy assets at a monthly rate of 60 billion euros – activities that will continue in 2018 until the ECB has achieved its goal of reducing the rate of inflation.

These monetary policies are aimed at expanding the money supply in the expectation of promoting an increase in credit to businesses and households at acceptable economic conditions with the aim of restarting the private investment economy.

Such monetary actions are also aimed at getting inflation to return to the pre-established values; the main rate remained at an all-time low of 0.00%, that on bank deposits at -0.40% and the marginal refinancing rate at 0.25%.

In this situation, UBAE has revised its financial strategy, trying to exploit in the most efficient way the rare opportunities that the money market offered.

The strategies adopted have produced gratifying results, taking into account that they have been conditioned not only by the low levels of the market rates, but also by the obligation to respect the daily liquidity index (LCR) established by regulators; this obligation – given the composition of the deposits received and the need to ensure an adequate balance between entry and exit – has increasingly tied up some financial choices for employing funds.

Also in 2017, the Bank was able to count on good average volume of funds collected, in line with those of 2016.

Short-term loans in the money market and loans to foreign banks in the short and medium term decreased compared to the previous year also as a consequence of the various actions implemented by the Bank in order to achieve acceptable spreads (on the money market) especially in the Eurozone currency.

The amount administered by the Treasury in the main currencies remained at around Euro 2.42 billion in value, substantially in line with the previous year (amounting to Euro 2.5 billion in value).

The year's main results

The net result for the year in question, amounting to approximately 9.4 million euros, showed a marked increase compared to the previous accounting period (+166%), reaching fairly positive levels.

This result, is mainly due to the following aspects summarised below:

- the interest margin amounted to Euro 18.7 million (down by 12.59% compared to 31 December 2016); this decreasing figure represents the result of prudent investment policies undertaken by the Bank in order to seek diversified forms of investment with low risk profiles.

  The reduction compared to 31 December 2016 is mainly due to the fact that the Bank operated in the presence of an expansive monetary policy, pursued by the European Central Bank, with a direct impact on short-term interest rates, especially in the interbank sector containing the spreads at extremely low if not negative values.
  The interbanking sector is a very active market where Banca UBAE invests average volumes of a substantial amount every year.

- Intermediation revenues amounted to Euro 34.5 million (+120.22%); this very flattering result is the consequence of the Bank's strategic decisions to seek more profitable forms of investment, especially in the area of trading activities and in particular in the sector of sovereign bonds and foreign exchange; the figures prove the Bank's ability to obtain excellent results on international financial markets and on commercial markets, by exploiting the opportunities they offer in an effective way.

- Value adjustments and provisions for risks reflect the prudential valuation carried out by the decision-making body which, in line with the criteria adopted and with the methodology applied in previous years, considered sufficient the amount of funds allocated to credit risks.

  As a result of this assessment and taking into account the risk to which the Bank is exposed as of 31 December 2017, in particular to certain customers, there was a net allocation of approximately Euro 5.9 million circa.

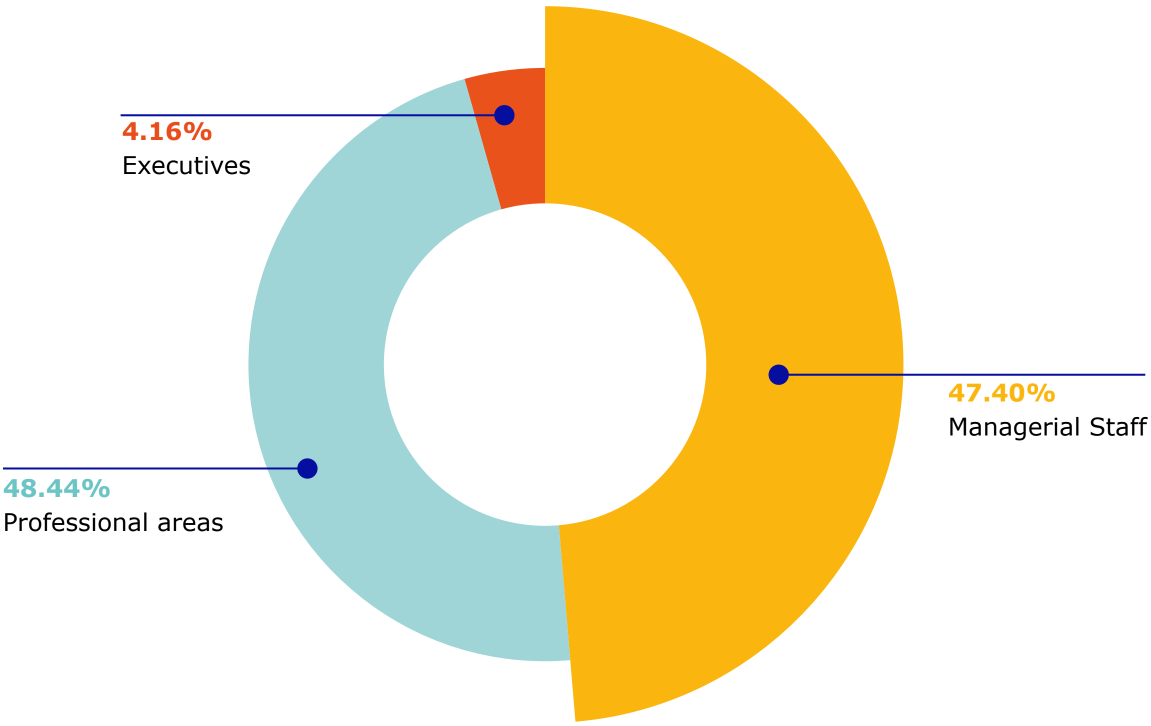
- Net income taxes shown in the financial statements amounted to Euro 7.2 million, higher than the previous year (previously Euro 2.3 million). This difference, as detailed in the explanatory notes (*see Income Statement - Section 18*), is essentially due to a pre-tax result at 31 December 2017 that is considerably higher than that of 31 December 2016.

Finally, it should be noted that the result also includes the decision by the Banca d'Italia in April 2017 to request the entire domestic banking sector for compulsory contributions to be paid to the National Resolution Fund. These are mandatory ordinary contributions that European banks are obliged to commit to the ECB for deposit protection. For Banca UBAE this amounted to approximately Euro 1.3 million circa, allocated amongst administrative expenses.

ORGANIZATION AND PERSONNEL

1. PERSONNEL

During 2017, the Bank continued its intent to build a real model based on people (and for people), their skills and professional qualifications, their availability and prompt collaboration to meet customers' requirements and to achieve positive economic results in the short and medium term.
This spirit encourages the strategic drivers that make Banca UBAE a reality constantly oriented with a daily commitment to enhancing its human capital.
The path taken therefore sees the top management engaged in a process of continuous change based on the close interdependence between business, strategy and structure through the activation of all the levers necessary for the care and development of its employees, in order to create added value for the Bank and its shareholders too.



During the year, the Bank's attention was focused on strengthening the main organisational and business safeguards, and on the generational changeover.

In this sense, such activities led to the hiring of **ten people** (three managers and seven professionals) and the exit of **six people** (from the category of managerial staff), so the workforce now numbers 196.

By main categories, the personnel is divided up as follows:
- 4.16% executives
- 47.40% managerial staff
- 48.44% professionals

The table below also shows the composition of the workforce by qualifications for 2016 and 2017.

	31.12.2017		31.12.2016	
	N°	%	N°	%
EXECUTIVES	8	4.16%	8	4.17%
MANAGERIAL STAFF	91	46.43%	91	47.40%
PROFESSIONAL AREAS	97	49.49%	93	48.44%
	196		192	

Furthermore, during the year, the project to stabilise the Bank's staffing plan continued, including the conversion of fixed-term contracts into open-ended contracts.

The management also carried out the following activities:

1. maintaining 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), 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 undertaken 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, anti-money laundering, and the responsibilities of corporate administrations) involving not only specialised subjects (basic level finance, IFRS9, budget analysis, money laundering) but also soft skills (communication abilities). In addition, the Bank paid close attention to raising awareness on the importance of internal control systems, by organising ad hoc seminars for the various professional groups.

Of particular importance was the long-standing initiative launched in 2014 on generational exchange of personnel; the nature and impact of the project is mainly social, involving the expected turnover between parents and their offspring.

2. ORGANISATION

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

In 2017 the Bank closely followed the changes in the Cedacri outsourcer IT System while monitoring the quality of the solutions released.

From an analysis carried out, the performance indicators showed Service Level Agreements (SLA) in line with the contractual terms. At the same time, there were no incidents with a critical impact on the IT system nor any incidents that compromised its safety.

During 2017, the Bank delegated the Finance and Credit Departments to take part in the various technical committees organised by the IT provider on the subject of IFRS9; their effective contribution to the results, as always, helped to improve performance.

The functional gaps, initially noted in the start-up phase of the new IT system (May 2014), were significantly reduced; at the end of 2017 some anomalies remain – albeit not critical – which will be definitively settled during the first part of 2018.

Security and control issues have been the subject of major investments and technological infrastructure upgrades. The IT risk procedure was released and the demanding IT security plan was completed.

The payment channels have seen the release of important products such as prepaid cards, new debit cards as well as corporate credit cards, which will contribute to reducing the physical movement of cash.

Finally, technical tests on POS (Point of Sale) have been completed and will be released to customers in the early months of 2018.

On the subject of Disaster Recovery and Business Continuity, the various scheduled tests were performed and no critical aspects were detected; the Business Impact Analysis (BIA) review activities were completed, updating the related policies and the methodology.

Several projects have absorbed the time and resources of the Department which has followed the various worksites closely; among the most important and delicate were the many demanding activities for the introduction of regulations such as IFRS9, MIFID2 and EMIR.

Also worth noting were the efforts for the release of the IT product named K4F, from the Arcares company, specialised in the management of factoring transactions.

During the year the foundations were laid for the projects to align the Bank with the General Data Protection Regulation (GDPR) which will come into force in May 2018, as well as the rules for the new Anacredit database (analytical credit datasets) containing detailed information on individual bank loans in the euro area, and the Payments Directive (PSD2) implemented in December 2017, which marks an important step in the field of digital payments.

With regard to data governance and data quality in 2017, our IT provider has released the first calculations relating to the Oversight Sector in order to enable users to intervene promptly in case of critical issues or anomalies.

Also in 2017 the analysis of the control system for the central online database (Sadas DQ) was completed.

In the governance area, the new IT data governance policies, the outsourcing policy for third parties, and the electronic payment policy via the Internet, were approved.

The activities of the Regulatory Department focused on planning and formalising the Bank's processes and in particular on foreign payments and "oversight reports". The activities for revising the Finance & Credit Department's procedures were also important, since they were affected by important regulatory changes.

In 2017, revision of the protocols (legislative decree no. 231/2011) was concluded and approved by the Board of Directors.

3. EXTERNAL AND INSTITUTIONAL RELATIONS

The main activities of the department for developing External and Institutional Relations are:

- developing and consolidating Institutional Relations with Italian and foreign counterparties such as Embassies, Ministries and multinational development banks;
- planning strategic projects on marketing, communications and product development.

The department focuses on innovation and the quality of products and services provided for customers, correspondent banks and corporate entities; it also safeguards UBAE's reputation and the proper use of its image.

The driving forces that have guided the activities during the year come from four main sources:

A. Developing External and Institutional Relations

Projects relating to this sector play an important role within the department and involve setting up synergies with organisations and institutional bodies through the establishment of partnerships with the common aim of providing tangible support to Italian companies involved in the markets where UBAE is operational.

In 2017, important collaboration agreements were set up with Chambers of Commerce, trade associations, SACE, ICE, and SIMEST.

B. Corporate identity and external communications

An integral part of the department's activities is managing corporate identity, coordinated image and external communications. Rational and consistent communication makes it possible to consolidate and increase the Bank's brand awareness towards markets, customers and competitors.

To this end, the main activities carried out by the office refer to:

- relationships with Italian and international press and media agencies;
- preparing press releases and articles;
- creating brochures and sales materials;
- overseeing contents and graphic style of corporate internet site.

C. Business development

Activities carried out together with the Commercial and the Finance Areas, saimed at boosting the Bank's strategic opportunities and consolidating relations with key customers in Italy and abroad.

The initiatives actuated in 2017 focused mainly on organising round tables and training seminars for Italian and foreign clientele.

- ***Opportunities in Libya: managing security work, Rome, 30 January 2017***
  The first seminar of the project TIME FOR ACTION, organised jointly by the Libyan Embassy in Italy and the Italy-Libya Chamber of Commerce, which was attended by important figures including ambassadors, consuls and representatives from many Italian and foreign businesses. During the event, UBAE's General Manager gave a speech promoting the services provided by the Bank.

- ***UBAE: the Bank for Italian exports to central African Countries, Tunis, 24 February 2017***
  Annual meeting organised by several African banks belonging to the BSIC Libyan Group (*Banque Sahélo-Saharienne pour l'Investissement et le Commerce*) attended by the General Manager of Banca UBAE who illustrated and promoted the Bank's capabilities regarding existing collaboration with the group leader.

- ***Seminar on Kuwait and Saudi Arabia: business opportunities and banking system, Padua 6 April 2017***
  This seminar, organised by *Banca UBAE and the partner Banco delle Tre Venezie,* with organisational support by Promex PD and the patronage of *Confindustria Padova*, was attended by over 100 businesses; thanks to the expertise of UBAE's foreign consultant for the Areas, they were given in-depth information on the business opportunities in the two markets.

- ***First Italy-Libya economic forum, Agrigento, 8 July 2017***
  At the invitation of the Ministry of Foreign Affairs and International Cooperation, the General Manager and the Deputy General Manager of UBAE, took part in the important forum attended by about 100 delegates from the main Italian companies interested in the Libyan market, as well as Libyan ministers (Finance, Economy, Transport) and delegates from Ministries, Institutions and Libyan businesses (NOC, ODAC, Libyan Central Bank, LIA). This event provided an excellent opportunity to expand UBAE's operational network.

- ***Conference "Objective Morocco", Rome, 14 July 2017***
  The Conference, organized by Banca UBAE and the Africa & Business magazine, focused on the important role of a country such as Morocco with great potential and numerous commercial and industrial opportunities for Italian businesses in various sectors. During the event, UBAE's General Manager outlined the services provided by the Bank.

- ***International Meeting "Blue Sea Land", Mazara del Vallo (Sicily), 28 September/1 October 2017***
  The General Manager described the worldwide role that UBAE plays internationally to an audience of foreign delegations from over 58 countries, including several Ambassadors of foreign states, as well as Italian regional authorities and delegates from the Ministry of Foreign Affairs, SACE, ICE.

- ***International Forum "Investing in Africa" – Festival of Diplomacy, Rome, 23 October 2017***
  This initiative, within the framework of the VIII edition of the Diplomacy Festival, involved Banca UBAE as one of the sponsors. Banking services and products were promoted to well over 100 companies delegates attending the Forum by the General Manager during a presentation.

- ***Forum "The development of Smart Cities: Africa and Italy", Rome, 16 November 2017***
  This event, supported by the Ministry of Foreign Affairs and International Cooperation,

co-organised by the companies *Internationalia* and *Geografica Italiana*, Centre for Relations with Africa, took place at the historic Villa Celimontana in Rome. The General Manager illustrated and promoted capabilities of Banca UBAE during a tailor made presentation.

- ***Training on the job***
  Theoretical and practical training courses lasting a few days, involving UBAE's expert staff designed for banks and corporate customers delegates.

D. Strategic analysis

Preparation of reports and analyses providing support for the decisions taken by the General Management.

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 prudential 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, concentration risk, risk of excessive leverage and reputational risk);
- stressing 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, as well as the likelihood of risk established by the strategic oversight body (Risk Appetite Framework - RAF).

Regarding changes in the regulatory field, the Bank took steps, during the period under consideration, to start up studies on impact analysis and internal development projects, while also taking advantage of external specialist support when required.

In particular, the following issues were 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.

- Regarding the Risk Appetite Framework, the annual revision was conducted of the limits system in light of the strategic lines set out in the budget, the results of the periodic monitoring, as well as the capitalization objectives established by the Oversight Body as part of the Supervisory Review and Evaluation Process (SREP).

- 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 2018, 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.

- **IFRS9** – in 2017 the project activities related to the three macro areas of the new international accounting standard continued: classification & measurement, impairment and hedge accounting. In particular, with regard to the classification and valuation of accounting items, an impact assessment was carried out to draw up the new provisions; the Business Model was defined (approved by the Board of Directors in December 2017) together with the instruments to implement the SPPI test (solely payments of principal and interest on the principal amount outstanding). With regard to impairment, on the basis of the score and PD data associated with the individual counterparties, a set of macroeconomic scenarios differentiated by geographical area all required to determine the risk parameters with a forward-looking perspective, was developed with the consultant Moody's Analytics on a multi-year time scale. In essence, this system enables the Bank to acquire lifetime PD (Probability of Default) and LGD (Loss Given Default) used for determining the write-downs for performing positions (IFRS9 compliant).
  With regards to staging, internal rules have been defined above all with regard to the concept of "significant credit deterioration"; an internal training process has also been started aimed at all the business areas and all the units involved in managing the credit process. Finally, an impact analysis was carried out on the application of the new accounting standard on the situation as at 31 December 2017 in order to determine the potential FTA reserve (first time adoption) on that date; in terms of capital ratios, the estimated impact was in line with the rest of the banking system and in compliance with the regulatory limits in force. During 2018, the activities of analysis and integration of internal flows will continue with IT systems.

- **Recovery plan** – in 2017, UBAE prepared the first recovery plan (sent to the Italian Central Bank in June 2017) containing: the quantitative indicators chosen to measure the emergence of crisis conditions, showing the progressive thresholds of attention and activation of the plan (recovery trigger); the escalation procedure that the Bank's bodies and structures must follow according to the evolution of the indicators; reorganisation options, meaning the coordinated set of measures of various nature and complexity, that the plan requires to activate for its execution; scenarios of extreme but plausible crises, used to perform stress tests on the effectiveness of the options, in relation to the degree of difficulty and the timing of completion; finally, the internal and external communication for the activation of the recovery plan, which take into account the characteristics and interests of the Bank's various stakeholders. The internal policy that governs the process of defining, updating and implementing the plan has also been defined.

- **Shadow Banking System** – EU Regulation no. 575/2013 issued by the European Parliament and Council on 26 June 2013 (Capital Requirements Regulation - CRR) and EU Directive no. 2013/36 issued by the European Parliament and Council on 26 June 2013 (Capital Requirements Directive - CRD IV) modified the regulatory framework for prudential oversight of credit institutions and investment firms.

The Banca d'Italia therefore adopted the new regulatory framework through the publication of Circular no. 285 on 17 December 2013 (hereinafter "Circular") incorporating CRD IV and implementing CRR, with which UBAE has daly complied.
As part of the regulatory framework, the EBA published guidelines specifying the methodology that institutions should use in their own internal processes and policies in order to address and manage the concentration risk arising from exposures to the "shadow banking system", pursuant to the mandate given to the European Authority in paragraph 2 of article 395 of the CRR.
The national Oversight Authority therefore declared its intention to comply with the EBA'S guidelines and subsequently updated the Circular with the communication of December 12 2017 (update no. 20).
In light of the above guidelines, the new limits on large exposures will be applied to all banks resident in countries deemed to be "non-equivalent" from a regulatory viewpoint. "Non-equivalent" countries, according to the EBA definition, would include countries that are particularly important for UBAE's business activities.
However, the guidelines clarify that, in the presence of effective processes and internal control mechanisms for handling and mitigating concentration risk, Banca UBAE can define autonomously the limits to be applied to the shadow banking system.
Following analysis the new regulatory provisions will not have an operational effect on UBAE's activity as the Bank is finally compliant with the new oversight indications.

By April 2018, the ICAAP report on the assessment of capital adequacy as of December 31 2017 must be sent to the Bank of Italy. As regards public disclosure, UBAE will publish the qualitative and quantitative information tables prescribed by Pillar III on the corporate website in the "Financials" area within the deadlines set for the publication of the financial statements.

• 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 a specific Credit & Control unit forming part of General 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 domestic and international economic situation.
Activities are also underway to finalize the process of monitoring and reporting credit risk, with particular regard to non-performing positions.

As for counterparty risk, the Risk Management Department in cooperation with the Finance Department monitored 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 was carried out by applying the current value method as required by law. To comply with the regulatory framework (Basel 3), capital requirement was 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, referred 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 was monitored daily and any abnormalities were 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.

Finally, the Risk Management Department prepared 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 has not applied for a recognition of internal models for calculating capital requirement on market risks.

• Operating Risk Management

Despite having opted for the basic calculation method (Basic Indicator Approach) in determining the capital requirement under the prudential regulations, in 2017 the Bank started 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 complited (planned for the first six months of 2018), the internal policy regarding the process of operational risk management will be established.

• Management of other risks

- Liquidity risk

Exposure to liquidity risk was constantly monitored by the Finance desk, while the Risk Management Department was 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 was 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).
In 2018, the internal policy will be updated to incorporate the revisions made in 2017. The changes will essentially concern the set of internal operating limits and the process of monitoring and controlling liquidity indicators (in particular the Liquidity Coverage Ratio) to be integrated in the light of the Bank's recovery plan.

Regarding the instruments, the Bank uses the JCompass tool linked to the Cedacri IT provider's system, an automated tool for daily processing of LCR (Liquidity Coverage Ratio), as well as an ALM product (Asset Liability Management) from the ERMAS application, linked directly with 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 made use of a calculation tool with access to supervisory reporting data. As for stress testing, the Risk Management Department conducted 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 customer portfolio for Italy.
Regarding "single name" concentration risk towards banking counterparties, the Bank operates a system of internal 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).
In 2017, the Risk Management Department introduced a specific quarterly report containing performance analyses in the context of large exposures (and related parties), as well as quantitative analyses (capital absorption and monitoring of internal limits) and the composition of the loan portfolio.

- Interest rate risk on the banking book

Compliance with the internal operating limit (set conservatively below the regulatory threshold) was 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 made use of an IT product ALM (ERMAS) linked directly to the accounting ledgers and able to provide the maturity ladder. This product was also used to conduct stress tests assuming shifts in the interest rate curve (parallel and otherwise).

In addition to the regulatory limit (Risk Indicator) and the RAF limits (Risk Appetite Framework), the internal policy governing the management process for the interest rate risk on the banking book requires 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 was responsible for granting credit lines for each country, and for regulating loans to countries that have a rating (set by the main specialised agencies) 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 2017 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, in 2017 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 was 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.
The internal policy 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 always shown 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 has institutionalised the scenarios required to build the balance sheet and the strategic 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

This risk, which has to be assessed for the ICAAP report, is conventionally defined as: "the immediate or likely downturn of profit or capital due to a negative perception of the Bank's image by its customers."
During 2017, the Bank continued to carry out 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 its own 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 2017 the Systems Department was mainly involved in activities to strengthen control mechanisms and to implement solutions in the IT security field.

In the IT area during 2017, specific tests were carried out in order to ensure the physical security of the systems, the confidentiality of information and the integrity and availability of the items.

Significant efforts in the field of controls (together with the Security & Privacy Department) were undertaken in the analysis of IT risk.

In 2017 the software selection of products for log management and identity management was completed and the release dates were planned for 2018.

Particularly awaited was the conclusion of the development phase of the new internal procedure for managing IT access credentials. The solution, which is expected to be activated by the first months of 2018, will enable the activation, modification and revocation of credentials by means of a structured workflow, highlighting the operating profiles issued to users.

Particular solutions are being analysed in the field of email storage to make research and consultation more accessible to end users.

Finally, a special mention, in the field of security, goes to the SWIFT company for complying with the requirements of the Customer Security Framework: in this field, the Bank was found to have a degree of compliance to the SWIFT security framework of well over 90%.

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.

The Management Control Dept., thanks to ongoing IT projects, sought to increase the time-to-market of management data in order to support not only communication with the governing bodies and the Bank's system as a whole, but also the changing needs of planning and controlling results.

With a view to standardising and improving corporate production processes, data analysis and expanding internal reporting systems, the Department was involved in activities to develop new management tools and to incorporate them into the sectors of the Bank's new IT architecture.

This constant activity to strengthen and enhance the Bank's ITC systems, carried out in collaboration with the SSO Department, has made it possible 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 and Milan for optimal use of the business premises in addition to regular maintenance activities. Important work was carried out to meet the requirements of safety regulations and technical efficiency.
In particular, apart from the ordinary maintenance work for the premises in Rome (HQ), Milan (branch) and Morena (archive), the activities of the technical unit focused on modernising the electro-mechanical equipment.

Works was completed in 2017 also on a new air conditioning system ensuring the Bank's compliance with current regulations on energy saving and pollution; this upgrade will lead to significant energy and costs savings also in the short term.

Specific activity concerned the Bank's archive – located in Morena – to keep it in compliance with the new regulations and to make it increasingly responsive to the Bank's multiple archiving requirements.

8. SECURITY & PRIVACY DEPARTMENT

In 2017 the main activities in the fields of Security and Privacy concerned the definition of IT controls and IT risk analysis.

In the privacy field, a gap analysis was conducted to identify the points to be implemented in order to achieve compliance with the new General Data Protection Regulation (GDPR). This legislation will have a high impact on the organisational and technological level, and in fact significant investments have been made to acquire new and specific software.

Collecting information to establish a list of sensitive activities has been completed. This preparatory information was needed for processing the data required by the treatment register as per the new privacy regulation.

An impact assessment was carried out on data protection and identifying treatments that may present a "high risk", pursuant to EU regulation no. 679/2016.

With regard to governance, the '*Privacy Policy*' was drafted in 2017 in order to provide indications regarding the processing of personal data held by Banca UBAE.

In the field of safety and security, the "Guidelines for the management of third parties" were drafted and published with the aim of ensuring that the Bank's contracts conform to the best standards in relation to the legal and IT security requirements.
The internal procedure for the interrogation of banking operations has been revised as required by the "Guarantor of Privacy 2" legislation.

Other important activities in 2017 included establishing the requisites for Data Discovery (enabling the Bank to interpret data and to obtain the information required for business purposes and for the market) and in the field of Data Governance & Privacy; these activities will be finalised in 2018.

Finally, it is important to note that, in line with the strategic plan for IT security approved by the Board of Directors in 2017, an activity focusing on Cyber Risk Maturity was conducted in order to develop as soon as possible the operational security plan to be integrated with the strategic security plan.

RECLASSIFIED BALANCE SHEET

EUR/000

	BALANCE AS AT:		CHANGE	
	31.12.2017	31.12.2016	AMOUNT	%
ASSETS				
CASH AND CASH EQUIVALENTS	932,765	287,014	645,751	224.99
LOANS AND ADVANCES				
- TO CUSTOMERS	424,970	358,902	66,068	18.41
- TO BANKS	1,106,952	1,298,842	(191,890)	(14.77)
FINANCIAL ASSETS HELD FOR TRADING	46,980	53,852	(6,872)	(12.76)
FIXED ASSETS				
- FINANCIAL (1)	286,708	837,455	(550,747)	(65.76)
- TANGIBLE	23,120	23,354	(234)	(1.00)
- INTANGIBLE	842	1,329	(487)	(36.64)
OTHER ASSETS (2)	23,332	19,882	3,450	17.35
TOTAL ASSETS	**2,845,669**	**2,880,630**	**(34,961)**	**(1.21)**
LIABILITIES				
ACCOUNTS PAYABLE				
- TO CUSTOMERS	125,798	237,813	(112,015)	(47.10)
- TO BANKS	2,452,113	2,391,424	60,689	2.54
FINANCIAL LIABILITIES HEAD FOR	6,383	3,228	3,155	97.74
EARMARKED PROVISIONS (3)	3,756	2,181	1,575	72.21
OTHER LIABILITIES (4)	28,833	24,974	3,859	15.45
SHAREHOLDERS' EQUITY				
- CAPITAL AND RESERVES	219,346	217,457	1,889	0.87
- NET PROFIT FOR THE YEAR	9,440	3,553	5,887	165.69
TOTAL LIABILITIES	**2,845,669**	**2,880,630**	**(34,961)**	**(1.21)**

(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	
	31.12.2017	31.12.2016	AMOUNT	%
NET INTEREST INCOME	18,661	21,348	(2,687)	(12.59)
NET NON-INTEREST INCOME (1)	34,546	15,687	18,859	120.22
GROSS OPERATING INCOME	**53,207**	**37,035**	**16,172**	**43.67**
PERSONNEL EXPENSES	(19,474)	(18,854)	(620)	3.29
OTHER ADMINISTRATION EXPENSES AND OPERATING CHARGES (2)	(9,747)	(11,388)	1,641	(14.41)
GROSS OPERATING RESULT	**23,986**	**6,793**	**17,193**	**253.10**
NET ADJUSTMENTS TO TANGIBILE AND INTANGIBILE FIXED ASSETS	(1,535)	(1,429)	(106)	7.42
PROVISIONING, WRITE-DOWNS AND WRITE-UPS (3)	(5,856)	468	(6,324)	(1.351.28)
PRE-TAX PROFIT FROM CONTINUING OPERATIONS	**16,595**	**5,832**	**10,763**	**184.55**
INCOME TAX FOR THE YEAR	(7,155)	(2,279)	(4,876)	213.95
NET PROFIT FROM CONTINUING OPERATIONS	**9,440**	**3,553**	**5,887**	**165.69**
NET RESULT FROM NON-CONTINUING OPERATIONS				
NET PROFIT FOR THE YEAR	**9,440**	**3,553**	**5,887**	**165.69**

(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

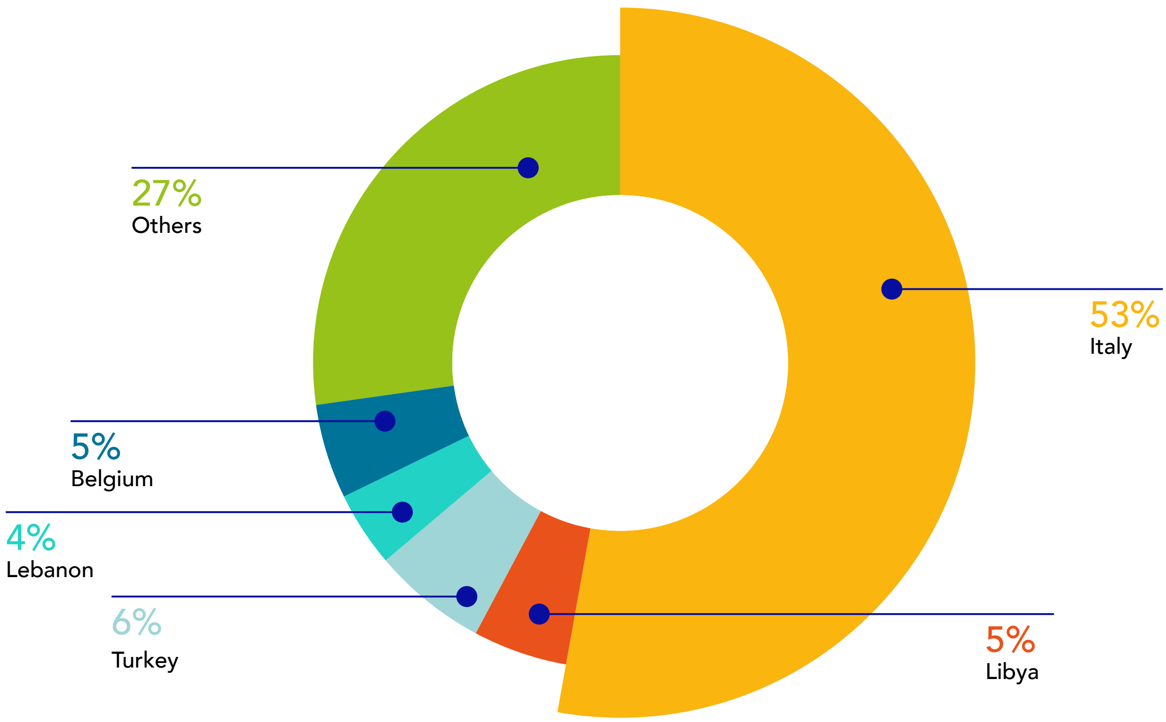
Credits

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2017	31.12.2016	AMOUNT	%
LOANS AND ADVANCES TO CUSTOMERS:				
IN EUROS	282,072	215,054	67,018	31.16
IN OTHER CURRENCIES	142,898	143,849	(951)	(0.66)
LOANS AND ADVANCES TO BANKS:				
IN EUROS	198,797	285,972	(87,175)	(30.48)
IN OTHER CURRENCIES	908,155	1,012,871	(104,716)	(10.34)
TOTAL	1,531,922	1,657,745	(125,823)	(7.59)

The diagram below shows the geographic distribution of loans granted by UBAE as of 31 December 2017:

Loans by country 2017



Loans and advances to customers

The balance of loans to customers increased by around 19%, mainly due to the increase in corporate loan operations.

During the 2017 financial year, the Bank continued to provide support to its customers, in particular those companies that have demonstrated an acceptable risk profile, by granting loans aimed at supporting their commercial activities in the countries of our interest.

The Bank continued its policy of diversifying credit risk in order to comply with the concentration limits set by the legislation on large exposures.

The main types of operations carried out by UBAE are aimed at providing financial support to Italian operators for their trade finance activities conducted with core business countries, also through participation in pools organized by leading banks and with the assistance of important credit insurance companies.

The factoring activity has started to produce its expected economic benefits which, at the end of 2017, proved to be satisfactory.

Receivables are shown net of analytical and lump-sum adjustments. For the evaluation criteria, see the Notes to the Financial Statements, Part A – Accounting Policies.

Loans and advances to banks

Loans to banks at the end of the year, despite a downturn in the balance of approximately Euro 192 million (-15%), amounted to acceptable average amounts in line with previous years.

Volumes were influenced by the interest rate policies pursued by the ECB, which affected the investment choices in this sector, and the need to maintain prudentially a stable ratio of the LCR index above regulatory limits – in the absence of a stable and timely distribution of the funds available in terms of "tenor".

Fund-raising activities showed good results. The "oil" flows were also resumed slowly thanks to exports from oil-producing countries (especially Libya) to Italy; however, during the year, the price of crude oil remained at a higher average level than previously, and has not yet reached Libyan pre-crisis levels.

Commitments to banks – in the form of loans – were fairly stable in 2017, settling at medium levels with acceptable returns, also considering the reasons previously mentioned.

Impaired loans (cash and non cash)

EUR/000

	31.12.2017			
	GROSS EXPOSURE	WRITE-DOWNS	NET EXPOSURE	COVERAGE %
IMPAIRED ASSETS	68,754	(37,646)	31,109	54.8%
BAD DEBTS	28,133	(27,098)	1,035	96.3%
	40,622	(10,548)	30,074	26.0%
IMPAIRED PAST DUE POSITION				
NON IMPAIRED ASSETS	2,170,249	(3,256)	2,166,994	0.2%
CASH AND NON CASH ASSETS (DEPOSITS EXCLUDED)	2,239,004	(40,901)	2,198,102	1.8%

	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%

The total amount of impaired loans (gross of value adjustments on credits) amounted to Euro 68.7 million, an increase of Euro 27.4 million compared to Euro 41.4 million in the previous year. The increase is due to the classification, in the probable default category, of a position referring to an Italian corporate customer.
During the year, negative adjustments were made for a total of Euro 3.8 million referring to expected losses on loans to customers, the recovery of previous write-downs, and the zeroing of non-performing loans for which only marginal recoveries are considered possible.

As part of the prudential provisions that affected our portfolio (i.e. performing loans, both to customers and to banks including loans to counterparties residing in countries at risk) carried out in previous years, there was a recovery of approximately Euro 0.4 million for the regular return of transactions previously classified at risk, in particular for corporate customers.
The ratio between loans (excluding bank deposits) and gross non-performing loans is equal to 1.26% (previously 1.17%) and 0.05% (previously 0.5%) compared to net non-performing loans. Both values are largely satisfactory when compared to those of the banking system (9.1% and 3.7%).

The table below summarises the Bank's non-performing loan indices, cash and signature:

HEDGING OF CREDITS BY STATUS	31.12.2017	31.12.2016	31.12.2015
HEDGING OF BAD DEBTS	96.32%	96.02%	88.67%
HEDGING OF PROBABLE IMPAIRMENTS	25.97%	40.70%	38.39%
OVERALL HEDGING OF IMPAIRMENTS	54.75%	79.92%	74.23%
HEDGING "IN BONIS"	0.15%	0.15%	0.17%
OVERALL HEDGING OF CREDITS	1.83%	1.47%	1.65%

PERCENTAGE COMPOSITION OF CREDITS TOWARDS CUSTOMERS (CASH AND SIGNATURE)	31.12.2017	31.12.2016	31.12.2015
CREDITS "IN BONIS"	98.58%	99.66%	99.48%
IMPAIRED CREDITS:	1.42%	0.34%	0.52%
- BAD DEBTS	0.05%	0.05%	0.16%
- PROBABLE IMPAIRMENTS	1.37%	0.29%	0.36%
- PAST DUE CREDITS			

RISK RATIOS	31.12.2017	31.12.2016	31.12.2015
GROSS IMPAIRED CREDITS/GROSS CREDITS	3.07%	1.65%	2.00%
GROSS BAD DEBTS/GROSS CREDITS	1.26%	1.17%	1.43%
NET IMPAIRED CREDITS/NET CREDITS	1.42%	0.34%	0.52%
NET BAD DEBTS/NET CREDITS	0.05%	0.05%	0.16%

The result expressed by the indices concerning risk ratio is acceptable, both in absolute terms and compared to similar situations in the Italian banking system.

Financial assets

The amount of financial assets comprising securities, derivatives and minority holdings in equity investments amounted to Euro 327 million, showing a decrease of Euro 561 million compared to the previous year.

This change is a consequence, as already mentioned above, of the reimbursements of financial assets classified in the investment portfolio (HTM) and the sale of financial assets allocated to the available assets portfolio (AFS) in order to obtain the maximum return from market conditions favourable to the bank – conditions that arose at the end of the year.

In view of the low spread levels affecting the money market, in particular the interbank market, the Bank maintained a relatively high average volume in order to continue pursuing its low-risk bond investment policy, issued by governments and central governments of Asian and North African countries.

In addition, the Bank continued its commitments to banking counterparties and government bonds by subscribing issues of ECB discountable securities, valuing these investments in terms of the yield and credit standing of the issuers.

The Bank's policy in this area was also to preserve, at optimal levels, the portion of securities in the HTM and AFS portfolios destined for the High Quality Liquid Assets (HQLA) stock in order to comply with the short-term coverage indicator (Liquidity Coverage Ratio) required by current legislation.

The Bank did not make any transfers between the existing portfolios during the reference period.

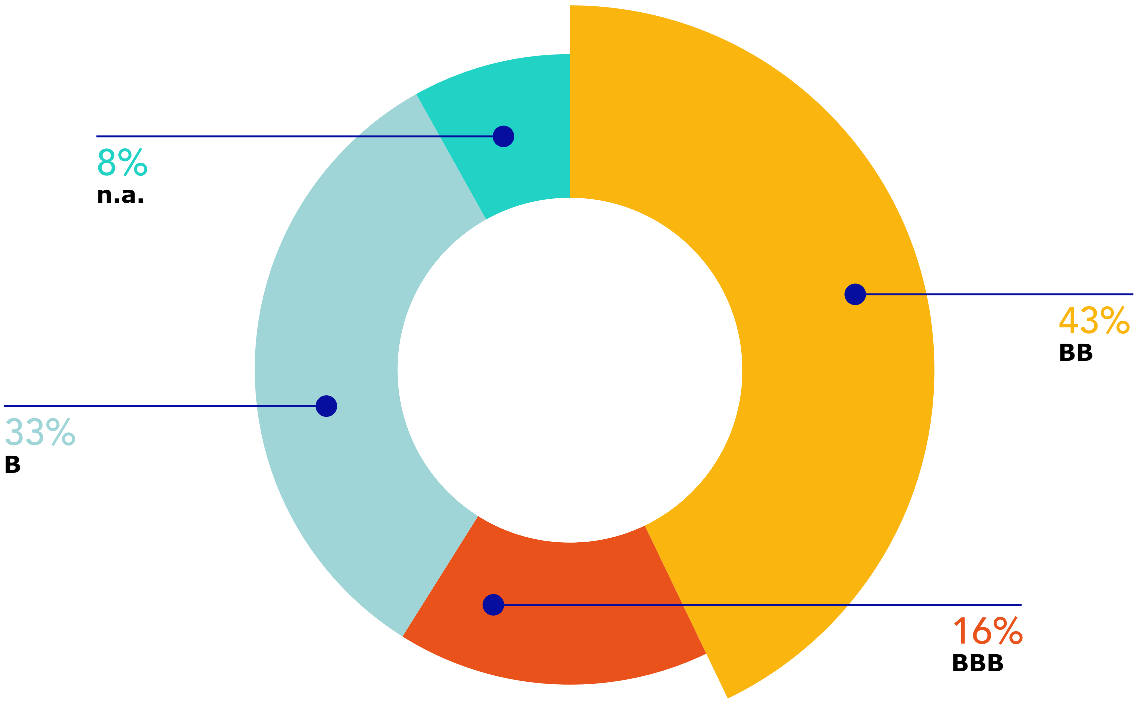
Overall, the policy adopted by the Bank in the financial activities segment made it possible to record the following results:

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2017	31.12.2016	AMOUNT	%
FINANCIAL ASSETS				
ASSETS HELD FOR TRADING	46,980	53,852	(6,872)	(12.76)
LIABILITIES HELD FOR TRADING	(6,384)	(3,228)	(3,156)	97.77
ASSETS AVAILABLE FOR SALE	11,529	209,000	(197,471)	(94.48)
ASSETS HELD TO MATURITY	275,179	628,455	(353,276)	(56.21)
TOTAL	327,304	888,079	(560,775)	(63.14)

Below is a diagram showing the assets to be held until maturity, and AFS divided by rating on the date.

HTM - AFS by rating



For the criteria used in the valuation of securities, as well as those adopted for the purpose of distinguishing between trading and investment securities, please refer to the description in the Notes to the Financial Statements, Part A – Accounting Policies.

Note that the value of trading securities and derivatives is directly aligned with the market value, while for other securities (HTM and AFS) the valuation is carried out at amortised cost.

In accordance with the general prudential policy adopted by the Bank in relation to credit risk, the financial assets to be held to maturity and those available for sale were assessed; this generated a negative impact on the income statement of Euro 0.27 million.

Accounts Payable

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2017	31.12.2016	AMOUNT	%
PAYABLE TO CUSTOMERS				
IN EUROS	61,413	114,730	(53,317)	(46.47)
IN OTHER CURRENCIES	64,385	123,083	(58,698)	(47.69)
PAYABLE TO BANKS				
IN EUROS	854,322	674,292	180,030	26.70
IN OTHER CURRENCIES	1,597,791	1,717,133	(119,342)	(6.95)
TOTAL	2,577,911	2,629,237	(51,326)	(1.95)

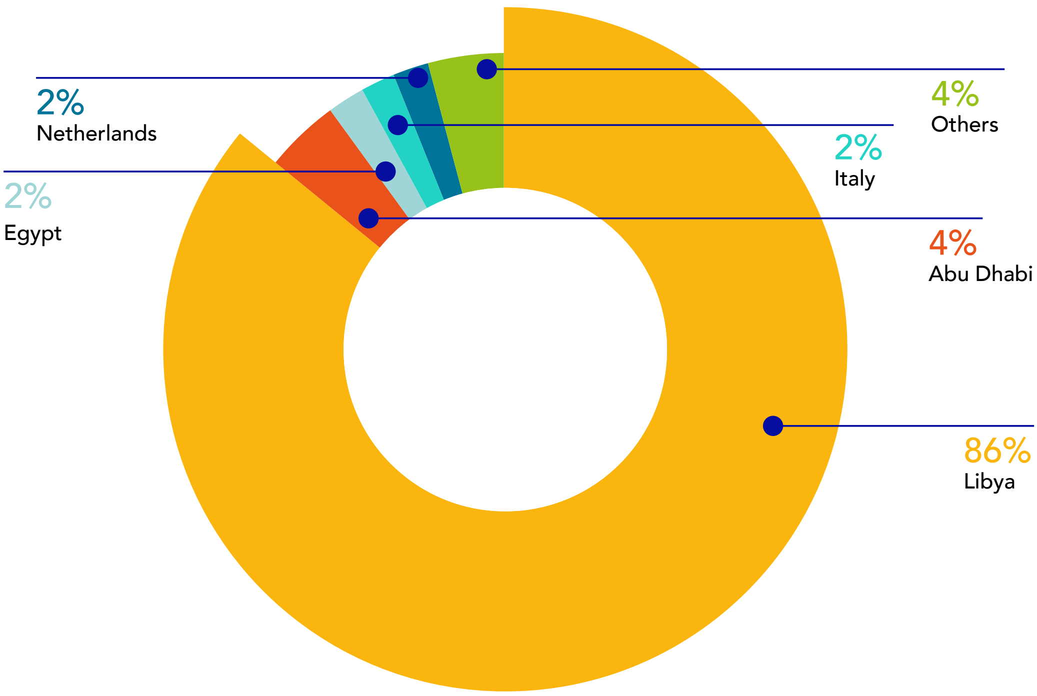
Payables to banks and customers are shown in the financial statements, as per the current regulations, at amortised cost.

The table above highlights the data and changes in the Euro and currency funds, from customers and correspondent banks.

As indicated in the report on operations, in 2017, funding from institutional counterparties had a constant average trend, settling on fairly satisfactory results.

The volumes of deposits from corporate customers – especially counterparties resident in the countries of interest to the Bank – in non-strategic activities for the Bank, showed a reduction compared to the previous year.

Funding by country 2017



Assets

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

EUR/000

	CAPITAL	SHARE PREMIUM	RESERVES	NET PROFIT	TOTAL
31.12.2016	159,861	16,702	40,894	3,553	**221,010**
01.01.17-31.12.17 MOVEMENTS:	159,861	16,702	40,894	3,553	**221,010**
APPROPRIATION OF PROFIT: RESERVES			1,864	(1,864)	
DIVIDENDS				(1,689)	**(1,689)**
VALUTATION RESERVE			25		**25**
NET PROFIT				9,440	**9,440**
31.12.2017	**159,861**	**16,702**	**42,783**	**9,440**	**228,786**

The net equity of the Banca UBAE, including the valuation reserves and profit for the period as at 31 December 2017, amounted to around 229 million euros, showing an increase compared to the previous year (221 million euros).The Ordinary Shareholders' Meeting, when approving the 2016 Financial Statements, decided to allocate the profit for the year to increasing the reserves (approximately Euro 1.9 million) and partly to distributing dividends to shareholders (Euro 1.7 million approximately).

At the end of the year, the UBAE Bank showed a Cet1/Tier1 capital ratio of 12.33% compared to 11.04% of 31 December 2016. The Total Capital Ratio rose to 17.89% compared to 16.12% for the 2016 financial year.

The capital ratios, analysed also in light of the new regulations and taking into account the volumes of assets held by the Bank in 2017, can be considered satisfactory; the values expressed enabled the Bank to achieve an effective balance between the increase in risk capital and the current norms.

Moreover, as a result of the oversight review and evaluation process carried out by the Banca d'Italia (SREP), the Oversight Authorities determined, in 2017, the new additional capital requirements that the Bank will have to hold in addition to the minimum required by current legislation; to date, the Bank is in line with the new requirements set by the Oversight Authority (see table).

	BANCA UBAE 31.12.2017	REGULATORY BINDING LIMITS	LIMIT EXPECTED BY BANCA D'ITALIA
COEFFICIENT OF CET 1	12.33%	6.59%	6.83%
COEFFICIENT OF CLASS 1	12.33%	8.38%	8.70%
COEFFICIENT OF TOTAL CAPITAL	17.89%	10.75%	11.19%

Shares

At 31 December 2017, the Bank's share capital amounted to Euro 159,860,800 and is divided into 1,453,280 ordinary shares with a value of Euro 110 each.

Subordinated loan

In order to guarantee the Bank the strengthening of assets and to ensure an adequate and stable level of Own Funds aimed at full compliance with the relevant indices and regulatory requirements, the majority shareholder – the Libyan Foreign Bank – decided, in 2016, the five-year extension of a subordinated loan signed in 2008 for a total fully paid amount of Euro 100,000,000; this subordinated loan expires in 2023 and the amortisation plan provides for the repayment of the first instalment from 2019.

COMMENTS ON THE INCOME STATEMENT

Net Interest Income

EUR/000

	BALANCE AS AT:		VAR 31.12.17/31.12.16	
	31.12.2017	31.12.2016	AMOUNT	%
10. INTEREST INCOME AND RELATED REVENUE	47,449	40,930	6,519	15.93
20. INTEREST CHARGES	(28,788)	(19,582)	(9,206)	47.01
NET INTEREST INCOME	18,661	21,348	(2,687)	(12.59)
30. DIVIDENDS AND OTHER PROCEEDS	3	2	1	50.00

The net interest margin decreased 12.59% to Euro 18.7 million (Euro 21.3 million in the previous year).

The 2017 result reflects the careful investment policy carried out by the Bank, and its investment strategies involving business deals whose risks and returns represent elements that are acceptable.

The analysis of the result achieved is certainly positive if we consider the impact of the ECB's accommodating monetary policies which have maintained high availability of low-cost funding on the market for the whole year.

This activity had a major impact on the levels of interbank rates which were consolidated at negative levels (or close to zero) consequently reducing spreads on this market where Banca UBAE is also very active.

Hence, UBAE has taken steps to seek out alternative and more remunerative commitments in order to limit these negative effects and maintain an appropriate return on investments from typical finance activities, transferring many of its investments in the financial assets sector.

This activity, together with the positive economic returns of loans to companies and banks, has made it possible to achieve a largely positive result.

Net Non-Interest Income

Income from financial intermediation can be summarised as follows:

EUR/000

	BALANCE AS AT:		VAR 31.12.17/31.12.16	
	31.12.2017	31.12.2016	AMOUNT	%
40. COMMISSIONS RECEIVED	21,351	16,375	4,976	30.39
50. COMMISSIONS PAID	(4,262)	(3,414)	(848)	24.84
NET COMMISSIONS	17,089	12,961	4,128	31.85
80. TRADING ASSETS	17,249	2,745	14,504	528.38
100. PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF AFS	205	(21)	226	n.a.
190. OTHER OPERATING PROCEEDS	1,745	3,068	(1,323)	(43.12)
NET NON-INTEREST INCOME	36,288	18,753	17,535	93.51

Trading revenues and other income rose significantly compared to the previous year, with a balance of Euro 36.2 million (previously Euro 18.8 million in 2016).

The net commissions (+31.85%) amount to approximately Euro 17 million; this result is the direct consequence of the strategic lines decided by the competent bodies and aimed at identifying business opportunities in new countries with adequate risk profiles, also replacing some of the Bank’s traditional partners whose political and social conditions have no longer allowed the continuance of commercial relations.

This policy achieved positive economic returns during the year enabling the Bank to make a significant increase with regard to commissions on letters of credit and international guarantees.

Compared to the previous year, the finance area effectively managed the resources allocated to achieve noteworthy results. The year-end figure for trading activities amounted to approximately Euro 17.2 million compared to Euro 2.7 million in 2016.

ADMINISTRATION EXPENSES

EUR/000

	BALANCE AS AT:		VAR 31.12.17/31.12.16	
	31.12.2017	31.12.2016	AMOUNT	%
A) PERSONNEL EXPENSES:				
WAGES AND SALARIES	11,416	11,089	327	2.95
SOCIAL SECURITY CONTRIBUTIONS	3,433	3,358	75	2.23
STAFF SEVERANCE PAYMENTS	763	741	22	2.97
OTHER EXPENSES	1,419	1,382	37	2.68
TOTAL EMPLOYEE EXPENSES	**17,031**	**16,570**	**461**	**2.78**
ADMINISTRATORS	1,943	1,584	359	22.66
STATUTORY AUDITORS	85	92	(7)	(7.61)
NON-STAFF ASSOCIATES	415	608	(193)	(31.74)
TOTAL PERSONNEL EXPENSES	**19,474**	**18,854**	**620**	**3.29**
B) OTHER ADMINISTRATION EXPENSES	11,492	13,162	(1,670)	(12.69)
TOTAL	**30,966**	**32,016**	**(1,050)**	**(3.28)**

Administrative expenses, amounting to Euro 30.9 million at 31 December 2017, decreased by 3.3% compared to 2016 (Euro 32 million).

Personnel expenses, amounting to 17 million euros, amounted to values substantially in line with the previous year (+2.78%). This effect is essentially due to the increase in the number of the Bank's employees which rose by 4 people at the end of the period, and by the appointment of a Deputy General Manager at full cost.

Other administrative expenses amounted to Euro 11.5 million (previously Euro 13.2 million). The result includes the cost for the contribution of Euro 1.3 million (previously Euro 4.5 million in 2016), required by the Banca d'Italia for the National Resolution Fund.

At the end of the financial year, if the above-mentioned contributions are not taken into account, the administrative expenses are in line with those of 2016, showing the Bank's particular attention to containment without jeopardizing the efficiency of the organisational structure.

The efficiency index in this sector (cost/income ratio) moved from about 78.39% to 55.72%, settling on positive values, comparing well with Italian and foreign banks.

COMPOSITION OF THE BANK'S NET RESULT

EUR/000

	BALANCE AS AT:				VAR 31.12.17/31.12.16	
	31.12.2017		31.12.2016		AMOUNT	%
GROSS OPERATING PROFIT		23,986		6,793	17,193	253.10
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS		(1,535)		(1,429)	(106)	7.42
NET IMPAIRMENT ADJUSTMENTS:						
TO LOANS	(3,788)		(349)			
TO FINANCIAL ASSETS AVAILABLE FOR SALE	(320)		(53)			
TO FINANCIAL ASSETS HELD TO MATURITY	2		33			
TO OTHER FINANCIAL OPERATIONS	(1)		932			
NET PROVISIONING FOR RISKS AND CHARGES	(1,749)		(95)			
TOTAL		(5,856)		468	(6,324)	n.a.
PROFIT BEFORE TAX		16,595		5,832	10,763	184.55
INCOME TAX FOR THE YEAR		(7,155)		(2,279)	(4,876)	213.95
NET PROFIT		9,440		3,553	5,887	165.69

Comparing the financial years at their respective closing dates shows a result of Euro 9.4 million at 31 December 2017 and Euro 3.6 million at 31 December 2016 after allocating taxes for the year for Euro 7.2 million (Euro 2.3 as of 31 December 2016).

For the reasons explained above, the final figure at 31 December 2017 is to be considered very positive as it was achieved in a domestic and international situation whose economic and financial growth has not yet been consolidated. The result highlights the vigilant use of available financial resources with management policies and strategies consistent with the characteristics of high-risk foreign markets, where UBAE is active. It is the best result achieved by the Bank in the last five years.

At 31 December 2017, during the prudential valuation of exposures and following the results of the risk assessments, the decision-making bodies decided to increase the previously allocated provisions for risks. Hence, provisions amounted to approximately Euro 4.1 million at 31 December 2017 compared to Euro 0.4 million at 31 December 2016.

Provisions for risks and charges rose from Euro 0.1 million at 31 December 2016 to Euro 1.7 million at 31 December 2017.

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".

In September 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.

SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

No events to report.

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.

OUTLOOK

The 2018 financial year will be characterised by a positive economic situation internationally and by signs of recovery in international trade.
Under these conditions, the risks for the global economy could come from a sudden surge of volatility on financial markets, and from a possible intensification of geopolitical concerns – factors that could lead to an increase in financial risks with negative economic repercussions especially in the Euro area.

The economic forecasts for the countries of our interest – despite having suffered a prolonged and difficult economic and social crisis – foresee a considerable financial improvement.

The coming financial year will also be conditioned by the Bank's effort to consolidate the existing control and organisational structures, and to respond effectively to the various European regulations and tasks, including the measures of increased due diligence required by the Financial Action Task Force (FATF-GAFI), the implementation of the Business Continuity Plan, and the tasks of the new accounting standard IFRS9 that will influence the Bank's commercial strategies.

Another important task that awaits us is the challenge introduced by the Banca d'Italia with the 20th update of Circular no. 285 of 17 December 2017, relating to the individual and aggregate limits of exposures to Shadow Banking Entities (SBE) i.e. banks resident in countries deemed "not equivalent" from a regulatory viewpoint.

In this context, certainly complex but with excellent development opportunities, the Bank's strategic choices will prove to be winning elements in order to ensure constant and continuous growth in the reference markets. A specific attention to credit risk deriving from domestic clients involved in the construction sector could be done.

More specifically, the Bank's objective in 2018 will be to expand the range of services offered to customers, in particular assisting domestic and international clients with a tailor-made approach, and assessing the best business opportunities also involving our network of foreign consultants.

There will be many activities to strengthen our business positioning in key countries such as Italy, Libya, Bangladesh, Turkey, Egypt, Algeria, as well as in Lebanon and Jordan, and to develop new markets such as Senegal, Ivory Coast and Pakistan, for further commercial activities.

Moreover, there will be further impulse to the activities of Forex Exchange, expanding the activity to new banking counterparties of primary credit standing, exploiting the Bank's enhanced IT platform.

Finally, in a stagnant situation of low interest rates and in order to ensure an adequate balance between assets and liabilities to comply with the limits established for the liquidity coverage ratio (LCR), our Treasury will mainly operate as a services centre in the commercial and securities fields, with a small volume of managed deposits; hence, in 2018 our commitment in the money market will be limited in terms of lending.

Finally, in 2018, the Bank expects an economic result for the year in line with that of 2017 which, as illustrated in the body of the management report, remains one of the best results achieved by the Bank in recent years.

PROPOSAL TO THE SHAREHOLDERS

1. APPROVAL OF THE ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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 2017, considered jointly and in their several postings, as proposed by this Board of Directors.

2. APPROPRIATION OF NET PROFIT 2017

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

	EURO
NET PROFIT	9,439,548
LESS 5% TO LEGAL RESERVE (ART. 30 LETTER A OF THE ARTICLES OF ASSOCIATION)	475,000
	8,964,548
PLUS PROFIT RETAINED FROM PREVIOUS PERIODS	3,730
	8,968,278
LESS DIVIDEND TO BE DISTRIBUTED	2,242,070
LESS ALLOCATION TO THE EXTRAORDINARY RESERVE	6,726,208

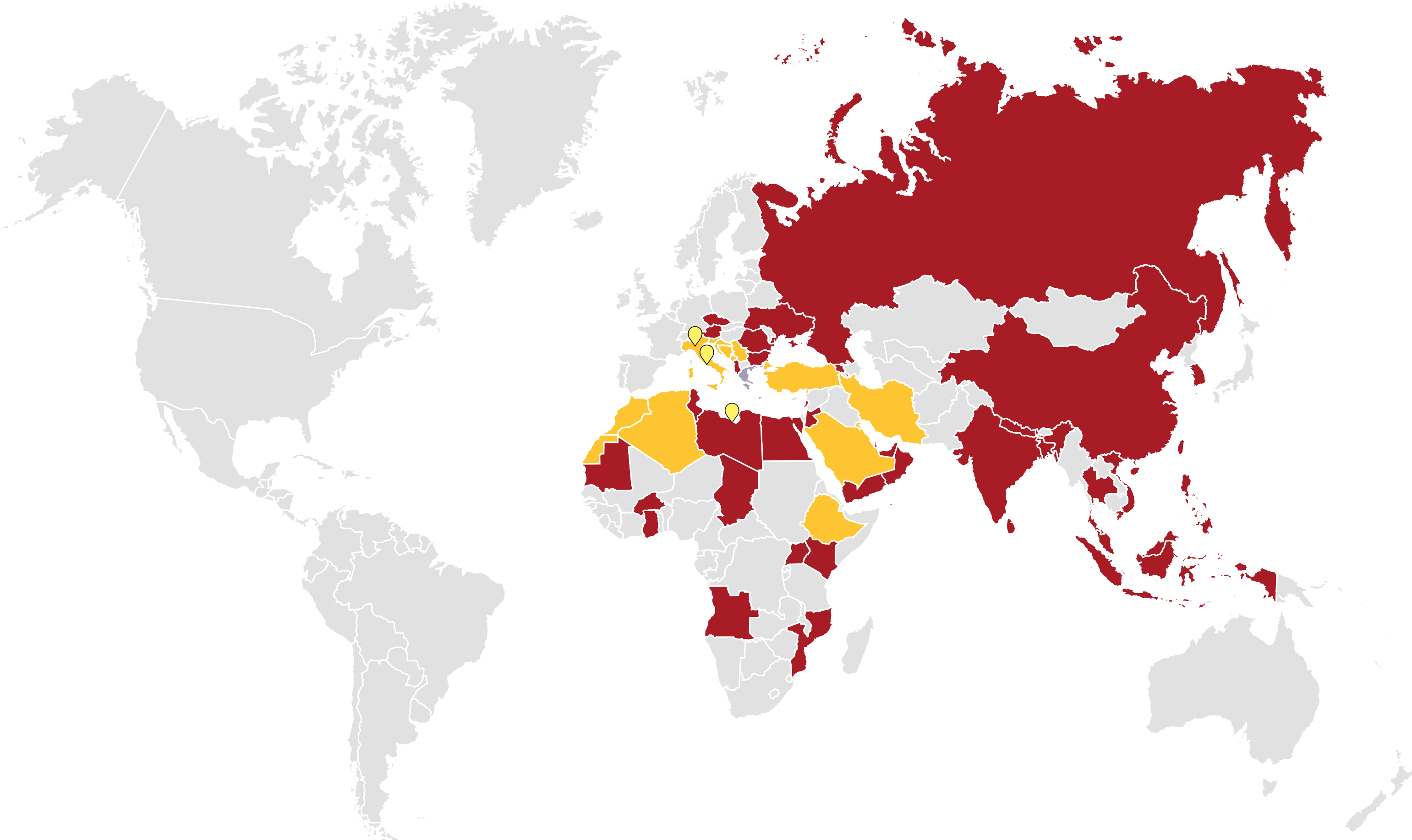
IF THE ABOVE SCHEME IS APPROVED, SHAREHOLDERS' EQUITY WILL AMOUNT TO EUR 226,543,433 AND WILL BE COMPOSED AS FOLLOWS:

SHARE CAPITAL	159,860,800
SHARE PREMIUM ACCOUNT	16,702,216
RESERVES	49,980,417
	226,543,433

Rome, 27 March 2018

THE CHAIRMAN

BANCA UBAE:
AN INTERNATIONAL BANK FOR THE GLOBAL MARKET



Our reference countries

Offices:
Rome Head Office | Milan Branch | Tripoli Rep. Office

Consultants:
Italy

Albania, Bosnia & Herzegovina, Croatia, Kosovo, Montenegro, Serbia, Slovenia, Turkey
Algeria
Ethiopia
Iran
Kuwait, Saudi Arabia
Morocco

Rome Headquarters,
Via Quintino Sella, 2

FINANCIAL STATEMENTS

(amounts in euros)

1 January - 31 December 2017

BALANCE SHEET: ASSETS

	ASSETS	31.12.2017	31.12.2016
10	CASH AND CASH EQUIVALENTS	932,764,832	287,014,183
20	FINANCIAL ASSETS HELD FOR TRADING	46,980,335	53,852,150
40	FINANCIAL ASSETS AVAILABLE FOR SALE	11,528,902	208,999,595
50	FINANCIAL ASSETS HELD TO MATURITY	275,178,643	628,454,704
60	LOANS AND ADVANCES TO BANKS	1,106,952,126	1,298,842,497
70	LOANS AND ADVANCES TO CUSTOMERS	424,969,717	358,902,215
110	TANGIBLE FIXED ASSETS	23,120,138	23,353,513
120	INTANGIBLE FIXED ASSETS,	842,425	1,329,107
	OF WHICH: GOODWILL		
130	TAX ASSETS	17,834,058	15,698,333
	A) CURRENT	12,448,641	10,606,989
	B) DEFERRED	5,385,417	5,091,344
150	OTHER ASSETS	5,498,024	4,184,075
TOTAL ASSETS		2,845,669,200	2,880,630,372

BALANCE SHEET: LIABILITIES

	LIABILITIES	31.12.2017	31.12.2016
10	ACCOUNTS PAYABLE TO BANKS	2,452,112,620	2,391,424,232
20	ACCOUNTS PAYABLE TO CUSTOMERS	125,798,327	237,813,178
40	FINANCIAL LIABILITIES HELD FOR TRADING	6,383,560	3,227,719
80	TAX LIABILITIES	11,701,871	4,242,412
	A) CURRENT	11,312,822	3,863,493
	B) DEFERRED	389,049	378,919
100	OTHER LIABILITIES	17,130,958	20,731,199
110	STAFF SEVERANCE FUND	1,461,260	1,566,198
120	PROVISIONS FOR RISKS AND CHARGES	2,295,101	615,198
	A) PENSIONS AND SIMILAR		
	B) OTHER	2,295,101	615,198
130	VALUATION RESERVES	555,760	531,310
160	RESERVES	42,227,179	40,363,016
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	9,439,548	3,552,894
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,845,669,200	2,880,630,372

INCOME STATEMENT

	ITEMS	31.12.2017	31.12.2016
10	INTEREST AND SIMILAR INCOME	47,449,044	40,929,901
20	INTEREST CHARGES AND SIMILAR EXPENSES	(28,788,186)	(19,582,005)
30	NET INTEREST INCOME	18,660,858	21,347,896
40	COMMISSION INCOME	21,350,532	16,374,901
50	COMMISSION EXPENSE	(4,262,053)	(3,414,065)
60	NET COMMISSIONS	17,088,479	12,960,836
70	DIVIDENDS AND SIMILAR INCOME	3,426	1,713
80	NET TRADING INCOME	17,249,254	2,745,423
100	PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF:	204,840	(20,800)
	A) LOANS AND ADVANCES		
	B) FINANCIAL ASSETS AVAILABLE FOR SALE	204,840	(20,800)
	C) FINANCIAL ASSETS HELD-TO-MATURITY		
	D) OTHER FINANCIAL ASSETS		
120	GROSS OPERATING INCOME	53,206,857	37,035,068
130	NET IMPAIRMENT ADJUSTMENTS:	(4,107,062)	562,469
	A) LOANS AND ADVANCES	(3,787,658)	(348,977)
	B) FINANCIAL ASSETS AVAILABLE FOR SALE	(319,946)	(53,010)
	C) FINANCIAL ASSETS HELD-TO-MATURITY	1,873	32,819
	D) OTHER FINANCIAL ASSETS	(1,331)	931,637
140	NET INCOME FROM FINANCIAL OPERATIONS	49,099,795	37,597,537
150	ADMINISTRATION EXPENSES:	(30,965,472)	(33,309,754)
	A) PERSONNEL	(19,473,730)	(18,853,691)
	B) OTHER	(11,491,742)	(14,456,063)
160	NET PROVISIONING FOR RISKS AND CHARGES	(1,749,456)	(95,422)
170	NET ADJUSTMENTS TO TANGIBLE FIXED ASSETS	(801,046)	(765,515)
180	NET ADJUSTMENTS TO INTANGIBLE FIXED ASSETS	(733,504)	(662,944)
190	OTHER OPERATING INCOME / CHARGES	1,744,486	3,068,290
200	OPERATING CHARGES	(32,504,992)	(31,765,345)
250	PROFIT FROM CONTINUING OPERATIONS BEFORE TAX	16,594,803	5,832,192
260	INCOME TAX FOR THE YEAR ON CONTINUING OPERATIONS	(7,155,255)	(2,279,298)
270	NET PROFIT FROM CONTINUING OPERATIONS	9,439,548	3,552,894
290	NET PROFIT FOR THE YEAR	9,439,548	3,552,894

STATEMENT OF COMPREHENSIVE INCOME

	ITEMS	31.12.2017	31.12.2016
10	NET PROFIT (LOSS)	9,439,548	3,552,894
	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	3,949	(22,460)
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	20,501	568,008
110	NON-CURRENT ASSETS EARMARKED FOR DISPOSAL		
120	SHARE OF VALUATION RESERVES BOOKED TO SHAREHOLDERS' EQUITY		
130	OTHER SOURCES OF INCOME, AFTER TAX	24,450	545,548
140	COMPREHENSIVE INCOME	9,463,998	4,098,442

STATEMENT OF CHANGES IN EQUITY - 01.01.2017 - 31.12.2017

	BALANCE AS AT 31.12.2016	CHANGE IN OPENING BALANCE	BALANCE AS AT 01.01.2017	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		INTERVENING VARIATIONS								SHAREHOLDERS' EQUITY AS AT 31.12.2017
				RESERVES	DIVIDENDS AND OTHERS	CHANGES TO RESERVES	CHANGES TO EQUITY						COMPREHENSIVE NET INCOME 2017	
							NEW SHARES ISSUED	TREASURY STOCK BOUGHT	EXTRAORDINARY DIVIDENDS PAID	CHANGES TO CAPITAL INSTRUMENTS	DERIVATIVES ON TREASURY STOCK	STOCK OPTIONS		
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	40,363,016		40,363,016	1,864,163										42,227,179
B) OTHER														
REVALUATION RESERVES	531,310		531,310										24,450	555,760
CAPITAL INSTRUMENT														
TREASURY STOCK														
NET PROFIT FOR THE YEAR	3,552,894		3,552,894	(1,864,163)	(1,688,731)								9,439,548	9,439,548
SHAREHOLDERS' EQUITY	221,010,236		221,010,236		(1,688,731)								9,463,998	228,785,503

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

CASH FLOW STATEMENT

	INDIRECT METHOD	31.12.2017	31.12.2016
A	OPERATING ACTIVITIES		
1	OPERATIONS	22,109,247	4,474,637
	NET PROFIT FOR THE YEAR	9,439,548	3,552,894
	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	4,107,062	(562,469)
	NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS	1,534,550	1,428,459
	NET PROVISIONS FOR RISKS AND CHARGES AND OTHER REVENUES (COSTS)	1,679,903	(335)
	UNSETTLED TAXES AND DUTIES	5,323,734	(489,460)
	NET POST TAX ADJUSTMENTS TO GROUPS OF ASSETS EARMARKED FOR DISPOSAL		
	OTHER ADJUSTMENTS	24,450	545,548
2	LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL ASSETS	324,744,366	(120,445,550)
	FINANCIAL ASSETS HELD FOR TRADING	6,871,815	(15,155,886)
	FINANCIAL ASSETS CARRIED AT FAIR VALUE		
	FINANCIAL ASSETS AVAILABLE FOR SALE	197,470,693	161,344,161
	LOANS AND ADVANCES TO BANKS: DEMAND	191,890,371	(283,878,592)
	LOANS AND ADVANCES TO BANKS: OTHER		
	LOANS AND ADVANCES TO CUSTOMERS	(70,174,564)	17,391,711
	OTHER FINANCIAL ASSETS	(1,313,949)	(146,944)
3	LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL LIABILITIES	(51,875,801)	95,213,450
	ACCOUNTS PAYABLE TO BANKS: DEMAND	60,688,388	(9,749,334)
	ACCOUNTS PAYABLE TO BANKS: OTHER		
	ACCOUNTS PAYABLE TO CUSTOMERS	(112,014,851)	94,514,436
	OUTSTANDING SECURITIES		
	FINANCIAL LIABILITIES HELD FOR TRADING	3,155,841	1,986,405
	FINANCIAL LIABILITIES CARRIED AT FAIR VALUE		
	OTHER FINANCIAL LIABILITIES	(3,705,179)	8,461,943
	NET LIQUIDITY GENERATED (ABSORBED) BY OPERATING ACTIVITIES	294,977,812	220,133,637

	INDIRECT METHOD	31.12.2017	31.12.2016
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:	352,461,568	(155,316,139)
	PURCHASE OF EQUITY INVESTMENTS		
	PURCHASE OF FINANCIAL ASSETS HELD TO MATURITY	353,276,061	(153,951,197)
	PURCHASE OF TANGIBLE FIXED ASSETS	(567,671)	(841,081)
	PURCHASE OF INTANGIBLE FIXED ASSETS	(246,822)	(523,861)
	PURCHASE OF BUSINESS UNITS		
	NET LIQUIDITY GENERATED (ABSORBED) BY INVESTMENT/DIVESTMENT ACTIVITIES	**352,461,568**	**(155,316,139)**
C	FUNDING	352,461,568	
	ISSUE (PURCHASE) OF TREASURY STOCK		
	ISSUE (PURCHASES) OF CAPITAL INSTRUMENTS		
	DISTRIBUTION OF DIVIDENDS AND OTHER	(1,688,731)	(3,286,000)
	NET LIQUIDITY GENERATED (ABSORBED) BY FUNDING ACTIVITIES	(1,688,731)	**(3,286,000)**
NET LIQUIDITY GENERATED (ABSORBED) DURING THE YEAR		645,750,649	61,531,498

RECONCILIATION	31.12.2017	31.12.2016
CASH AND CASH EQUIVALENTS AT START OF YEAR	287,014,183	225,482,685
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	645,750,649	61,531,498
CASH AND CASH EQUIVALENTS: EFFECT OF EXCHANGE RATE VARIATIONS		
CASH AND CASH EQUIVALENTS AT THE YEAR END	932,764,832	287,014,183

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

Meeting room of our Milan branch located in Piazza Armando Diaz, 7

NOTES TO THE FINANCIAL STATEMENTS

1 January - 31 December 2017

PART A: ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

The financial statements at 31 December 2017 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 27 March 2018, 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 26 April 2017 (first call) and 27 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 2017 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 27 March 2018, 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.

4.1 Modification of accounting principles homologated by European Commission

4.1.a - International accounting principles in force since 2017

The accounting regulations applicable, obligatorily and for the first time, starting from 2017, are made up of certain limited changes made to accounting standards already in force, approved by the European Commission in 2017. These changes, however, are not particularly significant for Banca UBAE.

REGULATION/HOMOLOGATION	TITLE	DATE OF ENTRY INTO FORCE
1989/2017	Changes to IAS 12 Taxes	01/01/2017 First financial year starting 01/01/2017 or subsequently
1991/2017	Changes to IAS 7 Financial statements	01/01/2017 First financial year starting 01/01/2017 or subsequently

4.1.b - International accounting principles homologated on 31.12.2017 to be applied after 31.12.2017

The following table shows the new international accounting standards or amendments to accounting standards already in force, with the related Approval Regulations by the European Commission, whose mandatory application runs from 1 January 2018 – in the case of budgets coinciding with the calendar year – or from a later date.

In this regard, it should be noted that, for Banca UBAE, among the new accounting principles endorsed by the European Commission in 2016 and 2017, the IFRS9 principle is particularly relevant; in this regard, a specific section has been prepared – in Part A of the explanatory notes – to which reference should be made (see 4.b)

REGULATION/HOMOLOGATION	TITLE	DATE OF ENTRY INTO FORCE
1905/2016	IFRS15 Revenues from contracts with customers	01/01/2018 First financial year starting 01/01/2018 or subsequently
2067/2016	IFRS9 Financial instruments	01/01/2018 First financial year starting 01/01/2018 or subsequently
1986/2017	IFRS16 Leasing	01/01/2018 First financial year starting 01/01/2018 or subsequently
1987/2017	Changes to IFRS15 Revenues from contracts with customers	01/01/2018 First financial year starting 01/01/2018 or subsequently
1988/2017	Changes to IFRS4 Insurance contracts	01/01/2018 First financial year starting 01/01/2018 or subsequently

4.1.c - International accounting principles not yet homologated as of 31.12.2017

PRINCIPLE/INTERPRETATION/ PUBLICATION	TITLE	DATE OF PUBLICATION
IFRIC 22	Foreign Currency Transactions and Advance Consideration	08/12/2016
IFRS 17	Insurance Contracts	18/05/2017
IFRIC 23	Uncertainty over Income Tax Treatments	07/06/2017

PRINCIPLE/INTERPRETATION/ PUBLICATION	TITLE	DATE OF PUBLICATION
IFRS 2	Classification and Measurement of Share-based payment Transactions	20/06/2016
IFRS 1	First-time Adoption of International Financial Reporting Standards	08/12/2016
IFRS 12	Disclosure of Interests in Other Entities	08/12/2016
IAS 28	Investments in Associates and Joint Ventures	08/12/2016
IAS 40	Transfers of Investment Property	08/12/2016
IFRS 9	Prepayment Features with Negative Compensation	12/10/2017
IAS 28	Long-term Interest in Associates and Joint Ventures	12/10/2017
IFRS 3	Business Combination	12/12/2017
IFRS 11	Joint Arrangement	12/12/2017
IAS 12	Income Taxes	12/12/2017
IAS 23	Borrowing Costs	12/12/2017

4b. 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. 2017/2067, 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:

1. 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);
2. 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;
3. 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

The project was launched at the end of 2015 through participation in the ABI interbank working group and the analysis of solutions to define an internal scoring and PD system. Following the implementation of the RiskCalc tool (provided by Moody's), in 2016 enhancement activities were started in order to produce, starting from the entry score and PD, multi-period and forward looking PD values. At the same time, analysis began of the various possibilities for interfacing with the IT system for handling classification and measurement, as well as for impairment.

The project activities continued in 2017, leading to the following objectives:

- Definition of the Bank's business model approved by the Board in December 2017;
- Implementation of a tool to perform the SPPI test in order to classify items within the held-to-collect portfolio (assessed at amortised cost);
- Customisation of the macroeconomic models, with the support of Moody's Analytics, in order to elaborate forward-looking and multi-period PDs for each counterparty; the macroeconomic scenarios were differentiated by geographical area (Eurozone, USA, MENA and Asia) and by type of counterparty (bank and corporate);
- Customisation of the macroeconomic models, with the support of Moody's Analytics, in order to elaborate forward-looking and multi-period LGDs for each counterparty and for the type of debt seniority; the macroeconomic scenarios were differentiated by geographical area (Eurozone, USA, MENA and Asia) and by type of counterparty (bank and corporate);
- Definition of the staging rules, in particular the parameter related to "significant credit deterioration" for each internal scoring class;
- Definition of internal rules for assigning forward-looking PDs and LGDs when the counterparties (for example physical people) lacked entry scores and PDs; the Bank decided to assign these counterparties the average values associated with the cluster to which they belong, while for the purposes of staging allocation, automated classification will be carried out in stage 2;
- Based on the risk parameters (forward-looking PDs and LGDs), the FTA reserve (First Time Adoption) was quantified on 31 December 2017 together with its effects in terms of equity and capital ratio. In particular, the allocation of the entire FTA reserve to assets would have determined the reduction of capital ratio by 0.40% circa (net of tax effect) in line with the banking system;
- Study and development of technological interfaces aimed at ensuring the supply and processing of the database within the IT system and in particular within the SAS platform dedicated to impairment;

- Organisation of training sessions for business units (finance and sales) and corporate units involved in the impairment process;
- Preparing estimates of expected credit loss for individual assignment and/or renewal practices for the decision-making bodies.

Lastly, for completeness of information, we should point out the following:

- regarding the transitional period in which the accounting systems and procedures simultaneously manage data in accordance with IAS39 together with data as per IFRS 9, it should be noted that UBAE conducted a series of simulations, as specified above, relating to the various implementation aspects of IFRS9 to measure its impact and to verify its effective operation;
- regarding the first application of the principle concerning the restatement of data from previous periods, not required by the provisions of IFRS 9, the Banca UBAE decided not to proceed with such preparation;
- with reference to the transitional provisions, pursuant to EU Regulation no. 2017/2395, aimed at mitigating the impact of the introduction of IFRS 9 on own funds, particularly with regard to the higher provisions for estimated losses on loans, Banca UBAE has decided to make use of the option to include, for the five-year transitional period, a portion of the same in primary capital of class 1 CET1 - (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022). In 2018, the Bank will therefore be able to sterilize in CET1 approximately 6.6 million circa (net of tax effect) corresponding to 95% of the net negative impact of the impairment of performing loans and debt securities and of impaired loans, reaching an impact on CET1 of practically nil.

4c - 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.

4d - 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.

4e - 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.

4f - Contributions to deposit guarantee schemes and resolution mechanisms

With the EU Directives 2014/49 (Deposit Guarantee Schemes Directive - "DGSD") of 16 April 2014 and 2014/59 (Bank Recovery and Resolution Directive - "BRRD") of 15 May 2014 and the establishment of the Resolution Fund (EU Regulation no. 806/2014 of 15 July 2014), the European legislator made major changes to the banking crisis discipline, with the strategic objective of strengthening both the single market and systemic stability.

Following the conversion of these directives into national law, starting from 2016, credit institutions are obliged to provide the resources necessary for financing the Interbank Deposit Protection Fund (FITD) and the Resolution Fund, merged into the National Resolution Fund (FRU), starting from the financial year 2017, through the payment of ordinary contributions and extraordinary contributions when required.

In compliance with the DGSD directive, the FITD has foreseen that Italian banks must pay ordinary annual contributions until the target level is reached, equal to 0.8% of the total of the protected deposits of Italian banks belonging to the FITD. This level must be compulsorily achieved by 3 July 2024. The amount of the contribution requested from each individual bank is proportional to the size of its existing protected deposits as at 30 September of each year compared to the total deposits protected by Italian banks belonging to the FITD and the degree of risk related to the bank with a protected deposit compared to the degree of risk of all the other banks belonging to the FITD.

According to the BRRD, Italian banks must pay ordinary annual contributions to provide the FRU with financial resources of at least 1% of the total protected deposits of all credit institutions authorised in all participating Member States. This level must be achieved by 1 January 2024.

The contributions of each bank are calculated according to the ratio between the amount of their liabilities (net of protected deposits and own funds and, for entities belonging to a group, net of intragroup liabilities) with respect to the total liabilities (net of protected deposits and own funds) of Italian banks and the degree of risk related to each credit institution with respect to the degree of risk of all other Italian banks.

It should be noted that if the financial resources available from the FITD and/or the FRU are not sufficient, respectively to guarantee repayment to depositors or to finance the resolution, credit institutions must provide for the payment of extraordinary contributions.

In the financial statements as of 31 December 2017, the ordinary contribution was recorded under item "150, other administrative expenses" pursuant to IFRIC21 "Taxes" interpretation, according to which the liability related to the payment of a tax (the contributions in question were considered similar to an accounting tax), arises when the so-called "binding fact" occurs, i.e. when the obligation arises to pay the annual fee.

The ordinary contribution of Banca UBAE to the FRU for the financial year 2017 amounted to Euro 1.3 million (1.5 million was the contribution referred to 31 December 2016).
In this regard, it should be noted that this contribution was fully paid as the Bank did not avail itself of the right to pay a 15% stake through irrevocable collateralised payment obligations (so-called "Irrevocable Payment Commitments").

The total contribution to the FITD for the year 2017 was equal to Euro 67 thousand (the amount for 2017 was limited to Euro 50,000 as requested for the second half only).

It should also be noted that, on 27 December 2016, a communication was received from the Banca d'Italia regarding two additional contribution annuities, in accordance with the provisions of article 1, paragraph 848, of law no. 208 of 28 December 2016.

In more detail, this law provides that banks pay additional contributions which, in addition to the contributions paid to the FRU, must in any case remain within the overall limit set by articles 70 and 71 of EU Regulation no. 806/2014; for 2016 only, two additional annual instalments were planned, in consideration of the financial needs related to the rescue operation of the four banks (Banca Popolare dell'Etruria, Banca Marche, Cassa di Risparmio di Ferrara and Cassa di Risparmio di Chieti) launched at the end of 2016. The additional contribution required from Banca UBAE amounted to Euro 2.98 million, and was allocated to the income statement item "150, other administrative expenses" and as a contra-entry to the liability item "100, other liabilities".

In this communication, the Banca d'Italia pointed out, finally, that the decision previously illustrated could be reconsidered in the future also in relation to the evolution of the regulatory framework that will intervene as a result of the possible conversion into law of legislative decree no. 237 of 23 December 2017. This decree provides, in fact, that the Banca d'Italia can establish that the additional contributions "*are due within a defined period of time, not exceeding five years*".

In the 2017 financial year, no extraordinary contribution was requested by the Oversight Authorities.

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

		31.12.2017			31.12.2016		
		L1	L2	L3	L1	L2	L3
1	FINANCIAL ASSETS HELD FOR TRADING	24,269	5,678	17,033	26,605	10,305	16,942
2	FINANCIAL ASSETS ASSESSED AT FAIR VALUE						
3	FINANCIAL ASSETS AVAILABLE FOR SALE	4,377	3,143	4,009	201,952	3,089	3,958
4	HEDGING DERIVATIVES						
5	TANGIBLE FIXED ASSETS						
6	INTANGIBLE FIXED ASSETS						
	TOTAL	28,646	8,821	21,042	228,557	13,394	20,900
1	FINANCIAL LIABILITIES HELD FOR TRADING		6,384			3,228	
2	FINANCIAL LIABILITIES ASSESSED AT FAIR VALUE						
3	HEDGING DERIVATIVES						
	TOTAL		6,384			3,228	

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**	**16,942**		**3,958**			
2	**INCREASES**	**143**		**371**			
2.1	ACQUISITIONS						
2.2	PROFITS ALLOCATED TO:						
	2.2.1 INCOME STATEMENT	110					
	OF WHICH: CAPITAL GAINS	110					
	2.2.2 NET ASSETS						
2.3	TRANSFERS TO OTHER LEVELS						
2.4	OTHER INCREASE CHANGES	33		371			
3	**DECREASES**	**52**		**320**			
3.1	SALES						
3.2	REIMBURSEMENTS						
3.3	LOSSES ALLOCATED TO:						
	3.3.1 INCOME STATEMENT						
	OF WHICH: CAPITAL LOSSES						
	3.3.2 NET ASSETS						
3.4	TRANSFERS TO OTHER LEVELS						
3.5	OTHER DECREASE CHANGES	52		320			
4	**CLOSING BALANCE**	**17,033**		**4,009**			

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

		31.12.2017				31.12.2016			
		BV	FV			BV	FV		
			L 1	L 2	L 3		L 1	L 2	L 3
1	FINANCIAL ASSETS HELD TO MATURITY	275,179	61,379	216,566		628,455	391,881	236,574	
2	LOANS & ADVANCES TO BANKS	1,106,952			1,106,952	1,298,842			1,298,842
3	LOANS & ADVANCES TO CUSTOMERS	424,970			427,717	358,902			358,902
4	TANGIBLE FIXED ASSETS HELD FOR INVESTMENT								
5	NON-CURRENT ASSETS AND GROUPS OF ASSETS BEING DIVESTED								
	TOTAL	1,807,101	61,379	216,566	1,534,669	2,286,199	391,881	236,574	1,657,744
1	ACCOUNTS PAYABLE TO BANKS	2,452,113			2,452,113	2,391,424			2,391,424
2	ACCOUNTS PAYABLE TO CUSTOMERS	125,798			125,798	237,813			237,813
3	DEBT SECURITIES OUTSTANDING								
4	LIABILITIES ASSOCIATED WITH ASSETS BEING DIVESTED								
	TOTAL	2,577,911			2,577,911	2,629,237			2,629,237

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

	31.12.2017	31.12.2016
A) CASH	551	895
B) FREE DEPOSITS WITH CENTRAL BANKS	932,214	286,119
TOTAL	932,765	287,014

The item b) contains an overnight deposit made at the Banca d'Italia of EUR 932 million.

SECTION 2 – FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

2.1 Financial assets held for trading: breakdown by type

ITEMS/VALUES		31.12.2017			31.12.2016		
		L1	L2	L3	L1	L2	L3
A	**NON-DERIVATIVE ASSETS**						
1	DEBT SECURITIES	24,269		17,033	26,605	4,907	16,942
	1.1 STRUCTURED SECURITIES			3,000			6,999
	1.2 OTHER DEBT SECURITIES	24,269		14,033	26,605	4,907	9,943
2	EQUITY SECURITIES						
3	HOLDINGS IN UCI						
4	LOANS						
	4.1 REPO						
	4.2 OTHER DEBT SECURITIES						
TOTAL (A)		24,269		17,033	26,605	4,907	16,942
B	**DERIVATIVES**						
1	FINANCIAL DERIVATIVES		5,678			5,398	
	1.1 FOR TRADING		5,678			5,398	
	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)			5,678			5,398	
TOTAL (A+B)		24,269	5,678	17,033	26,605	10,305	16,942

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 of high credit standing for an overall nominal value of EUR 41 million.

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

ITEMS / VALUES		31.12.2017	31.12.2016
A	**NON-DERIVATIVE ASSETS**		
1	**DEBT SECURITIES**	**41,302**	**48,454**
A)	GOVERNMENTS AND CENTRAL BANKS	3,029	4,907
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS	19,131	31,390
D)	OTHER ISSUERS	19,142	12,157
2	**EQUITY SECURITIES**		
A)	BANKS		
B)	OTHER ISSUERS		
	- INSURANCE UNDERTAKINGS		
	- FINANCIAL COMPANIES		
	- NON-FINANCIAL COMPANIES		
	- OTHER		
3	**UNIT IN UCI**		
4	**LOANS**		
A)	GOVERNMENTS AND CENTRAL BANKS		
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS		
D)	OTHER		
TOTAL (A)		41,302	48,454
B	**DERIVATIVES**	**5,678**	
A)	BANKS		5,398
	- FAIR VALUE	5,678	5,398
B)	CUSTOMERS		
	- FAIR VALUE		
TOTAL (B)		5,678	5,398
TOTAL (A+B)		46,980	53,852

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		31.12.2017			31.12.2016		
		L1	L2	L3	L1	L2	L3
1	**DEBT SECURITIES**	**4,377**	**3,143**	**1,411**	**201,952**	**3,089**	**1,360**
	1.1 STRUCTURED						
	1.2 OTHER	4,377	3,143	1,411	201,952	3,089	1,360
2	**EQUITIES**			**2,598**			**2,598**
	2.1 VALUED AT FAIR VALUE			2,540			2,540
	2.2 VALUED AT COST			58			58
3	**HOLDINGS IN UCI**						
4	**LOANS**						
	4.1 STRUCTURED						
	4.2 OTHER						
TOTAL		4,377	3,143	4,009	201,952	3,089	3,958

Item 1 "Debt securities" level 1 consists of securities issued by Italian companies for a nominal value of Euro 5 million of which Euro 2.5 million has deteriorated. Level 2 consists of a security issued by a foreign institutional counterparty with a nominal value of Euro 3.7 million. Level 3 consists of securities issued by a company classified as unlikely to pay, for a nominal amount of Euro 1.5 million.

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

ITEMS/VALUES		31.12.2017	31.12.2016
1	**DEBT SECURITIES**	**8,932**	**206,401**
A)	GOVERNMENTS AND CENTRAL BANKS	3,143	200,100
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS		
D)	OTHER ISSUERS	5,789	6,301
2	**EQUITIES**	**2,597**	**2,598**
A)	BANKS		
B)	OTHER ISSUERS	2,597	2,598
	- INSURANCE UNDERTAKINGS		
	- FINANCIAL COMPANIES		
	- NON-FINANCIAL COMPANIES	2,597	2,598
	- OTHER		
3	**HOLDINGS IN UCI**		
4	**LOANS**		
A)	GOVERNMENTS AND CENTRAL BANKS		
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS		
D)	OTHER		
TOTAL		11,529	208,999

SECTION 5 – FINANCIAL ASSETS HELD TO MATURITY – ITEM 50

5.1 Financial assets held to maturity: breakdown by type

		31.12.2017				31.12.2016			
		BV	FV			BV	FV		
			L 1	L 2	L 3		L 1	L 2	L 3
1	**DEBT SECURITIES**	**275,179**	**61,379**	**213,800**		**628,455**	**391,881**	**236,574**	
	1.1 STRUCTURED								
	1.2 OTHER	275,179	61,379	213,800		628,455	391,881	236,574	
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

		31.12.2017	31.12.2016
1	**DEBT SECURITIES**	**275,179**	**628,455**
A)	GOVERNMENTS AND CENTRAL BANKS	200,847	310,764
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS	74,332	317,691
D)	OTHER ISSUERS		
2	**LOANS**		
A)	GOVERNMENTS AND CENTRAL BANKS		
B)	OTHER PUBLIC-SECTOR ENTITIES		
C)	BANKS		
D)	OTHER		
TOTAL		275,179	628,455
TOTAL FAIR VALUE		275,221	628,192

SECTION 6 – LOANS AND ADVANCES TO BANKS – ITEM 60

6.1 Loans and advances to banks: breakdown by type

		31.12.2017				31.12.2016			
		BV	FV			BV	FV		
			L 1	L 2	L 3		L 1	L 2	L 3
A.	**L&AS TO CENTRAL BANKS**	**802**				**11,223**			
1.	TERM DEPOSITS								
2.	MANDATORY RESERVE								
3.	REPOS								
4.	OTHER	802				11,223			
B.	**L&AS TO OTHER BANKS**	**1,106,150**				**1,287,619**			
1.	**LOANS**	**1,106,150**				**1,287,619**			
1.1	CURRENT ACCOUNTS AND FREE DEPOSITS	219,434				103,892			
1.2	TERM DEPOSITS	285,723				497,332			
1.3	OTHER	600,993				686,395			
	3.1 REPOS								
	3.2 FINANCIAL LEASES								
	3.3 OTHER	600,993				686,395			
2.	**DEBT SECURITIES**								
	2.1 STRUCTURED SECURITIES								
	2.2 OTHER SECURITIES								
	TOTAL	1,106,952			1,106,952	1,298,842			1,298,842

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 24,2 mn (EUR 25,8 mn in 2016).
Line item B.1.3 “Other” includes impaired positions for EUR 280,000 (EUR 455,000 in 2016).

SECTION 7 – LOANS AND ADVANCES TO CUSTOMERS – ITEM 70

7.1 Loans and advances to customers: breakdown by type

		31.12.2017					
		BOOK VALUE			FAIR VALUE		
		BONIS	IMPAIRED		LEVEL 1	LEVEL 2	LEVEL 3
			BOUGHT	OTHER			
LOANS		**413,133**		**11,837**			**424,970**
1	CURRENT ACCOUNTS	26,379		4,311			
2	REPOS						
3	MORTGAGES	9,090		106			
4	CREDIT CARDS, PERSONAL LOANS AND LOANS BACKED BY SALARIES	2,680					
5	FINANCIAL LEASES						
6	FACTORING	20,610					
7	OTHER LOANS (*)	354,374		7,420			
DEBT SECURITIES							
8	STRUCTURED SECURITIES						
9	OTHER SECURITIES						
TOTAL		413,133		11,837			424,970

follows

		31.12.2016					
		BOOK VALUE			FAIR VALUE		
		BONIS	IMPAIRED		LEVEL 1	LEVEL 2	LEVEL 3
			BOUGHT	OTHER			
LOANS		**355,117**		**3,785**			**358,902**
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			358,902

(*) The figure of Euro 333 mn mainly consists of the following components: Euro 256 mn. the discounted bills; Euro 16 mn the export financing.

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

		31.12.2017			31.12.2016		
		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**	**413,133**		**11,837**	**355,117**		**3,785**
A)	GOVERNMENTS						
B)	OTHER PUBLIC-SECTOR ENTITIES	28,948			20,710		
C)	OTHER ISSUERS	384,185		11,837	334,407		3,785
	- NON-FINANCIAL COMPANIES	369,166		11,730	268,404		3,678
	- FINANCIAL COMPANIES	2,323			53,770		
	- INSURANCE COMPANIES						
	- OTHERS	12,696		107	12,233		107
TOTAL		413,133		11,837	355,117		3,785

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		31.12.2017	31.12.2016
1.1	**OWNED**	**23,120**	**23,354**
	A) LAND	8,187	8,187
	B) BUILDINGS	14,553	14,820
	C) MOVABLES	148	175
	D) ELECTRONIC SYSTEMS	3	11
	E) OTHER	229	161
1.2	**LEASED**		
	A) LAND		
	B) BUILDINGS		
	C) MOVABLES		
	D) ELECTRONIC SYSTEMS		
	E) OTHER		
TOTAL		23,120	23,354

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**	**22,598**	**1,792**	**2,377**	**2,449**	**37,403**
	A1	TOTAL NET WRITE-DOWNS		7,781	1,617	2,366	2,285	14,049
	A2	OPENING NET BALANCE	8,187	14,817	175	11	164	23,354
B	**INCREASES**			**433**	**2**		**125**	**560**
	B1	PURCHASES		433	2		125	560
	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**			**697**	**30**	**8**	**60**	**795**
	C1	SALES						
	C2	DEPRECIATION		697	30	8	60	795
	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**	**14,553**	**148**	**3**	**229**	**23,120**
	D1	TOTAL NET WRITE-DOWNS		8,478	1,647	2,374		12,499
	D2	GROSS CLOSING BALANCE	8,187	23,031	1,794	2,377	2,574	37,963
E	**VALUATION AT COST**		**8,187**	**14,553**	**148**	**3**	**229**	**23,120**
DEPRECIATION RATE APPLIED				**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

			31.12.2017		31.12.2016	
			LIMITED LIFE	UNLIMITED LIFE	LIMITED LIFE	UNLIMITED LIFE
A1	GOODWILL					
A2	OTHER INTANGIBLE ASSETS		842		1,329	
	A2.1	ASSETS VALUED AT COST	842		1,329	
		A) INTANGIBLE ASSETS DEVELOPED IN-HOUSE				
		B) OTHER ASSETS	842		1,329	
	A2.2	ASSETS ASSESSED AT FAIR VALUE				
		A) INTANGIBLE ASSETS DEVELOPED IN-HOUSE				
		B OTHER ASSETS				
TOTAL			842		1,329	

12.2 Intangible fixed assets: yearly variations

			GOODWILL	OTHER: GENERATED IN-HOUSE		OTHER: GENERATED EXTERNALLY		TOTAL
				LIMITED	UNL	LIMITED	UNL	
A		**OPENING BALANCE**				**1,329**		**1,329**
	A1	TOTAL NET WRITE-DOWNS						
	A2	NET OPENING BALANCE				1,329		1,329
B		**INCREASES**				**243**		**243**
	B1	PURCHASES				243		243
	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**				**730**		**730**
	C1	SALES						
	C2	WRITE-DOWNS:				730		730
		- AMORTIZATION				730		730
		- 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**				**842**		**842**
	D1	TOTAL NET WRITE-DOWNS						
E		**GROSS CLOSING BALANCE**				**842**		**842**
F		**VALUATION AT COST**				**842**		**842**

Limited: finite duration Unlimited: indefinite duration

Other intangible assets as of 31 December 2017 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

		31.12.2017	31.12.2016
TOTAL		5,385	5,091
INCOME STATEMENT		5,385	5,091
1	TAX LOSSES		
2	LOAN LOSSES	4,253	4,495
3	OTHER	1,132	596
SHAREHOLDERS' EQUITY			
4	VALUTATION RESERVES		
5	OTHER		

13.2 Deferred Tax liabilities: breakdown

		31.12.2017	31.12.2016
TOTAL		389	379
1	INCOME STATEMENT		
2	SHAREHOLDERS' EQUITY	389	379
	VALUTATION RESERVES	389	379
	OTHER		

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

			31.12.2017	31.12.2016
1	**OPENING BALANCE**		**5,091**	**5,438**
2	**INCREASES**		**536**	**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	536	32
3	**DECREASES**		**242**	**379**
	3.1	PRE-PAID TAX ASSETS ANNULLED DURING THE YEAR	242	379
		A) REVERSALS	242	379
		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**		**5,385**	**5,091**

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

			31.12.2017	31.12.2016
1	**OPENING BALANCE**		**379**	**98**
2	**INCREASES**		**10**	**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	10	281
3	**DECREASES**			
	3.1	DEFERRED TAX LIABILITIES ANNULLED DURING THE YEAR		
		A) REVERSALS		
		B) DUE TO CHANGES IN ACCOUNTING POLICIES		
		C) OTHER		
	3.2	REDUCTIONS IN TAX RATES		
	3.3	OTHER DECREASES		
4	**CLOSING BALANCE**		**389**	**379**

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

		31.12.2017	31.12.2016
1	GOLD, SILVER AND PRECIOUS METALS		
2	ACCRUED INCOME		
3	IMPROVEMENTS TO ASSETS PERTAINING TO THIRD PARTIES	5,498	4,184
4	OTHER (ILLIQUID ITEMS, AS YET UNPROCESSED AMOUNTS)		
TOTAL		5,498	4,184

LIABILITIES

SECTION 1 – ACCOUNTS PAYABLE TO BANKS – ITEM 10

1.1 Accounts payable to banks: breakdown by type

			31.12.2017	31.12.2016
1	**ACCOUNTS PAYABLE TO CENTRAL BANKS**		**282,948**	**328,165**
2	**ACCOUNTS PAYABLE TO OTHER BANKS**		**2,169,165**	**2,063,259**
	2.1	CURRENT ACCOUNTS AND FREE DEPOSITS	528,985	309,652
	2.2	TERM DEPOSITS	1,540,180	1,653,607
	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			2,452,113	2,391,424
FAIR VALUE LEVEL 1				
FAIR VALUE LEVEL 2				
FAIR VALUE LEVEL 3			2,452,113	2,391,424
TOTAL FAIR VALUE			2,452,113	2,391,424

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

			31.12.2017	31.12.2016
1	CURRENT ACCOUNTS AND FREE DEPOSITS		105,416	208,385
2	TERM DEPOSITS		19,896	29,221
3	LOANS			
	3.1	REPO		
	3.2	OTHER		
4	LIABILITIES IN RESPECT OF COMMITMENTS TO REPURCHASE OWN EQUITY			
5	OTHER ACCOUNTS PAYABLE		486	207
TOTAL			125,798	237,813
FAIR VALUE LEVEL 1				
FAIR VALUE LEVEL 2				
FAIR VALUE LEVEL 3			125,798	237,813
TOTAL FAIR VALUE			125,798	237,813

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

		31.12.2017					31.12.2016				
		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	615,588		6,384			373,460		3,228		
1.1	HELD FOR TRADING	615,588		6,384			373,460		3,228		
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		615,588		6,384			373,460		3,228		
TOTAL (A+B)		615,588		6,384			373,460		3,228		

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

			31.12.2017	31.12.2016
1	LIABILITIES ARISING FROM THE IMPAIRMENT OF:		2,917	2,916
	A	CONTINGENT EXPOSURES	2,917	2,916
	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)		14,214	17,815
TOTAL			17,131	20,731

SECTION 11 – STAFF SEVERANCE FUND – ITEM 110

11.1 Staff severance fund: yearly variations

			31.12.2017	31.12.2016
A	**OPENING BALANCE**		**1,566**	**1,719**
B	**INCREASES**		**28**	**72**
	B.1	PROVISIONING FOR THE YEAR	19	72
	B.2	OTHER INCREASES		
C	**DECREASES**		**133**	**225**
	C.1	SEVERANCE PAYMENTS	133	204
	C.2	OTHER DECREASES		21
D	**CLOSING BALANCE**		**1,461**	**1,566**
TOTAL			1,461	1,566

11.1.1 Rates

ANNUAL TECHNICAL	1.21%
ANNUAL INFLATION RATE	1.50%
ANNUAL FREQUENCIES OF TURNOVER ADVANCES	4.00%
ANNUAL FREQUENCIES OF ADVANCES ON SEVERANCE FUND	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

	31.12.2017	31.12.2016
OPENING BALANCE	**1,566**	**1,719**
REALIGNMENT		
PENSION COST		
FINANCIAL CHARGES	19	29
BENEFITS PAID	(133)	(204)
TRANSFERS		
EXPECTED LIABILITIES	**1,452**	**1,544**
ACTUARIAL LOSS	9	(22)
CLOSING BALANCE	**1,461**	**1,566**

11.2 Other information

PROVISIONING FOR THE YEAR	**(118)**
PENSION COSTS	
FINANCIAL CHARGES	19
ACTUARIAL LOSS	(137)
OTHER	

SECTION 12 – PROVISIONS FOR RISKS AND CHARGES – ITEM 120

12.1 Provisions for risks and charges: breakdown

			31.12.2017	31.12.2016
1	COMPANY PENSION PLANS			
2	OTHER PROVISIONS FOR RISKS AND CHARGES		2,295	615
	2.1	LITIGATION	1,688	
	2.2	STAFF CHARGES	607	615
	2.3	OTHER		
TOTAL			2,295	615

IAS 37 requires an allocation to the fund for risks and charges in the event that there is a current obligation, legal or implicit, whose amount can be reliably defined and whose resolution leads to a probable outgoing flow of resources for the company. The amount is determined by the management's best estimate, based on experiences of similar transactions or on the opinion of independent experts. Provisions are reviewed periodically to reflect the best current estimate. At 31 December 2017, the item "Provisions for risks and charges" amounted to Euro 2.3 million and includes Euro 0.6 million in personnel expenses and Euro 1.7 million for legal disputes in the face of litigation with corporate customers.

12.2 Provisions for risks and charges: Yearly variations

			COMPANY PENSION FUNDS	OTHER PROVISIONS	TOTAL
A	**OPENING BALANCE**			**615**	**615**
B	**INCREASES**			**1,688**	**1,688**
	B.1	PROVISIONING FOR THE YEAR		1,688	1,688
	B.2	VARIATIONS DUE TO THE PASSING OF TIME			
	B.3	VARIATIONS DUE TO CHANGES IN DISCOUNT RATE			
	B.4	OTHER INCREASES			
C	**DECREASES**			**8**	**8**
	C.1	AMOUNT DRAWN DURING THE YEAR		8	8
	C.2	VARIATIONS DUE TO CHANGES IN DISCOUNT RATE			
	C.3	OTHER DECREASES			
D	**CLOSING BALANCE**			**2,295**	**2,295**

12.4 Provisions for risks and charges – other provisions

PROVISION FOR HOLIDAYS NOT TAKEN	607
OTHER	
TOTAL	607

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		31.12.2017	31.12.2016
1	SHARE CAPITAL	159,861	159,861
2	SHARE PREMIUM ACCOUNT	16,702	16,702
3	RESERVES	42,227	40,363
4	CAPITAL INSTRUMENTS		
5	(TREASURY STOCK)		
6	VALUATION RESERVES	556	531
7	PROFIT (LOSS) FOR THE YEAR	9,440	3,553
TOTAL		228,786	221,010

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	**42,783**			
A) LEGAL RESERVE	13,019	B	13,019	
B) EXTRAORDINARY RESERVE	28,808	A,B,C	28,808	
C) FTA/IFRS RESERVES	555			
D) RETAINED PROFIT IFRS 2005	399			
E) RETAINED PROFIT	2	A,B,C	2	
OTHER RESERVES				
TOTAL	**59,485**			
AMOUNT NOT ALLOCATABLE	13,973			
AMOUNT ALLOCATABLE	**45,512**			

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

OTHER INFORMATION

1 GUARANTEES ISSUED AND COMMITMENTS

			31.12.2017	31.12.2016
1)	**FINANCIAL GUARANTEES ISSUED**		**49**	**49**
	A)	TO BANKS	49	49
	B)	TO CUSTOMERS		
2)	**COMMERCIAL GUARANTEES ISSUED**		**862,571**	**855,795**
	A)	TO BANKS	561,320	544,768
	B)	TO CUSTOMERS	301,251	311,027
3)	**IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS**		**52,974**	**123,279**
	A)	TO BANKS		43,951
	I)	DRAW-DOWN CERTAIN		
	II)	DRAW-DOWN UNCERTAIN		43,951
	B)	TO CUSTOMERS	52,974	79,328
	I)	DRAW-DOWN CERTAIN		
	II)	DRAW-DOWN UNCERTAIN	52,974	79,328
4)	**COMMITMENTS UNDERLYING CREDIT DERIVATIVES: HEDGING SALES**			
5)	**ASSETS PLEDGED AS COLLATERAL FOR THIRD-PARTY LIABILITIES**			
6)	**OTHER COMMITMENTS**			
TOTAL			915,594	979,123

2 ASSETS PLEDGED AS COLLATERAL FOR OWN LIABILITIES AND COMMITMENTS

		31.12.2017	31.12.2016
1	FINANCIAL ASSETS HELD FOR TRADING	7,000	
2	FINANCIAL ASSETS ASSESSED AT FAIR VALUE		
3	FINANCIAL ASSETS AVAILABLE FOR SALE		
4	FINANCIAL ASSETS HELD TO MATURITY	50,718	500
5	LOANS & ADVANCES TO BANKS		
6	LOANS & ADVANCES TO CUSTOMERS		
7	TANGIBLE FIXED ASSETS		

These assets have been committed to possible open market transactions with the European Central Bank.

4 ASSET MANAGEMENT AND BROKERAGE SERVICES

SERVICES			AMOUNT
1	**TRADING IN FINANCIAL INSTRUMENTS ON BEHALF OF THIRD PARTIES**		
	A)	PURCHASES	
	1	REGULATED	
	2	UNREGULATED	
	B)	SALES	
	1	REGULATED	
	2	UNREGULATED	
2	**MANAGING INDIVIDUAL PORTFOLIOS**		
	A)	INDIVIDUAL	
	B)	COLLECTIVE	
3	**CUSTODY AND ADMINISTRATION OF SECURITIES**		**528,195**
	A)	THIRD-PARTY SECURITIES ON DEPOSIT: CONNECTED WITH ACTING AS CUSTODIAN BANK (EXCLUDING ASSET MANAGEMENT)	
	1	SECURITIES ISSUED BY BANK THAT DRAWS UP BALANCE SHEET	
	2	OTHER SECURITIES	
	B)	THIRD-PARTY SECURITIES ON DEPOSIT (EXCLUDING ASSET MANAGEMENT): OTHER	26,987
	1	SECURITIES ISSUED BY BANK THAT DRAWS UP BALANCE SHEET	14,379
	2	OTHER SECURITIES	12,608
	C)	THIRD-PARTY SECURITIES HELD BY THIRD PARTIES	179,514
	D)	OWN SECURITIES HELD BY THIRD PARTIES	321,694
4	**OTHER OPERATIONS**		

Note that the Bank's memorandum accounts include third-party funds for a countervalue of EUR 3 billion (EUR 3.4 billion as of 31 December 2016) 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 1.6 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	31.12.2017	31.12.2016
1	FINANCIAL ASSETS HELD FOR TRADING	1,610			1,610	2,120
2	FINANCIAL ASSETS AVAILABLE FOR SALE	2,863			2,863	489
3	FINANCIAL ASSETS HELD TO MATURITY	10,542			10,542	10,748
4	L&AS TO BANKS		19,740		19,740	18,934
5	L&AS TO CUSTOMERS		12,669		12,669	8,636
6	FINANCIAL ASSETS ASSESSED AT FAIR VALUE					
7	HEDGING DERIVATIVES					
8	FINANCIAL ASSETS DISPOSED OF BUT NOT DERECOGNIZED			25	25	3
TOTAL		15,015	32,409	25	47,449	40,930

Interest income from impaired L&As to customers amounted to EUR 27,866 (compared to EUR 27,866 as at 31.12.16)

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	31.12.2017	31.12.2016
		DEBT SECURITIES	LOANS				
1	FINANCIAL ASSETS HELD FOR TRADING	705				705	740
2	FINANCIAL ASSETS AVAILABLE FOR SALE	126				126	130
3	FINANCIAL ASSETS HELD TO MATURITY	6,749				6,749	3,794
4	L&AS TO BANKS		16,639			16,639	15,898
5	L&AS TO CUSTOMERS		6,686			6,686	3,490
6	FINANCIAL ASSETS ASSESSED AT FAIR VALUE						
7	HEDGING DERIVATIVES						
8	FINANCIAL ASSETS DISPOSED OF BUT NOT DERECOGNIZED						
9	OTHER ASSETS						
TOTAL		7,580	23,325			30,905	24,052

1.4 Interest charges and similar expenses: breakdown

		ACCOUNTS PAYABLE	SECURITIES	OTHER LIABILITIES	31.12.2017	31.12.2016
1	ACCOUNTS PAYABLE TO CENTRAL BANKS	**2,014**			**2,014**	**167**
2	ACCOUNTS PAYABLE TO BANKS	**26,412**			**26,412**	**19,255**
3	ACCOUNTS PAYABLE TO CUSTOMERS	**362**			**362**	**113**
4	SECURITIES OUTSTANDING					
5	FINANCIAL LIABILITIES HELD FOR TRADING					
6	FINANCIAL LIABILITIES ASSESSED AT FV					
7	OTHER LIABILITIES AND ALLOWANCES					46
8	HEDGING DERIVATIVES					
TOTAL		28,788			28,788	19,582

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	31.12.2017	31.12.2016
1	ACCOUNTS PAYABLE TO CENTRAL BANKS	**183**			**183**	**22**
2	ACCOUNTS PAYABLE TO BANKS	**21,869**			**21,869**	**14,363**
3	ACCOUNTS PAYABLE TO CUSTOMERS	**331**			**331**	**64**
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		22,383			22,383	14,449

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

2.1 Commission income: breakdown

			31.12.2017	31.12.2016
A)	**GUARANTEES ISSUED**		**17,262**	**13,156**
B)	**CREDIT DERIVATIVES**			
C)	**MANAGEMENT, BROKERAGE AND ADVISORY SERVICES**		**1,459**	**644**
	1	TRADING IN FINANCIAL INSTRUMENTS		
	2	FOREX	1,459	644
	3	ASSET MANAGEMENT		
		3.1 INDIVIDUAL		
		3.2 COLLECTIVE		
	4	CUSTODY AND ADMINISTRATION OF SECURITIES		
	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**		**3**	**31**
E)	**SECURITIZATION SERVICING**			
F)	**FACTORING SERVICES**		**147**	**70**
G)	**TAX AND DEBT COLLECTION SERVICES**			
H)	**MANAGEMENT OF MULTILATERAL TRADING SERVICES**			
I)	**KEEPING AND MANAGEMENT OF CURRENT ACCOUNTS**		**16**	**16**
J)	**OTHERS SERVICES**		**2,464**	**2,458**
TOTAL			21,351	16,375

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

2.3 Commission expense: breakdown

				31.12.2017	31.12.2016
A)	**GUARANTEES RECEIVED**			**3,768**	**2,428**
B)	**CREDIT DERIVATIVES**				
C)	**MANAGEMENT AND BROKERAGE SERVICES**			**1**	**40**
	1	TRADING IN FINANCIAL INSTRUMENTS			
	2	FOREX		1	40
	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**			**6**	
E)	**OTHER SERVICES**			**487**	**946**
TOTAL				4,262	3,414

The item includes backdated commissions to banking counterparties on guarantees issued by UBAE, and 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

		31.12.2017		31.12.2016	
		DIVIDENDS	INCOME FROM INVESTMENT FUNDS	DIVIDENDS	INCOME FROM INVESTMENT FUNDS
A	FINANCIAL ASSETS HELD FOR TRADING				
B	FINANCIAL ASSETS AVAILABLE FOR SALE	3		2	
C	FINANCIAL ASSETS ASSESSED AT FAIR VALUE				
D	EQUITY INVESTMENTS				
TOTAL		3		2	

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**		**120**	**9,580**	**136**	**918**	**8,646**
	1.1	DEBT SECURITIES	120	9,444	136	897	8,531
	1.2	EQUITIES		36		11	25
	1.3	HOLDINGS IN UCI		100		10	90
	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 (*)**						**8,589**
4	**DERIVATIVES (**)**		**5,843**	**11,302**	**6,172**	**10,959**	**14**
	4.1	FINANCIAL DERIVATIVES:	5,843	11,302	6,172	10,959	14
	4.1	- ON DEBT SECURITIES AND INTEREST RATES	2,406	2,614	226	3,504	1,290
	4.1	- ON EQUITIES AND EQUITY INDICES		24	8	89	(73)
	4.1	- ON FOREIGN CURRENCIES AND GOLD	3,437	8,664	5,938	7,366	(1,203)
	4.1	- OTHER					
	4.2	CREDIT DERIVATIVES					
TOTAL			5,963	20,882	6,308	11,877	17,249

(*) The amount reflects the profit on the valuation of foreign currency.
(**) The capital gains and losses (Euro 2.1 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 5.7 million) and item 40 of liabilities (infra Euro 6.4 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

			31.12.2017			31.12.2016		
			PROFIT	LOSS	NET RESULTS	PROFIT	LOSS	NET RESULTS
FINANCIAL ASSETS								
1	DUE FROM BANKS							
2	LOANS TO CUSTOMERS							
3	FINANCIAL ASSETS AVAILABLE FOR SALE		236	(31)	205		21	(21)
	3.1	DEBT SECURITIES	236	(31)	205		21	(21)
	3.2	EQUITIES						
	3.3	QUOTAS OF UCI						
	3.4	LOANS						
4	FINANCIAL ASSETS HELD TO MATURITY							
TOTAL ASSETS			236	(31)	205		21	(21)
FINANCIAL LIABILITIES								
1	DUE TO BANKS							
2	DUE TO CUSTOMERS							
3	SECURITIES ISSUED							
TOTAL LIABILITIES								

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)				31.12.2017 (1-2)	31.12.2016
		SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
		WRITEOFFS	OTHERS		A	B	A	B		
A	L&AS TO BANKS					412		22	**434**	**(298)**
	- LOANS					412		22	434	(298)
	- SECURITIES									
B	L&AS TO CUSTOMERS	3	5,363			533		610	**(4,223)**	**(51)**
	IMPAIRED LOAN BOUGHT									
	- LOANS									
	- SECURITIES									
	OTHERS	3	5,363			533		610	(4,223)	(50)
	- LOANS	3	5,363			533		610	(4,223)	(50)
	- SECURITIES									
C	TOTAL	3	5,363			945		632	(3,789)	(349)

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		31.12.2017 (1-2)	31.12.2016
		WRITEOFFS	OTHERS	A	B		
A	DEBT SECURITIES		(320)			**(320)**	**(53)**
B	EQUITIES						
C	HOLDINGS IN UCI						
D	L&AS TO BANKS						
E	L&AS TO CUSTOMERS						
F	TOTAL		(320)			(320)	(53)

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)				31.12.2017 (1-2)	31.12.2016
		SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
		WRITEOFFS	OTHERS		A	B	A	B		
A	SECURITIES					2			2	33
B	L&AS TO BANKS									
C	L&AS TO CUSTOMERS									
D	TOTAL					2			2	33

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

8.4 Net impairment adjustments to other financial instruments: breakdown

		WRITE-DOWNS (1)			WRITE-BACKS (2)				31.12.2017 (1-2)	31.12.2016
		SPECIFIC		PORTFOLIO	SPECIFIC		PORTFOLIO			
		WRITEOFFS	OTHERS		A	B	A	B		
A	GUARANTEES ISSUED			175		174			1	932
B	CREDIT DERIVATIVES									
C	COMMITMENTS TO DISBURSE FUNDS									
D	OTHER INSTRUMENTS									
E	TOTAL			175		174			1	932

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

SECTION 9 – ADMINISTRATION EXPENSES – ITEM 150

9.1 Personnel expenses: breakdown

			31.12.2017	31.12.2016
1	**STAFF**		**17,031**	**16,570**
	A)	WAGES AND SALARIES	11,416	11,089
	B)	SOCIAL SECURITY CONTRIBUTIONS	3,433	3,358
	C)	SEVERANCE PAYMENTS		
	D)	PENSION PAYMENTS		
	E)	ALLOCATIONS TO THE STAFF SEVERANCE FUND		
	F)	ALLOCATIONS TO THE PROVISION FOR PENSIONS AND SIMILAR LIABILITIES:	763	741
		- DEFINED CONTRIBUTION	763	741
		- DEFINED BENEFIT		
	G)	ALLOCATIONS TO THE PROVISION FOR PENSIONS AND SIMILAR LIABILITIES:		
		- DEFINED CONTRIBUTION		
		- DEFINED BENEFIT		
	H)	COSTS ARISING FROM AGREEMENTS TO MAKE PAYMENTS IN OWN EQUITY INSTRUMENTS		
	I)	OTHER BENEFITS TO STAFF	1,419	1,382
2	**NON-SALARIED PERSONNEL**		**415**	**608**
3	**DIRECTORS**		**2,028**	**1,676**
4	**RETIRED PERSONNEL**			
5	**EXPENSES RECOUPED FOR STAFF SECONDED TO OTHER INSTITUTIONS**			
6	**EXPENSES REIMBURSED FOR STAFF SECONDED FROM OTHER INSTITUTIONS**			
TOTAL			19,474	18,854

9.2 Average number of staff: breakdown by category

A)	SENIOR MANAGERS	8
B)	EXECUTIVE CADRES	91
C)	OTHER STAFF	97
TOTAL		196

9.4 Other staff benefits

	31.12.2017	31.12.2016
EARLY RETIREMENT PAYMENTS		
OTHER PAYMENTS	1,419	1,382
TOTAL	1,419	1,382

9.5 Other administration expenses: breakdown

		31.12.2017	31.12.2016
A)	IT EXPENSES	2,399	2,103
B)	EXPENSES FOR MOVABLE/IMMOVABLE PROPERTY:		
	- RENTALS AND OTHER FEES	158	157
	- OTHER	908	663
C)	EXPENSES FOR THE PURCHASE OF GOODS AND NON-PROFESSIONAL SERVICES	2,579	2,688
D)	EXPENSES FOR PROFESSIONAL SERVICES	2,650	2,972
E)	INSURANCE PREMIUMS	179	134
G)	ADVERTISING	175	240
H)	INDIRECT DUTIES AND TAXES	515	540
I)	OTHER:	1,929	4,959
	OF WHICH: RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES (DGS)	1,318	4,471
TOTAL		11,492	14,456

The item (i) "Other" at 31 December 2017 includes the charges incurred for the Single Resolution Fund (SRF), relating to the ordinary contributions required by the Banca d'Italia, amounting to approximately Euro 1.3 million.

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

10.1 Net provisioning for risks and charges: breakdown

	31.12.2017	31.12.2016
LITIGATION	1,688	
OTHER RISKS AND CHARGES	61	95
TOTAL	1,749	95

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	801			801
		- USED IN OPERATIONS	801			801
		- HELD FOR INVESTMENT				
	A2	LEASED				
		- USED IN OPERATIONS				
		- HELD FOR INVESTMENT				
TOTAL			801			801

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	734			734
		- DEVELOPED IN-HOUSE				
		- OTHER	734			734
	A2	LEASED				
TOTAL			734			734

SECTION 13 – OTHER OPERATING INCOME / CHARGES – ITEM 190

13.1 Other operating charges: breakdown

	31.12.2017	31.12.2016
OTHER OPERATING CHARGES	242	265
TOTAL	242	265

13.2 Other operating income: breakdown

	31.12.2017	31.12.2016
DUTIES AND TAXES RECOUPED	68	246
RENTALS AND FEES	16	5
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	53	65
- OTHER	1,336	1,457
SSF ATTRIBUTION TO PROFIT AND LOSS		
OTHER INCOME	513	1,560
TOTAL	1,986	3,333

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

		31.12.2017	31.12.2016
1	**CURRENT TAX (-)**	**7,448**	**1,895**
2	VARIATIONS IN CURRENT TAX FOR PRIOR YEARS (+/-)		
3	CURRENT TAX REBATE FOR THE YEAR (+)		
4	VARIATION IN PRE-PAID TAXES (+/-)	(293)	384
5	VARIATION IN DEFERRED TAXES (+/-)		
6	**INCOME TAX FOR THE YEAR (-) (-1+ / -2+ / -3+ / -4+ / -5)**	**7,155**	**2,279**

18.2 Reconciliation of theoretical tax liability and actual book liability

	31.12.2017	31.12.2016
PROFIT BEFORE TAX	**16,595**	**5,832**
THEORETICAL IRES AND IRAP DUE (33,07%)	6,767	1,913
IRAP ADJUSTMENTS FOR ADMINISTRATION EXPENSES	310	348
IRAP ADJUSTMENTS FOR WRITE-OFFS	(6)	(34)
TAXES ON NON-DEDUCTIBLE COSTS	756	(2)
PRE-PAID AND DEFERRED TAXES	(295)	366
NET WORTH INCREASE BENEFIT	(377)	(312)
TOTAL TAXES	7,155	2,279
NET PROFIT	9,440	3,553

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

No data to report.

SECTION 20 – OTHER INFORMATION

No data to report.

SECTION 21 – PROFIT PER SHARE

21.1 Average number of diluted common shares

	31.12.2017	31.12.2016
NET PROFIT	9,440	3,553
NUMBER OF SHARES	1,453,280	1,453,280
PROFIT PER SHARE	6.50	2.44

PART D: COMPREHENSIVE INCOME DETAIL

		GROSS AMOUNT	INCOME TAXES	NET AMOUNT
10	**NET PROFIT (LOSS)**	**X**	**X**	**9,440**
OTHER COMPREHENSIVE INCOME AFTER TAX WITHOUT RECLASSIFICATION TO PROFIT OR LOSS		**4**		**4**
20	TANGIBLE ASSETS			
30	INTANGIBLE ASSETS			
40	ACTUARIAL PROFIT (LOSS) ON DEFINED-BENEFIT PLANS	4		4
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		**31**	**(10)**	**21**
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:	31	(10)	21
	A) FAIR-VALUE ADJUSTMENTS	31	(10)	21
	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**	**35**	**(10)**	**25**
140	**COMPREHENSIVE NET INCOME**	**35**		**9,464**

PART E: RISKS AND THEIR COVERAGE

GOVERNANCE

Banca UBAE has adopted a traditional governance model, appropriately adapted to take into account the peculiar characteristics of the shareholding (since October 2010 the Libyan Foreign Bank holds 67.55% of the equity with voting entitlement) and the need to ensure full functionality and effectiveness of corporate bodies.

Within the traditional model, in addition to the Shareholders' Meeting representing all the shareholders, there are the following bodies:

- the **Board of Directors** (composed of 9 to 11 members) is both a strategic supervisory body and a management body; as envisaged by the Articles of Association pursuant to article 2381 of the Civil Code, the Board – if deemed appropriate – can delegate some of its powers and functions, without prejudice to the limitations of law and bylaws, to an Executive Committee;

- the **Executive Committee** (within the Board of Directors and composed of 5 to 7 members) performs the tasks, if appointed, of the Board of Directors on the basis of the powers conferred pursuant to the Articles of Association[1];

- the **General Manager,** appointed by the Board of Directors, participates in the management function as Head of the Executive and performs the preliminary function of examining the documents submitted to the Board of Directors and the Executive Committee, if appointed;

- the **Board of Auditors** is a control body.

The Board of Directors of Banca UBAE has decided to exercise its powers and functions using internal Advisory Committees for instructive purposes, proposals and consultancy, in each of which independent directors must be present (at least two in the Control & Risk Committee; at least one in the Remuneration Committee).

The Advisory Committees, without deliberative powers, are currently as follows:

- Control & Risk Committee;

- Remuneration Committee.

Each of the above Committees has its own regulations that govern its composition, functions and operating methods.

(1) Pursuant to article 22 of the Articles of Association (approved by the Extraordinary Meeting on 15 June 2016) the Board of Directors has decided – for the time being – not to appoint the Executive Committee on the understanding that it could be set up in the future should the Board feel it necessary.

BOARD OF DIRECTORS

The Board has exclusive powers to:

- decide on corporate strategic lines and operations;
- approve the industrial and financial plans as well as the budget;
- deliberate the Internal Regulations;
- approve the organisation chart and decide on changes to it;
- undertake periodic re-examination of what is listed in the previous points, in relation to the evolution of the Bank’s activities and the external context, in order to ensure its effectiveness over time; to this end, the Board promotes full use of the ICAAP findings for strategic purposes and business decisions;
- establish the guidelines for the internal control system, approving the corporate control functions (Internal Audit, Compliance & Risk Management), verifying that the internal control system is consistent with the Bank’s strategic guidelines and its risk appetite;
- ensure that the efficiency, effectiveness and functionality of the internal control system are periodically assessed and that the results of the checks are promptly brought to the attention of the Board;
- ensure that a correct, complete and timely IT system is designed, adopted and maintained over time;
- decide on the establishment and suppression of branches and Representations in Italy and abroad;
- deliberate the acquisition and cession of relevant holdings;
- undertake the preparation of the annual budget accompanied by a report in accordance with the law;
- appoint and revoke the members of the Oversight Body pursuant to legislative decree no. 231/2001;
- establish the remuneration and incentive policies for the members of the corporate bodies with strategic supervision, management and control functions and the remaining personnel, including any plans based on financial instruments, and the criteria for determining the remuneration to be paid in the event of early termination of the employment relationship or early termination of office, including the limits set for said remuneration regarding annual payments of the fixed remuneration and the maximum amount resulting from their application, to be submitted for the approval of the Ordinary Shareholders’ Meeting.

Pursuant to the Internal Regulations, the Board of Directors exercises the power of direction in the matter of granting credit lines and may resolve assignments within the limits of the current legal provisions.

The Board of Directors delegates the Executive Committee (if appointed), the Credit Committee, the General Manager and the Deputy General Manager, with the powers to grant credit facilities within prefixed limits.
The resolutions of the assignments falling within the scope of article 136 of the Consolidated Banking Law (T.U.B.) and the assignments to related parties are the sole responsibility of the Board of Directors, based on the specific procedure.

It is generally the task of the Board of Directors, at the proposal of the General Manager, to take decisions in relation to losses and write-downs of impaired loan positions, as well as any agreements for the restructuring of receivables exceeding the limits established by delegating powers.

With regard to any agreements for credit restructuring, the resolution powers, regardless of the duration, are delegated to the Executive Committee, the General Manager and the Deputy General Manager, in compliance with the pre-established limits.

Furthermore, on a proposal from the General Manager, a plan of expenses and investments for the following year is approved by the Board of Directors, which will include an annual budget relating to general expenses divided into sections and sub-sections.

All acts of extraordinary administration relating to non-credit operations are delegated to the Executive Committee (if appointed) and to the General Manager, within pre-established limits.

In the field of personnel management, the Board of Directors:

- appoints and dismisses the General Manager, the Deputy General Manager, the Assistant General Managers and other executives, the members of the Committees that the Board may set up, as well as the consultants for the Bank’s foreign commercial network, and those deemed necessary to support the Board itself;

- appoints and dismisses (justifying the reasons) the heads of the corporate control functions, after consulting the Board of Statutory Auditors;

- decides on any interim positions in the General Management;

- on the General Manager’s proposal, grants powers of representation and signature to employees with lower qualifications than manager, by approving specific service orders;

- on the General Manager’s proposal, approves the corporate supplementary contract;

- hires non-executive staff (employees, managerial staff) on open-ended contracts.

EXECUTIVE COMMITTEE (if appointed)

According to the Internal Regulations, the Executive Committee can:

- grant ordinary and urgent credit lines, exercising the powers delegated by the Board of Directors;
- revise the current operational limits in the Finance Area – in the event of need and urgency, on the Risk Committee's proposal and consistent with the strategic lines set by the Board of Directors – informing the Board at the first useful occasion;
- authorize disinvestment transactions on the HTM portfolio (held to maturity) proposed by the Risk Committee in the event of need and urgency.

GENERAL MANAGER

The General Manager takes part in the Board of Directors' meetings, without the right to vote, and submits the documents and materials for its examination and approval, providing any clarification that may be required.

The General Manager takes part in the meetings of the Executive Committee (if appointed) without the right to vote but entitled to propose motions. He submits documents to the Executive Committee for examination and approval, providing any clarification that may be required.

In addition, the General Manager:

- implements all the administrative documents connected to the Bank's ordinary management and is responsible for implementing the resolutions of the advisory bodies;
- represents the apex of the internal structure and takes part in the management function, receiving the information flows provided for corporate bodies.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors is responsible for overseeing compliance with the law and bylaws, compliance with the principles of proper administration and the adequacy of the Bank's organizational, 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 RAF. Furthermore, the Board of Statutory Auditors is required to check the effectiveness of all the structures and control functions involved and their appropriate coordination, introducing corrective actions to deal with shortcomings and irregularities found.

The Board of Statutory Auditors shall promptly inform the Banca d'Italia of all the deeds or facts of which it becomes aware in the exercise of its duties, which may constitute an irregularity in the management of the Bank or a violation of the rules governing banking activities.

To carry out its duties, the Board of Statutory Auditors is provided with adequate information flows from other corporate bodies and control functions.
The Board of Statutory Auditors also acts as the Oversight Body established pursuant to legislative decree no. 231/2001 concerning the administrative responsibility of institutions, overseeing the functioning and compliance with the Bank's organizational and management model.

ADVISORY COMMITTEES

Control and Risk Committee

The Control and Risk Committee (CCR) is a support and advisory body for the Board of Directors with the task of advising and putting forward suggestions for the Board to consider; it also deals with the preliminary functions of Departments for questions falling within its field of competence (internal controls, risks, governance).

Remuneration Committee

The Remuneration Committee (CR) is a support and advisory body for the Board of Directors with the task of advising and putting forward suggestions for the Board to consider; it supports the Oversight Body with regard to determining the criteria for quantifying the remuneration of all the relevant personnel, and for determining the variable component of the remuneration of Directors, managers and other employees, as well as the fees to be paid to Board members for specific duties assigned to them.

INTERNAL CONTROL SYSTEM

Banca UBAE's internal control system comprises the set of rules, procedures and organisational structures aimed at providing the sound and prudent management of banking activities by means of identifying, measuring, managing and monitoring the main risks involved.
The internal control system has been designed in accordance with the legal and regulatory framework, and with the Bank's organisational structure, and in line with national and international standards and best practices.

At present, Banca UBAE's internal control and risk management system consists of the following:

- **line controls** (known as "first level controls") aimed at ensuring proper performance of operations. The controls are carried out by the same operating structures (e.g. hierarchical controls together with systematic and random checks) also through other units that report to the managers of the operating structures, i.e. performed within the back office;

- **risk and compliance controls** (known as "second level controls") handled by offices other than production, whose responsibilities include ensuring the correct implementation of the risk management process, compliance with the operational limits assigned to the various offices, and compliance with the rules of corporate operations; these controls are mainly the responsibility of the Risk Management and Compliance Units. In particular, the Risk Management Unit deals with defining risk measurement methods and checking compliance with risk limits, while the Compliance Unit is responsible for ensuring compliance with the relevant legislation, also carrying out checking activities;

- **internal revision** (known as "third level controls") to identify anomalous trends, violations of procedures and regulations, and to periodically assess the completeness, functionality and adequacy of the Internal Control System in terms of efficiency and effectiveness, including the IT system (ICT audit) with fixed frequency checking in relation to the nature and intensity of the risks; these activities are carried out by the Internal Audit Department.

The main aspects of the Bank's internal control system are summarised below.

Governance model

Banca UBAE has established a system of rules, procedures and organisational units that pursue:

- compliance with corporate strategies;

- effectiveness of corporate processes;

- compliance of operations with regulatory provisions, supervisory obligations, rules and internal procedures;

- protecting the corporate system from losses.

The various players in the control system contribute to achieving these objectives, each for their own competence. Roles and functions are described below according to the current organisational structure.
As part of the design of the internal control system and of the risk management system, the Board of Directors has set up some internal managerial committees after approving their operating regulations.

Internal managerial committees

The *Credit Committee* consists of the General Manager, Deputy General Manager, Assistant General Manager (Operations Division), and Assistant General Manager (Business Area).

The *Loans Committee* is the proposing body for the granting of credit lines to be submitted to the Board of Directors and the Executive Committee (if appointed); it exercises the powers of assignment within the limits delegated by the Board of Directors, revokes the assignments resolved by the Executive Committee and/or by the Board of Directors (with the exception of those falling within the application of Article 136 of the Consolidated Banking Law (T.U.B.) and related parties) and is competent to discuss any matter dealing with granting credit and monitoring the related risk.

The *Risk Committee* consists of the General Manager, Deputy General Manager, Assistant General Manager of the Operations Area, and Assistant General Manager of the Business Area.

The Risk Committee proposes to the Board of Directors the guidelines for dealing with each individual quantifiable and non-quantifiable risk; it discusses and evaluates the Internal Capital Adequacy Assessment Process (ICAAP) with periodic reports on the absorption of regulatory and economic capital, the effectiveness of policies approved for identifying, measuring and managing all risks, periodically evaluating the technical eligibility of human resources, procedures and IT systems to oversee these policies, periodic simulations and reports regarding the monitoring of regulatory limits, internal operating limits, risk indicators; it proposes to the Board of Directors changes in the operating limits assigned to the various portfolios and any possible exceptions; it discusses and evaluates the operational strategies of the Finance Department; it submits to the Board of Directors, and in the event of need and urgency, to the Executive Committee (if appointed), the disinvestment operations based on the HTM portfolio (Held to Maturity); it examines the RAF (Risk Appetite Framework) verifying the consistency of the Bank’s risk profile with the limits provided therein.

The *Personnel Committee* is made up of the General Manager and Deputy General Manager (with voting rights), the Assistant General Manager of the Operations Division, the Assistant General Manager of the Business Area, and the HR Manager (without voting rights).

The Personnel Committee conducts a preliminary examination of proposals related to staff recruitment and the transformation of the related contracts, defines the criteria and procedures for career advancement of personnel and the payment of the variable component in line with remuneration policies established by the competent body; it conducts a preliminary examination of 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.

With the Recovery Plan in mind, the Department helps to define stress scenarios in order to check the adequacy of the recovery options and the effectiveness of the selected recovery indicators with the related alarm thresholds. It also proceeds to monitor the capital and liquidity indicators in order to verify the achievement of attention thresholds and the possible need to take appropriate steps.

As part of the process of adapting to the international accounting standard IFRS9, the Department helps to define the staging criteria and in particular the concept of "significant credit deterioration", by checking the correctness of the macroeconomic scenarios aimed at making the risk parameters more forward-looking for the impairment of performing loans and ultimately supports the decision-making process by accompanying loan proposals with specific information on expected credit loss.

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

The unit for checking conformity (compliance) with regulations is organised as a Department, and forms part of the Board of Directors' staff, and is responsible for providing internal consultancy to the Bank's offices, business units and the General Management, on the application of internal and external rules and regulations; it is also responsible for assessing the impact in advance that any procedural change and/or new product or service could generate in terms of non-compliance with the above rules and regulations.

The Department performs the following tasks:

- continuously identifying the rules applicable to the Bank, measuring and assessing their impact on corporate processes and procedures;

- submitting to the General Management proposals for organisational and procedural changes aimed at minimising or eliminating the risks identified;

- checking the effectiveness of the proposed organisational adjustments (on structures, processes, operational and commercial procedures) suggested for preventing the risk of non-compliance.

To carry out the above tasks, the Compliance Department employs two main operating procedures: internal consultancy to fulfil its primary institutional responsibility, and checking the compliance of procedures, contractual documents, individual transactions or other operations submitted to its attention.

Every year the Compliance Department submits a report to the Board of Directors, after consulting the Control & Risk Committee, and to the Auditing Board, regarding the activities carried out in the previous year, the action plan for the current year, and suggestions for minimising or eliminating the risk of non-compliance with the standards. This report is subsequently sent to the Banca d'Italia.

The Board of Statutory Auditors, the Control & Risk Committee, the Oversight Body (pursuant to Law 231/01) may also request the Compliance Department to formulate opinions, assessments and to perform specific checks on procedures potentially at risk of non-compliance.

The Compliance Department also contains the anti-money laundering unit which is responsible for preventing and dealing with the risk of money laundering and terrorism financing; the Compliance Officer is also the head of the anti-money laundering unit. The activity connected to assessing and reporting suspicious transactions has instead been entrusted to the Central Director of the Administration, Organisation and 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 Control and Risk 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 an annual 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.

The Department periodically reports the results of the inspections to the Board of Directors via the Control and Risk Committee; also in the role of Oversight Body as per law 231/01, it periodically submits the results of the inspections carried out and the relative assessments to the Board of Statutory Auditors.

SPREADING AWARENESS OF RISK

Banca UBAE attaches particular importance to spreading awareness of risk within the organisational structure and, to do so, provides internal training aimed at all staff to ensure they are continuously updated on external regulatory changes and to improve the skills required to carry out their duties confidently and efficiently.

In 2017, several training courses were organised concerning national and international regulations of particular relevance for the Bank's operations with particular reference to the Internal Audit System (IAS/IFRS) financial statements, anti-money laundering, corporate finance, oversight reports, safety of workers, IT security, and the new rules and procedures required by accounting standard IFRS9. Participation varied between 75% and 85% of the total workforce according to the specific skills of each organisational unit.

Furthermore, from a procedural viewpoint, alert systems are provided that promptly inform staff about new external regulations that could have an impact on the Bank's operations, as well as internal reporting systems aimed at providing indications – to the various units involved – on service communications regarding the publication of new operating procedures or their implementation, as well as informing the staff about any changes to the Bank's organisational structure.

Premise

As we know, the oversight regulations require a selective differentiation of the calculation methodologies for asset requisites against market risks, credit risks (including counterparty risk) and operational risks (Pillar I), according to the scale and operational complexity of the banks and the Oversight Body's evaluations.

Banca UBAE has therefore adopted the "standard" method for calculating the requisites of credit risks and market risks, as well as the Basic Indicator Approach (BIA) for calculating operational risks.

For the purposes of prudential control (ICAAP - Internal Capital Adequacy Assessment Process) individual banks have to evaluate internally the overall adequacy of their assets against other types of risks, not considered in the calculation of assets required by Pillar I of the prudential norms. The whole process is based on a principle of proportionality, according to which the risk management procedures, the internal control mechanisms, the methodologies for the evaluation of economic capital as well as the frequency and intensity of the reviews by the Oversight Body, depend on the nature, size and complexity of the activities carried out by each bank.

For this reason, in order to apply the Pillar II norms, the Banca d'Italia has decided to divide the banks and intermediaries into three groups.
In particular, Banca UBAE comes into the "third group" consisting of banks that adopt standard methodologies in the Pillar I field and whose gross assets are less than 3.5 billion euros. The banks in the third group use simplified methodologies to calculate and assess "other risks", taken into consideration as part of Pillar II.

Regarding the latter risk categories, it should be pointed out that for the concentration risk of counterparties or groups of connected counterparties and the interest rate risk on the banking book, the regulations put forward a calculation method that involves identifying "additional" capital requirements compared to regulatory requirements for Pillar I[2].

Moreover, since 2012, in order to take into account its particular business activity which has been pushed to higher risk countries, Banca UBAE has introduced, as part of Pillar II, a new additional capital requirement, albeit not required by law, against country risk. Also, in order to take into account all the risks relevant to the Bank, an additional capital requirement has been introduced to cover the risk of geo-sectorial concentration with the aim of quantifying the risk deriving from the concentration of the Bank's loans to certain macro-economic sectors.

Finally, in light of the current economic context, starting from 2016, the Bank deemed it appropriate for capital adequacy purposes to require additional capital absorption against the strategic risk estimated according to an internal calculation methodology. The activity carried out as part of the prudential control process is reported annually to the Oversight Body through the ICAAP report. The report on data at 31 December 2017 will be sent to the Bank of Italy in April 2018.

With regard to compliance with the obligations of disclosure to the public of data and information regarding exposure to individual risk categories (Pillar III), the Bank will publish the qualitative and quantitative information tables on the corporate website ("Financials" area) within the deadlines set for the publication of the balance sheet.

(2) For the other "quantifiable" risk (i.e. the liquidity risk), an additional capital allocation is not required; instead the regulations require the implementation of a handling system that includes building a maturity ladder, conducting stress tests and establishing an internal policy and a contingency funding plan.

SECTION 1 – CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

The policies for monitoring and managing credit risk in Banca UBAE are defined by a framework resolution approved by the Board of Directors, which establishes:

- corporate bodies delegated to grant assignments and their powers;
- process of selecting and evaluating credit lines;
- criteria for allocating credit exposure by customer category and country;
- process of monitoring and controlling the risk, in relation to compliance with the capital requirement (Pillar I) against credit risk, and oversight discipline in relation to large risks;
- operational limits placed on risk-weighted exposure by technical form, customer category and country.

The Board of Directors carries out an annual assessment of the adequacy of criteria and policies for credit risk management in relation to current and future exposure data prepared by the Bank's Risk Management Department.

Banca UBAE's mission is to promote and develop any type of financial, commercial, industrial and economic relationship in the international field. The Bank's activity is aimed, as a priority, even if not exclusively, to support relations between "Mediterranean and Middle Eastern countries" with Europe, as well as with the rest of the world.

Compliance with this mission, consolidated in over 40 years of activity in favour of its customers, involves the adoption of policies for selecting and disbursing credit based on rigorous professional criteria.

In particular, UBAE favours the financing of transactions of a commercial nature to and from countries of economic interest, having as beneficiaries banks and businesses, both residents and non-residents. The commercial nature of the operations financed lies in the technical forms adopted and in the overall assessment of the beneficiary's activity.

Employing purely financial forms of activity with regard to entities other than banks, belonging to countries of economic interest, is therefore subject to qualitative and quantitative restrictions. The Board of Directors sets individual risk-weighted exposure limits for certain countries and for technical forms, based on careful analysis of scenarios as well as sound and prudent management criteria.

The measurement of internal capital against credit risk is carried out by applying the standard method as required by the current prudential regulations. Furthermore, with a view to stress testing, scenario analyses are performed, simulating the impact in terms of capital requirement generated by certain information shocks such as the default of Sovereign States, certain economic sectors or the deterioration of the economic situation.

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

2. Management policies for credit risk

2.1 Organisational aspects

The Board of Directors, acting on a proposal from the Credit Committee and after preliminary investigation by the competent offices, approves the granting of credit lines by establishing:

- the risk class to which the customer belongs;
- the maximum risk-weighted exposure amount;
- the technical forms of assignment including acceptable guarantees and duration, generating risk exposure based on the weighting system used.

The technical forms include financial market operations (deposits and foreign exchange) as well as the purchase of bonds as stable investment (immobilised portfolio).

For non-investment grade countries, the decision-making body (Board of Directors) first approves an overall exposure limit (country plafond) which will include all exposures of entities residing there.

Subsequently, the competent decision-making bodies approve individual loan proposals for all entities that are resident there.

The Risk Management Department carries out daily monitoring to verify compliance with the credit limits granted to the counterparties with which the Finance Department operates, while a specific office, located within the Credit & Control Department, checks the fluctuation of credit exposures.

In any case, the credit lines granted to a customer or group of connected customers have a maximum lending limit set by the regulations for large exposures and with respect to the Bank's eligible capital (2). Finally, in all cases of risk positions that exceed the limits established by the granting of assignment, the internal regulations govern the authorisation process to be implemented specifying who has the signing powers and the quantitative and temporal limits to be complied with during the re-entry phase.

2.2 Systems for managing, measuring and controlling

In the analysis for granting or revising credit lines, the Credit Department assigns or updates for each counterparty an entry score and a PD which represent a summary assessment of the proposed subject for assignment.

The score and PD are calculated using specific software with different portfolio models by country and type of counterparty (bank and corporate) that combine balance sheet data with the frequency of non-compliance of the various countries.

The values resulting from the series of balance sheets are backed by the analyst's subjective evaluations concerning organisational and qualitative aspects.

These indicators are used to assign each counterparty to internal risk classes, making it possible to use risk-weighted pricing models and the summary assessment of the overall quality of the Bank's loan portfolio, with clear effects on the commercial planning process.

During performance monitoring, the Credit Control Department compiles and updates a list of risk positions to be monitored based on information available from external sources (Risk Centre, injurious acts, press reports) and internal sources (output of the performance monitoring application concerning the percentage of use/over-run of credit lines, reports from the competent commercial structures concerning specific countries and/or economic sectors, anomalies in payments due, legal actions taken to protect the Bank's credit).

The heads of the competent commercial structures communicate monthly with the Credit Control Department about the reasons for the anomalies found on the positions reported and, if possible, the actions taken to mitigate the credit risk.
In any case, these managers are required to report without delay to the Credit Control Department any information useful for the purpose of updating the list of positions under observation.

Whenever the Credit Control Department is activated in credit monitoring, it regularly sends the relevant communications to the General Management.

In addition, every six months the Legal Department reports to the Board of Directors on the performance of impaired risk positions (non-performing, overdue and probable defaults).

The proposals for new loans to customers or groups of connected clients whose risk positions are under observation are approved by the Board of Directors, regardless of the amount and the technical form.

If deemed appropriate, and in any case coinciding with events that may lead to an objective deterioration of the possibility of partial or full recovery of credit exposure (overdue and/or deteriorated exposures), the Credit Control Department proposes to the General Management without delay, with written motivation, the reclassification of the position at risk as a deteriorated position (with probable default or impairment).

With regard to Pillar I, the Risk Management Department is responsible for monitoring the capital requirement for credit risk and, on the basis of the data communicated quarterly to the Oversight Body by sending the risk matrix, submits quarterly reports to the Control & Risk Committee concerning capital adequacy. It also deals with ICAAP in order to formulate the stress testing actions to be submitted to the Risk Committee and to estimate the internal capital on the basis of balance sheet data.

As part of the Risk Appetite Framework, the Risk Management Department on a quarterly basis, monitors compliance with the macro risk limit and the risk tolerance for interest rate risk on the banking book; the results of the analyses are the subject of periodic reporting to the Risk Committee, the Advisory Committees and the Board of Directors.

The Department receives the oversight reports in the context of large exposures and any notifications in case of non-compliance with the lending limit, evaluates the trend and the incidence over time of the positions classified as "large risks" and prepares specific reporting for the corporate bodies.

2.3 Techniques for mitigating credit risks

The individual risk position may be assisted by personal or real guarantees.

It is possible to replace the existing risk position with respect to the guaranteed subject with the risk position towards the guarantor, where the latter is characterised by a lower weighting coefficient, only when the following conditions are met:

- the guarantee issued is specific, i.e. aimed at covering the risk connected to an ordinary or ad hoc credit line;

- the guarantee issued is unconditional, i.e. the bank can request fulfilment by the guarantor at any time;

- the guarantor is independent of the guaranteed subject, i.e. the default risk of the guarantor is not influenced by the risk of default by the guaranteed subject.

If these conditions are not met, the individual risk position of the guaranteed subject is not replaced for the purposes of calculating the Bank's overall risk position.

It is possible to accept the establishment of collateral in favour of the bank, under recognised contractual terms, on the following types of activities:

- liquid amounts deposited with UBAE;

- liquid amounts deposited with trusted banks or banks to our liking. In the latter case, the acceptance of collateral is subject to a specific resolution by the competent body;

- financial instruments of bonds issued by entities with a rating of no less than investment grade, deposited with UBAE;

- financial instruments of bonds issued by entities with a rating of no less than investment grade, deposited with international clearing organisations, trusted banks or banks to our liking. In the latter case, the acceptance of collateral is subject to a specific resolution by the competent body;

- matured commercial credits;

- maturing commercial credits;

- property used for residential and commercial purposes.

With the exception of guarantees constituted on trade receivables accrued/matured and property, the countervalue of the liquid sums and the countervalue (at market prices) of the financial instruments are deducted from the individual risk position generated by an ordinary or ad hoc assignment, which the guarantees specifically refer to. The net individual risk position is taken into account for the calculation of the Bank’s overall risk position.

The resolution relating to ordinary or ad hoc custody, backed by collateral, may indicate the minimum percentage value that the guarantee must maintain with respect to the value of the approved credit exposure.

The protection of personal credit, consisting of legal commitments assumed by third parties to fulfil the obligation towards the Bank in the event of default by the principal, can be granted by entities which are:

- central administrations or central banks;

- regional administrations or local authorities;

- multilateral development banks;

- international organisations when their exposures are weighted at 0%;

- some organisations or bodies or companies with the requisites as per article no. 201 of EU Regulation no. 575/2013;

- central counterparties.

Banca UBAE does not purchase credit risk protection by holding credit derivatives (CDS).

2.4 Impaired financial activities

On the basis of the Credit Control Department's proposal and having consulted the competent commercial structures, the General Manager receives without delay the reclassification of the problem exposures, dividing them into probable defaults and non-performing loans.

The provision for the reclassification of a risk position with a probable default implies the impossibility of proposing new credit lines in favour of the client or of customers connected to them, and the immediate activation of measures in order to recover the exposure.

The General Manager also authorises negotiations with the customer aimed at reducing the position of impaired risk.

Proposals for new assignments to be granted to customers whose positions are reclassified as probable defaults (forborne) must be approved by the Board of Directors regardless of the amount and the technical form.

After consulting the Heads of the relevant Departments and the Credit Control Department, the General Manager also takes the necessary steps to protect the Bank's credit movements, arranging, in the event of reclassification of a non-performing position, the immediate revocation of the credit lines, credit granted and the activation of legal recovery procedures.

The activation of legal recovery procedures automatically involves the reclassification of the non-performing position.

The General Manager may require, if deemed appropriate, that the competent commercial structures maintain relationships with customers whose positions have been reclassified to non-performing, with the support of the Legal Department.

The General Manager, with the support of the Credit Control Department and Legal Department, provides quarterly information to the Board of Directors on the performance of the reclassified positions of probable defaults and non-performing loans, of restructured positions, and on the relative analytical estimates of losses.

QUANTITATIVE INFORMATION

Credit quality

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

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

	PORTFOLIO/CREDIT QUALITY	BAD DEBTS	PROBABLE IMPAIRMENT	IMPAIRED PAST-DUE POSITIONS	NOT IMPAIRED PAST-DUE POSITIONS	OTHER	TOTAL
1	FINANCIAL ASSETS AVAILABLE-FOR-SALE		3,843			5,088	**8,931**
2	FINANCIAL ASSETS HELD TO MATURITY					275,179	**275,179**
3	L&AS TO BANKS	280			10,172	1,096,500	**1,106,952**
4	L&AS TO CUSTOMERS	547	11,280	10	25,517	387,616	**424,970**
5	FINANCIAL ASSETS ASSESSED AT FAIR VALUE						
6	FINANCIAL ASSETS BEING DIVESTED						
31.12.2017		827	15,123	10	35,689	1,764,383	1,816,032
31.12.2016		995	3,226	21	57,434	2,430,925	2,492,601

At 31 December 2017, unimpaired past-due loans amounted to Euro 35.7 million relating to positions correctly returned in the early days of January 2017.

At 31 December 2017, exposures subject to concessionary measures (known as forbearance exposures) amounted to Euro 4.5 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	5,524	1,681	3,843	5,089	1	5,088	**8,931**
2	FINANCIAL ASSETS HELD TO MATURITY				275,221	42	275,179	**275,179**
3	L&AS TO BANKS	4,266	3,986	280	1,106,992	320	1,106,672	**1,106,952**
4	L&AS TO CUSTOMERS	39,487	27,650	11,837	414,921	1,788	413,133	**424,970**
5	FINANCIAL ASSETS ASSESSED AT FAIR VALUE							
6	FINANCIAL ASSETS BEING DIVESTED							
31.12.2017		49,277	33,317	15,960	1,802,223	2,151	1,800,072	**1,816,032**
31.12.2016		31,460	27,218	4,242	2,492,506	4,147	2,488,359	**2,492,601**

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

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

PORTFOLIO/CREDIT QUALITY		ASSETS OF LOW QUALITY CREDIT		TOTAL
		ACCUMULATED NEGATIVE VALUE	BOOK VALUE	NET EXPOSURE
1	FINANCIAL ASSETS HELD FOR TRADING			46,980
2	HEDGING DERIVATIVES			
31.12.2017				46,980
31.12.2016				53,852

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				4,266		3,986		280
	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					10,177		5	10,172
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
E)	OTHER EXP. NOT IMPAIRED					1,190,319		356	1,189,963
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
TOTAL A					4,266	1,200,496	3,986	361	1,200,415
B	**OFF-BALANCE SHEET EXPOSURE**								
A)	IMPAIRED								
B)	NOT IMPAIRED					564,796			564,796
TOTAL B						564,796			564,796
TOTAL (A+B)					4,266	1,765,292	3,986	361	1,765,211

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		4,853		
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED				
B	INCREASES				
	B1	INFLOWS FROM PERFORMING POSITIONS			
	B2	TRANSFERS FROM OTHER CLASSES OF IMPAIRED POSITIONS			
	B3	OTHER INCREASES			
C	DECREASES		588		
	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	588		
D	CLOSING GROSS EXPOSURE		4,265		
	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 2017 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**		**4,397**					
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED							
B	**INCREASES**							
	B1	WRITE-DOWNS						
	B2	LOSSES ON DISPOSAL						
	B3	TRANSFERS FROM OTHER CLASSES OF IMPAIRED POSITIONS						
	B4	OTHER INCREASES (*)						
C	**DECREASES**		**411**					
	C1	VALUTATION WRITE-BACKS						
	C2	COLLECTION WRITE-BACKS						
	C3	PROFIT ON DISPOSAL						
	C4	WRITE-OFFS						
	C5	TRANSFERS TO OTHER CLASSES OF IMPAIRED POSITIONS						
	C6	OTHER DECREASES (*)	411					
D	**CLOSING GROSS EXPOSURE**		**3,986**					
	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				21,869		21,322		547
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
B)	PROBABLE IMPAIRMENT	2,781		2,702	17,648		8,008		15,123
	OF WHICH: EXP. SUBJECT TO CONCESSIONS				4,459		2,229		2,230
C)	IMPAIRED PAST DUE POSITIONS			1	11		1		11
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
D)	NOT IMPAIRED PAST DUE POSITIONS					25,627		110	25,517
	OF WHICH: EXP. SUBJECT TO CONCESSIONS								
E)	OTHER EXP. NOT IMPAIRED					617,400		1,678	615,722
	OF WHICH: EXP. SUBJECT TO CONCESSIONS					27,078		116	26,961
TOTAL A		2,781		2,703	39,528	643,027	29,331	1,788	656,920
B	**OFF-BALANCE SHEET EXPOSURE**								
A)	IMPAIRED	14,391					1,862		12,529
B)	NOT IMPAIRED					342,751		1,055	341,696
TOTAL B		14,391				342,751	1,862	1,055	354,225
TOTAL (A+B)		17,172		2,703	39,528	985,778	31,193	2,843	1,011,145

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

CAUSAL/CATEGORIES			BAD DEBTS	PROBABLE IMPAIRMENT	IMPAIRED PAST-DUE POSITIONS
A	**OPENING GROSS EXPOSURE**		**22,368**	**4,215**	**23**
	OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED				
B	**INCREASES**		**28**	**19,260**	**1**
	B1	INFLOWS FROM PERFORMING POSITIONS		19,260	1
	B2	TRANSFERS FROM OTHER CLASSES OF IMPAIRED POSITIONS			
	B3	OTHER INCREASES	28		
C	**DECREASES**		**527**	**344**	**13**
	C1	OUTFLOWS TO PERFORMING POSITIONS			12
	C2	WRITE-OFFS			
	C3	ITEMS COLLECTED		344	
	C4	ITEMS ASSIGNED			
	C5	LOSSES ON DISPOSAL			
	C6	TRANSFERS TO OTHER CLASSES OF IMPAIRED POSITIONS			
	C7	OTHER DECREASES	527		1
D	**CLOSING GROSS EXPOSURE**		**21,869**	**23,131**	**11**
	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**	**2,824**	**27,078**
	B1	INCREASES FROM EXP. IN BONIS NOT SUBJECT TO CONCESSIONS	2,824	27,078
	B2	INCREASES FROM EXP. IN BONIS SUBJECT TO CONCESSIONS		
	B3	INCREASES FROM EXP. SUBJECT TO IMPAIRED CONCESSIONS		
	B4	OTHER INCREASES		
C		**DECREASES**	**344**	
	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	344	
	C6	ITEMS ASSIGNED		
	C7	LOSSES ON DISPOSAL		
	C8	OTHER DECREASES		
D		**CLOSING GROSS EXPOSURE**	**4,459**	**27,078**
		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**	**21,829**		**990**	**990**	**2**	
		OF WHICH: EXPOSURES ASSIGNED BUT NOT DERECOGNIZED						
B		**INCREASES**	26		**7,190**	**1,411**		
	B1	WRITE-DOWNS						
	B2	LOSSES ON DISPOSAL						
	B3	TRANSFERS FROM OTHER CLASSES OF IMPAIRED POSITIONS						
	B4	OTHER INCREMENTS	26		7,190	1,411		
C		**DECREASES**	**533**		**172**	**172**	**1**	
	C1	VALUTATION WRITE-BACKS	533					
	C2	COLLECTION WRITE-BACKS			172	172	1	
	C3	PROFIT ON DISPOSAL						
	C4	WRITE-OFFS						
	C5	TRANSFERS TO OTHER CLASSES OF IMPAIRED POSITIONS						
	C6	OTHER DECREASES						
D		**CLOSING GROSS EXPOSURE**	**21,322**		**8,008**	**2,229**	**1**	
		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.

EXPOSURES			EXTERNAL RATING BANDS						UNRATED	TOTAL
			CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6		
A	CASH EXPOSURES		41,747	164,168	190,535	395,800	158,853	56,810	852,168	**1,860,081**
B	DERIVATIVES			2,831	590		6			**3,427**
	B1	FINANCIAL DERIVATIVES		2,831	590		6			**3,427**
	B2	CREDIT DERIVATIVES								
C	GUARANTEES GIVEN		907		156,397	109,218	77,138	2,813	516,146	**862,619**
D	COMMITMENTS TO DISBURSE FUNDS								52,974	**52,974**
E	OTHERS									
TOTAL			42,654	166,999	347,522	505,018	235,997	59,623	1,421,288	2,779,101

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 COLLATERAL	CREDIT DERIVATIVES					ENDORSEMENT				
								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**	**101,688**				**101,672**										**101,672**
	1.1	FULLY GUARANTEED	93,348				93,348										93,348
		OUT OF WHICH, IMPAIRED															
	1.2	NOT FULLY GUARANTEED	8,340				8,324										8,324
		OUT OF WHICH, IMPAIRED															
2		**OFF-BALANCE SHEET EXPOSURES GUARANTEED**	**166,716**				**162,422**										**162,422**
	2.1	FULLY GUARANTEED	160,649				160,649										160,649
		OUT OF WHICH, IMPAIRED															
	2.2	NOT FULLY GUARANTEED	6,067				1,773										1,773
		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					
				MORTGAGE	FINANCIAL LEASING			CLN	OTHER DERIVATIES				GOV'T AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHERS		
									GOV'T AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHERS						
1		**CASH EXPOSURES GUARANTEED**	**10,974**	**8,973**			**832**									**25,685**		**35,490**
	1.1	FULLY GUARANTEED	10,974	8,973			832									25,685		35,490
		OUT OF WHICH, IMPAIRED	289	107												183		290
	1.2	NOT FULLY GUARANTEED																
		OUT OF WHICH, IMPAIRED																
2		**OFF-BALANCE SHEET EXPOSURES GUARANTEED**	**63,096**				**3,020**									**58,138**		**61,158**
	2.1	FULLY GUARANTEED	58,494				2,931									55,563		58,494
		OUT OF WHICH, IMPAIRED																
	2.2	NOT FULLY GUARANTEED	4,602				89									2,575		2,664
		OUT OF WHICH, IMPAIRED																

B. Distribution and concentration of loans

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

EXPOSURE / COUNTERPARTIES		GOVERNMENTS			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	21,157		107	153	
	OF WHICH: ESC[1]																		
A2	PROBABLE IMPAIRMENTS													15,123	8,008				
	OF WHICH: ESC[1]													4,459	2,229				
A3	PAST DUE POSITIONS													10	1				
	OF WHICH: ESC[1]																		
A4	OTHER ASSETS	207,019			28,948		125	10,703		10				381,874		1,599	12,696		55
	OF WHICH: ESC[1]													26,961		117			
TOTAL A		207,019			28,948		125	10,703	12	10				397,447	29,166	1,599	12,803	153	55
B	**OFF-BALANCE SHEET EXPOSURES**																		
B1	BAD DEBTS													186	1,813				
B2	PROBABLE IMPAIRMENTS													12,343	49				
B3	OTHER IMPAIRED ASSETTS																		
B4	OTHER ASSETS				18,927									322,769		1,055			
TOTAL B					18,927									335,298	1,862	1,055			
TOTAL (A+B) 31.12.2017		207,019			47,875		125	10,703	12	10				732,745	31,028	2,654	12,803	153	55
TOTAL (A+B) 31.12.2016		515,771		31	47,860		140	53,770	12	363				653,744	24,640	4,105	12,340	156	82

(1) Esc: 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	517	17,480		3,410		12	30	420		
A2	PROBABLE IMPAIRMENTS	12,901	8,008	2,221	15						
A3	PAST DUE POSITIONS	10	1								
A4	OTHER ASSETS	207,222	803	113,939	224	35,471	128	146,483	263	138,125	370
TOTAL (A)		220,650	26,292	116,160	3,649	35,471	140	146,513	683	138,125	370
B	**OFF-BALANCE SHEET EXPOSURE**										
B1	BAD DEBTS	186	562						1,251		
B2	PROBABLE IMPAIRMENTS	12,343	50								
B3	IMPAIRED										
B4	OTHER ASSETS	284,788	1,039							56,908	16
TOTAL (B)		297,317	1,651						1,251	56,908	16
TOTAL (A+B) 31.12.2017		517,967	27,943	116,160	3,649	35,471	140	146,513	1,934	195,033	386
TOTAL (A+B) 31.12.2016		778,116	22,355	128,618	4,386	44,145	310	153,260	2,246	179,347	239

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							280	3,986		
	A2	PROBABLE IMPAIRMENTS										
	A3	PAST DUE POSITIONS										
	A4	OTHER ASSETS	265,327	31	351,882	96	22,667		356,092	182	204,168	**52**
TOTAL (A)			265,327	31	351,882	96	22,667		356,372	4,168	204,168	52
B	**OFF-BALANCE SHEET EXPOSURE**											
	B1	BAD DEBTS										
	B2	PROBABLE IMPAIRMENTS										
	B3	IMPAIRED										
	B4	OTHER ASSETS	93,423		84,751		674		100,072		285,876	
TOTAL (B)			93,423		84,751		674		100,072		285,876	
TOTAL (A+B) 31.12.2017			358,750	31	436,633	96	23,341		456,444	4,168	490,044	52
TOTAL (A+B) 31.12.2016			766,854	55	436,362	117	24,061		354,653	4,533	660,161	77

B.4 Large Exposures

BOOK VALUE	2,584,370,588
WEIGHTED AMOUNT	1,238,999,858
NUMBER OF BALANCE SHEET POSITIONS	143
NUMBER OF WEIGHTED POSITIONS	25

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 is equipped with an instrument that enables each counterparty to assign an internal score and a Probability of Default (PD) built on an external sample of surveys observed over a ten-year period. Based on the score provided by the Credit Analysis & Investigation Department, it is possible to determine for each counterparty and on the basis of macroeconomic scenarios by geographical area, the forward-looking risk parameters necessary for calculating the value of ECL (expected credit loss) usable as an indication in pricing (including the opportunity cost connected to equity provisions – unexpected credit loss – UCL) with a view to risk adjusted performance measurement.

In 2016, the Bank launched an overall project aimed at increasing the efficiency and effectiveness of all phases of the credit process (preliminary investigation, credit granting, trend control, risk profile analysis, corporate asset valuation), strengthening both first and second levels.

This project is closely linked to the plan to adopt the accounting standard IFRS9 which in 2017 enabled the Bank to define the new system for write-downs and staging of performing positions, as well as the new classification and measurement criteria also through the Business Model. In 2018 the activities of integration with the corporate IT system will continue, activities related to FTA will be finalised (first time adoption) and internal processes will be defined and/or updated.

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 level of market risk accepted for the trading portfolio, corresponding to the economic capital that the Bank is willing to allocate to cover the risk.

The market risk management policy (exchange, position and regulation) establishes internal operating limits and the related monitoring responsibilities and procedures.

Compliance with the current limits is monitored daily by the Middle Office (first level control) and by Risk Management (second level control) on the basis of the results provided by the ObjFin application.

The transactions of the Finance Department are in fact recorded in the ObjFin application integrated in the Bank's IT accounting system where the internal operating limits have been replicated to enable monitoring by the competent offices in real time. The reporting system has also been implemented within the application which allows automatic reports to be obtained enabling the various competent bodies to be informed on the basis of the frequencies established on the situation regarding positions, risks and exceeding operating limits.

The application deals with the following financial instruments:

- Forex, traditional and OTC derivatives;
- Money market, traditional and derivatives (FRA, IRS, OIS);
- Bonds and derivatives;
- Equity and derivatives (futures on indices, stock futures, ETF and negotiated options on regulated markets).

In particular:

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

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

In outlining the relevant legislation, the Board of Directors was inspired by two fundamental principles:

- a portfolio of financial instruments must correspond to each type of operation;

- a single internal manager must correspond to each type of risk identified in relation to the operating types.

The adoption of such criteria makes the exercise of delegated powers more transparent and leads to more effective control.

B. Management processes and methods of measuring interest rate risk

Brokerage activity between the market and banking and corporate customers, related to interest rate and exchange rate derivatives, can generate daily misalignments in the related portfolio and therefore a temporary increase in exposure to the risk of a generic position, for the Treasury Department and the Financial Markets Department.

Trading positions in derivative instruments of interest and exchange rates, both regulated and OTC, are recorded on the front office system which also supports the daily pricing of the instruments and the calculation of unrealised gains and losses. The risk of each position open on financial instruments is summarised in terms of VaR, with a ten-day holding period and a 99% confidence interval, and is subject to compliance with quantitative limits set by the Risk Committee and approved by the Board of Directors, monitored daily by the Risk Management Department. The approach of the limits involves the activation of verification procedures and, if necessary, the return of 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**			**18,969**	**5,526**			**3,923**		
	1.1	DEBT SECURITIES		18,969	5,526			3,923		
		- WITH AN OPTION FOR EARLY REDEMPTION		1,969						
		- OTHER		17,000	5,526			3,923		
	1.2	OTHER ASSETS								
2	**CASH LIABILITIES**									
	2.1	REPO								
	2.2	OTHER LIABILITIES								
3	**FINANCIAL DERIVATIVES**		**1,000**	**953,155**	**428**		**217,598**	**10,000**		
	3.1	**WITH UNDERLYING SECURITY:**								
		- OPTIONS								
		* LONG POSITIONS								
		* SHORT POSITIONS								
		- OTHER DERIVATIVES								
		* LONG POSITIONS								
		* SHORT POSITIONS								
	3.2	**W/OUT UNDERLYING SECURITY:**	**1,000**	**953,155**	**428**		**217,598**	**10,000**		
		- OPTIONS								
		* LONG POSITIONS								
		* SHORT POSITIONS								
		- OTHER DERIVATIVES	**1,000**	**953,155**	**428**		**217,598**	**10,000**		
		* LONG POSITIONS	1,000	355,683	428		8,338			
		* SHORT POSITIONS		597,472			209,260	10,000		

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

TYPE / RESIDUAL MATURITY			SIGHT	UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	INDEFINITE
1	**CASH ASSETS**			**1,694**		**2,085**	**8,941**			
	1.1	DEBT SECURITIES		1,694		2,085	8,941			
		- WITH AN OPTION FOR EARLY REDEMPTION					1,681			
		- OTHER		1,694		2,085	7,260			
	1.2	OTHER ASSETS								
2	**CASH LIABILITIES**									
	2.1	REPO								
	2.2	OTHER LIABILITIES								
3	**FINANCIAL DERIVATIVES**		**973**	**494,863**	**7,840**					
	3.1	**WITH UNDERLYING SECURITY:**								
		- OPTIONS								
		* LONG POSITIONS								
		* SHORT POSITIONS								
		- OTHER DERIVATIVES								
		* LONG POSITIONS								
		* SHORT POSITIONS								
	3.2	**W/OUT UNDERLYING SECURITY:**	**973**	**494,863**	**7,840**					
		- OPTIONS								
		* LONG POSITIONS								
		* SHORT POSITIONS								
		- OTHER DERIVATIVES	**973**	**494,863**	**7,840**					
		* LONG POSITIONS		475,730	3,920					
		* SHORT POSITIONS	973	19,133	3,920					

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**			**1,819**	**431**					
	3.1	**WITH UNDERLYING SECURITY:**								
		- OPTIONS								
		* LONG POSITIONS								
		* SHORT POSITIONS								
		- OTHER DERIVATIVES								
		* LONG POSITIONS								
		* SHORT POSITIONS								
	3.2	**W/OUT UNDERLYING SECURITY:**		**1,819**	**431**					
		- OPTIONS								
		* LONG POSITIONS								
		* SHORT POSITIONS								
		- OTHER DERIVATIVES		**1,819**	**431**					
		* LONG POSITIONS								
		* SHORT POSITIONS		1,819	431					

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

Prudential regulation (Pillar II) provides for the calculation of an additional capital requirement against interest rate risk on the banking book, and requires banks to continuously monitor the scale of this risk by calculating a risk indicator corresponding to a "system shock" that causes a parallel shift of the rate curve equal to 200 bps.

The value of this indicator should never exceed the limit of 20% of Own Funds; this value is much higher than that recorded by Banca UBAE, which is more contained due to the high concentration of deposits and loans over a 12-month period and the presence of derivative instruments that mitigate the risk.
From the management point of view, the internal regulations require an internal limit lower than the regulatory threshold and equal to 6.5%[3] of Own Funds, since this is more consistent with the Bank's actual exposure to risk.

For ICAAP purposes and using an ALM (Asset Liability Management) product, the Risk Management Department conducts quarterly analyses in terms of maturity ladder, and monitors compliance with internal operating limits according to the simplified approach adopted.

The Department also conducts quarterly stress testing on exposures, assuming the presence and absence of parallel shifts on the rate curve.

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

B. Hedging activities for fair value

Banca UBAE does not hold derivative instruments to hedge assets and liabilities at fair value.

C. Hedging activities for financial flows

Banca UBAE holds interest rate derivatives (IRS and OIS) in its portfolio aimed at offering macro-coverage management of the interest margin implicit in the financial flows deriving from banking activities (bonds and loans). The hedging and trading of derivative instruments is handled by the Treasury Department of the Finance Area.

(3) This percentage forms part of the Risk Appetite Framework as 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**	**10,035**	**216,529**	**149,604**	**102,717**	**117,446**	**4,624**	**2,632**	
	1.1 DEBTS SECURITIES		52,163	14,717		65,512			
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER		52,163	14,717		65,512			
	1.2 L&AS TO BANKS	5,949	72,022	47,854	63,525		195		
	1.3 L&AS TO CUSTOMERS	4,086	92,344	87,033	39,192	51,934	4,429	2,632	
	- A/C	2,878					347		
	- OTHER L&AS	1,208	92,344	87,033	39,192	51,934	4,081	2,632	
	- WITH AN OPTION FOR EARLY REDEMPTION	94	190	2,033	566	4,251	3,752	2,632	
	- OTHER	1,114	92,154	85,000	38,626	47,683	329		
2	**CASH LIABILITIES**	**418,517**	**118,921**	**30,029**	**248,268**	**100,000**			
	2.1 DUE TO CUSTOMERS	61,214	199						
	- A/C	61,214	199						
	- OTHER LIABILITIES	1							
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER	1							
	2.2 DUE TO BANKS	357,303	118,722	30,029	248,268	100,000			
	- A/C	348,626							
	- OTHER LIABILITIES	8,677	118,722	30,029	248,628	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**	**37,854**							
	* LONG POSITIONS	18,927							
	* SHORT POSITIONS	18,927							

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**	**229,745**	**499,273**	**173,748**	**45,782**	**206,882**			
	1.1 DEBTS SECURITIES		4,524			147,194			
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER		4,524			147,194			
	1.2 L&AS TO BANKS	204,681	383,871	172,832	45,315	57,818			
	1.3 L&AS TO CUSTOMERS	25,064	110,878	916	467	1,870			
	- A/C	25,064							
	- OTHER L&AS		110,878	916	467	1,870			
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER		110,878	916	467	1,870			
2	**CASH LIABILITIES**	**254,314**	**1,082,075**	**260,493**	**4,182**	**12,509**			
	2.1 DUE TO CUSTOMERS	42,952	7,095			12,509			
	- A/C	42,486	7,095			12,509			
	- OTHER LIABILITIES	466							
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER	466							
	2.2 DUE TO BANKS	211,363	1,074,980	260,493	4,182				
	- A/C	206,907							
	- OTHER LIABILITIES	4,456	1,074,980	260,493	4,182				
	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**	**284,284**							
	* LONG POSITIONS	142,142							
	* SHORT POSITIONS	142,142							

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**	**2,519**	**2,191**						
	1.1 DEBTS SECURITIES								
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER								
	1.2 L&AS TO BANKS	2,519							
	1.3 L&AS TO CUSTOMERS		2,191						
	- A/C								
	- OTHER L&AS		2,191						
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER		2,191						
2	**CASH LIABILITIES**	**2,184**							
	2.1 DUE TO CUSTOMERS	1,673							
	- A/C	1,673							
	- OTHER LIABILITIES								
	- WITH AN OPTION FOR EARLY REDEMPTION								
	- OTHER								
	2.2 DUE TO BANKS	511							
	- A/C	511							
	- 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

Within the banking book, the equity structure of Banca UBAE is characterised by a prevalence of deposits in dollars and loans in euros.

The intermediation on foreign exchange and forward derivative instruments may result in an increase in the overall exposure to the Bank's exchange risk, deriving from the holding of assets and liabilities denominated in foreign currency.

The Board of Directors approves total limits on the exposure of the Bank's exchange risk (intraday and overnight operating limits and stop loss limits), entrusting management to the Risk Committee and daily monitoring to the Middle Office.

B. Hedging activities for exchange rate risk

The Finance Department of Banca UBAE carries out macro-hedging of financial flows in foreign currencies and holds currency exchange swaps based on its market vision.

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	**1,168,216**	**220**	**46,123**	**3,605**	**2,365**	**4,723**
A.1 DEBT SECURITIES	164,515					
A.2 EQUITIES	4					6
A.3 L&AS TO BANKS	864,517	220	46,123	3,605	421	2,520
A.4 L&AS TO CUSTOMERS	139,180				1,944	2,197
A.5 OTHER FINANCIAL ASSETS						
B. OTHER ASSETS	**39**		**1**			**3**
C. FINANCIAL LIABILITIES	**1,613,573**	**234**	**46,127**	**58**		**2,184**
C.1 DUE TO BANKS	1,551,018	234	46,008	19		511
C.2 DUE TO CUSTOMERS	62,555		119	39		1,673
C.3 DEBT SECURITIES						
C.4 OTHER FINANCIAL LIABILITIES						
D. OTHER LIABILITIES						
E. FINANCIAL DERIVATES	**503,675**	**147,379**	**7,890**	**20,961**	**2,306**	**2,250**
- OPTIONS						
* LONG POSITIONS						
* SHORT POSITIONS						
- OTHER DERIVATIVES	503,675	147,379	7,890	20,961	2,306	2,250
* LONG POSITIONS	479,649	73,703	3,945	8,740		
* SHORT POSITIONS	24,025	73,677	3,945	12,221	2,306	2,250
TOTAL ASSETS	1,647,904	73,923	50,069	12,345	2,365	4,726
TOTAL LIABILITIES	1,637,598	73,911	50,072	12,279	2,306	4,434
BALANCE (+/-)	10,306	12	(3)	66	59	292

2.4 Derivatives

A. Financial derivatives

In 2017, Banca UBAE did not engage in trading derivative financial products on behalf of third parties, limiting its own account to market risk hedging instruments.

Banca UBAE mainly uses derivatives to hedge its interest rate (IRS) exposures and in particular exchange rates (SWAP) in order to mitigate its exposure from a management point of view. The mitigation of market risk is made possible through derivative instruments used to manage the Bank's loans.

The strategy pursued by the Bank is aimed at limiting the effects deriving from possible fluctuations in exchange rates, interest rates and share prices by including the following derivative instruments in the portfolio: currency swaps, interest rate swaps and equity derivatives (futures and options).

In contrast to exchange rate derivatives, which allow sterilisation, the Bank fixes the economic component generated by Forex operations, and the interest rate derivatives are used to mitigate the effect of possible and adverse fluctuations in returns with respect to the value of portfolio assets (securities and loans) and minimising the time frame for exposure to risk.

The results of the analyses conducted daily by the Risk Management Department are subject to monthly reporting to the Risk Committee, the Advisory Committees and the Board of Directors.

In addition, similar to what has been described for market risks, the use of derivative instruments (IRS and OIS) is used to implement the hedging management of loans and HTM securities thus mitigating the Bank's exposure to the interest rate risk on the banking book. The limited exposure to the latter risk, resulting also from the levels of the risk indicator constantly below the regulatory threshold, is also a result of the prudential guidelines set by the Board of Directors.

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

UNDERLYING ASSETS / DERIVATIVES TYPE			31.12.2017		31.12.2016	
			OVER THE COUNTER	CORE COUNTER-PARTIES	OVER THE COUNTER	CORE COUNTER-PARTIES
1	**DEBT SECURITIES AND INTEREST RATES**		**277,598**		**392,434**	
	A)	OPTIONS				
	B)	INTEREST RATES SWAP	277,598		392,434	
	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**		**632,254**		**664,605**	
	A)	OPTIONS				
	B)	SWAP				
	C)	FORWARD	632,254		664,605	
	D)	FUTURES				
	E)	OTHERS				
4	**GOODS**					
5	**OTHERS ASSETS**					
TOTAL			909,852		1,057,039	

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

PORTFOLIO / DERIVATIVES TYPE			POSITIVE FAIR VALUE TOTAL 31.12.2017		POSITIVE FAIR VALUE TOTAL 31.12.2016	
			OVER THE COUNTER	CORE COUNTER-PARTIES	OVER THE COUNTER	CORE COUNTER-PARTIES
A	**TRADING BOOK**		**5,679**		**5,398**	
	A)	OPTIONS				
	B)	INTEREST RATE SWAP	2,252		318	
	C)	CROSS CURRENCY SWAP				
	D)	EQUITY SWAP				
	E)	FORWARD	3,427		5,080	
	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			5,679		5,398	

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

PORTFOLIO / DERIVATIVES TYPE			NEGATIVE FAIR VALUE TOTAL 31.12.2017		NEGATIVE FAIR VALUE TOTAL 31.12.2016	
			OVER THE COUNTER	CORE COUNTER-PARTIES	OVER THE COUNTER	CORE COUNTER-PARTIES
A	**TRADING BOOK**		**6,384**		**3,228**	
	A)	OPTIONS				
	B)	INTEREST RATE SWAP	445		945	
	C)	CROSS CURRENCY SWAP				
	D)	EQUITY SWAP				
	E)	FORWARD	5,939		2,283	
	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			6,384		3,228	

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**							
	- NOTIONAL VALUE							
	- POSITIVE FAIR VALUE							
	- NEGATIVE FAIR VALUE							
	- FUTURE EXPOSURE							
2)	**EQUITIES AND EQUITY INDICES**							
	- NOTIONAL VALUE							
	- POSITIVE FAIR VALUE							
	- NEGATIVE FAIR VALUE							
	- FUTURE EXPOSURE							
3)	**CURRENCIES AND GOLD**			**646,261**				
	- NOTIONAL VALUE			632,254				
	- POSITIVE FAIR VALUE			3,427				
	- NEGATIVE FAIR VALUE			5,939				
	- FUTURE EXPOSURE			4,641				
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		**682,254**	**217,598**	**10,000**	**909,852**
A1	FINANCIAL DERIVATIVES ON DEBT INSTRUMENTS AND RATES	50,000	217,598	10,000	277,598
A2	FINANCIAL DERIVATIVES ON EQUITIES AND SHARES INDICES				
A3	FINANCIAL DERIVATIVES ON EXCHANGE RATES AND GOLD	632,254			632,254
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 31.12.2017		682,254	217,598	10,000	909,852
TOTAL 31.12.2016		946,605	97,434	10,000	1,054,039

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

Given the liquidity risk, defined as the Bank's inability to meet its payment obligations due to sudden difficulties in raising funds on the market and/or promptly liquidating positions on financial instruments, the banks admitted to simplified methods are not required to calculate an additional capital requirement (Pillar II); however, the banks must include an internal policy that establishes the system of operating limits to be respected and the procedures to be followed in the event of a liquidity crisis (contingency funding plan).

The financial sources of Banca UBAE are represented by Own Funds, deposits on the interbank market, as well as by the Eurosystem.

Taking into account the composition of the Bank's assets, the type of activity carried out, the strategies defined by the Board of Directors that limit operations to short-term loans, the liquidity risk for Banca UBAE does not represent a particularly critical element, under normal conditions of financial markets.

Furthermore, in consideration of interbank relations, the support of the majority shareholder and the creation of an "eligible" bond portfolio that can be used in repurchase agreements, refinancing operations with the Eurosystem, as well as the type and quality of its assets, Banca UBAE has set up financial resources which largely meet its needs.

At present, the available financial resources are adequate for current and future business volumes. The Bank is in any case constantly committed to the search for diversification of its sources of financing with particular attention to volumes and costs.

The Bank's corporate bodies to ensure the correct application of the liquidity policy are the Treasury, which deals with the direct management of liquidity, the Risk Management Department which is responsible for identifying the most appropriate risk indicators and monitoring their performance in relation to the pre-established limits, and support the activities of the Risks Committee which is responsible for proposing the funding and liquidity risk management policies to the Board of Directors every year and suggesting any appropriate action to ensure activities are carried out in full harmony with the approved risk policies.

Banca UBAE's policy, in addition to setting the management guidelines, distributes roles and responsibilities among the internal structures involved, while the contingency funding plan, connected to a system of early warning indicators, signals any crisis situations, defines the strategies for intervention in the event of liquidity tensions, providing for the extraordinary procedures to be activated to guarantee the Bank's survival even under stress conditions.

In compliance with the policy on liquidity risk management, the Risk Management Department monitors compliance with internal operating limits and thresholds for early warning indicators and conducts quarterly stress tests. In addition, it produces weekly reports for liquidity (on a standard format) for the Banca d'Italia, while for internal purposes it produces reports on monitoring activities for the Risk Committee, the Advisory Committees and the Board of Directors.

In particular, the Risk Management Department builds the maturity ladder on a weekly basis (on the basis of outflows and inflows distributed over time periods) and monitors compliance with internal operating limits (risk tolerance threshold, survival limits and eligibility limit) on financial instruments) as well as the trend of early warning indicators. Then, monthly, the Department calculates the ratios relating to the concentration of the collection and the monitoring tools in order to evaluate the time trend. With regard to liquidity ratios (LCR and NSFR), the Department conducts monitoring and periodic reporting.

In particular, in light of the current regulatory framework (Basel 3), the Bank monitors the level of the Liquidity Coverage Ratio (LCR) on a daily basis using a specific automatic tool and reports it to the Banca d'Italia on a monthly basis.

Monitoring of this ratio shows compliance with the current regulatory limit (100%), averaging over 130%.

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

In the first scenario, an index of difficulty in disposing of deposits, the non-return of a fixed portion of loans to banks is assumed over a time period of one month excluding the overnight segment (overnight loans are assumed to be balanced by overnight deposits) which increase the negative gaps to one week and one month; in the second scenario, which indicates difficulty in obtaining financing counterparties, it is assumed that the bank funding will shift from the time brackets after one month to the overnight bracket, generating an increase in the negative gaps of one week and one month. Finally, the third scenario assumes the downgrading (by an ECAI) of the issuers of the securities in the Bank's portfolio (both HFT and HTM). This downgrade translates into a reduction in the liquidity buffer, either due to the loss of eligibility of the security or to an increase in the amount of haircut applied.

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

Towards the end of 2017, the liquidity policy was revised in order to give the LCR a dominant role in risk management. During the current year the new version of the policy will be produced in order to incorporate the changes in question and to integrate the internal processes also in light of the attention thresholds and the actions outlined in the Bank's recovery plan.

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**		**19,535**	**28,339**	**18,767**	**20,571**	**120,196**	**138,764**	**104,905**	**126,519**	**21,239**	**24,220**
	A1	GOV'T SECURITIES						3,157	532	70,000	3,000	
	A2	LISTED DEBT SECURITIES				4,069	63,347	671	658	3,688	10,938	
	A3	HOLDINGS IN UCIs										
	A4	L&AS	19,535	28,339	18,767	16,502	56,849	134,936	103,715	52,831	7,301	24,220
		- TO BANKS	14,798	11,679	59,234	3,323	26,875	48,181	63,563		195	24,220
		- TO CUSTOMERS	4,737	16,660	12,843	13,179	29,974	86,755	40,152	52,831	7,106	
B	**CASH LIABILITIES**		**418,517**	**3,249**	**7,212**	**5,202**	**103,503**	**30,061**	**249,727**	**80,000**	**20,000**	
	B1	DEPOSITS AND A/C	418,497	3,249	7,212	5,202	103,503	30,061	249,727			
		- FROM BANKS	357,303	3,249	7,013	5,202	103,504	30,061	249,727			
		- FROM CUSTOMERS	61,194		199							
	B2	DEBT SECURITIES										
	B3	OTHER LIABILITIES	20							80,000	20,000	
C	**OBS TRANSACTIONS**		**22,624**	**20,212**	**245,000**	**263,941**	**96,404**	**428**		**18,927**		
	C1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE	1,000	20,212	245,000	263,941	96,404	428				
		* LONG POSITIONS	1,000	9,467		28,174	48,783	428				
		* SHORT POSITIONS		10,745	245,000	235,767	47,622					
	C2	FINANCIAL DERIVATIVES WITHOUT CAPITAL EXCHANGE	2,697									
		* LONG POSITIONS	2,252									
		* SHORT POSITIONS	445									
	C3	DEPOSITS AND LOANS TO BE SETTLED										
		* LONG POSITIONS										
		* SHORT POSITIONS										
	C4	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS	18,927							18,927		
		* LONG POSITIONS								18,927		
		* SHORT POSITIONS	18,927									
	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**		**230,419**	**108,334**	**38,681**	**171,974**	**180,318**	**175,445**	**49,570**	**214,206**	**7,053**	
	A1	GOV'T SECURITIES			144		894	2,378	3,416	120,070	4,969	
	A2	LISTED DEBT SECURITIES		352		46	11	122	563	34,437	2,084	
	A3	HOLDINGS IN UCIs										
	A4	L&AS	230,419	107,982	38,537	171,928	179,413	172,945	45,591	59,699		
		- TO BANKS	204,785	104,159	21,955	157,322	100,061	172,027	45,121	57,821		
		- TO CUSTOMERS	25,634	3,823	16,510	14,607	79,353	918	470	1,878		
B	**CASH LIABILITIES**		**254,318**	**111,877**	**107,032**	**327,702**	**538,158**	**262,092**	**4,258**	**12,507**		
	B1	DEPOSITS AND A/C	253,852	111,877	107,032	327,702	538,158	262,092	4,258	12,507		
		- FROM BANKS	211,363	111,877	106,950	327,702	531,130	262,092	4,258			
		- FROM CUSTOMERS	42,489		82		7,028			12,507		
	B2	DEBT SECURITIES										
	B3	OTHER LIABILITIES	466									
C	**OBS TRANSACTIONS**		**35,020**	**227,082**	**251,599**	**216,315**	**36,532**	**7,839**				
	C1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE	973	24,464	251,599	216,315	2,485	7,839				
		* LONG POSITIONS		12,869	249,411	211,163	2,287	3,919				
		* SHORT POSITIONS	973	11,595	2,188	5,152	198	3,919				
	C2	FINANCIAL DERIVATIVES WITHOUT CAPITAL EXCHANGE										
		* LONG POSITIONS										
		* SHORT POSITIONS										
	C3	DEPOSITS AND LOANS TO BE SETTLED		202,618								
		* LONG POSITIONS		101,309								
		* SHORT POSITIONS		101,309								
	C4	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS	34,047				34,047					
		* LONG POSITIONS					34,047					
		* SHORT POSITIONS	34,047									
	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**	**4,311**		**4,249**	**45,113**	**3,371**					
A1	GOV'T SECURITIES										
A2	LISTED DEBT SECURITIES										
A3	HOLDINGS IN UCIs										
A4	L&AS	4,311		4,249	45,113	3,371					
	- TO BANKS	4,304		3,481	45,113						
	- TO CUSTOMERS	7		768		3,371					
B	**CASH LIABILITIES**	**3,408**			**45,110**	**94**					
B1	DEPOSITS AND A/C	3,408			45,110	94					
	- FROM BANKS	1,671			45,110						
	- FROM CUSTOMERS	1,737				94					
B2	DEBT SECURITIES										
B3	OTHER LIABILITIES										
C	**OBS TRANSACTIONS**		**4,370**	**7,851**	**62,412**	**97,833**	**10,626**				
C1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE		4,370	7,851	62,412	97,833	10,626				
	* LONG POSITIONS										
	* SHORT POSITIONS		2,185	2,185	30,812	47,261	3,945				
C2	FINANCIAL DERIVATIVES WITHOUT CAPITAL EXCHANGE		2,185	5,666	31,600	50,572	6,681				
	* 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

Banca UBAE calculates the capital requirement for operational risks by applying the Basic Indicator Approach, as required by current prudential regulations.
At the moment there is no project to request application of the standardised approach. Despite having opted for the basic calculation methodology, Banca UBAE is implementing an operational risk management system capable of assessing and monitoring over time the exposure to operational risks and the extent of the losses that could derive from it. In this sense, not only was a project to review all the processes started, but also another internal project is underway to implement an "across-the-board" tool aimed at risk assessment and loss data collection activities.

A. Management processes and measuring operational risk

When operations start on new products or services, the Finance Department prepares a complete analysis of the risks connected to the new operation for the General Management, in collaboration with the Organisation & Systems Unit, and the Compliance, Risk Management and Internal Auditing Departments.

		31.12.2017	31.12.2016
OPERATIONAL RISK		**6,750**	**6,073**
1	BASIC METHOD	6,750	6,073
2	STANDARDIZED METHOD		
3	ADVANCED METHOD		

The calculation of the capital requirement for operational risk at 31 December 2017 was determined by referring to the indicator pursuant to article 316 CRR.

As part of the Risk Appetite Framework, the Risk Management Department monitors compliance with the macro risk limit and risk tolerance for operational risks on a quarterly basis; the results of the analyses are periodically reported to the Risk Committee, the Advisory Committees and the 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 derivative instruments of interest rates and exchange rates generates the risk that, upon maturity, the counterparty will not meet the payment obligations deriving from the contracts stipulated (counterparty risk); when the contract expires, in the event of non-fulfilment, counterparty risk becomes a settlement risk.

Counterparty risk is monitored, both as a whole and with reference to individual types of exposure, through the ObjFin front office system which manages the internal operating limits system.

Each counterparty, whether bank or corporate, authorised to trade forward derivative instruments, is entrusted by the Board of Directors, the Credit Committee or other competent body in the Bank, through the granting of specific ad hoc credit lines.
The limits are controlled by the front office system by recalculating all existing positions on a daily basis, using updated prices. Based on the results of the daily checks, the Risk Management Department produces a monthly report for the Risk Committee, the Advisory Committees and the Board of Directors.

The measurement of 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 compliance with the macro risk limit and risk tolerance for counterparty risk (including Credit Valuation Adjustment) on a quarterly basis; the results of the analyses are periodically reported to the Risk Committee, the Advisory Committees and the Board of Directors.

B. General aspects, management processes and measuring regulatory risk

With the exception of OTC derivative transactions which generate counterparty risk, Banca UBAE trades financial instruments and exchange rates, both listed and unlisted, exclusively with a “payment versus delivery” clause, limiting settlement risk to a minimum.

SECTION 6 – CONCENTRATION RISK

QUALITATIVE INFORMATION

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

For the purpose of limiting the overall concentration level of exposures, the Bank operates in compliance with the regulations governing large exposures, identifies and reports exposures with a weighted amount exceeding 10% of the eligible capital and monitors compliance with the lending limit by reporting any over-run positions to the Oversight Body.

In order to reduce the risk of exceeding the lending limit, the Bank is developing an automatic calculation tool that enables the business units to continuously monitor the percentage absorption of the limit.
Prudential regulation (Pillar II) provides for the calculation of an additional capital requirement against the single name concentration risk for the corporate portfolio; basically, the simplified algorithm applied for the purpose of determining capital absorption is based on the Herfindal concentration index and is calculated quarterly for the purposes of capital adequacy.

The Risk Management Department not only conducts analyses of capital adequacy but also carries out quarterly stress testing, simulating an increase in the concentration level of the portfolio, with the same corporate exposure.

Furthermore, the analyses in terms of capital adequacy are integrated with the capital absorption envisaged for the geo-sectorial concentration risk; to this end, we apply the quantitative methodology developed by the trade association to determine a capital add-on against corporate exposures residing 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, both for single-name concentration risk and for the risk of geo-sectorial concentration; the results of the analyses are periodically reported to the Risk Committee, the Advisory Committees and the Board of Directors.

The concentration connected to the exposures of bank counterparties is not included in the calculation of the absorption of assets, although in line with the regulatory provisions, the Bank has introduced a system of internal operating limits aimed at limiting exposure to this risk. The limits are monitored on a quarterly basis by the Risk Management Department and are periodically reported to the corporate bodies.

Finally, the Risk Management Department conducts quarterly analyses of the composition of the portfolio according to the economic sector in which the counterparty operates and the geographical area in which it resides. This information integrates and completes the analysis of the Bank’s concentration profiles and prepares for stress testing in the credit risk area.

SECTION 7 – COUNTRY RISK

QUALITATIVE INFORMATION

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

Banca UBAE measures the capital requirement against the country risk by applying an internal calculation methodology aimed at determining an additional capital absorption that completes the internal analyses in terms of capital adequacy. The rationale for this additional requirement, although not required by law, is substantially attributable to the particular operations of the Bank in certain geographical areas.

From the management point of view, setting a credit limit for each country is applied, which is the responsibility of the Board of Directors, and which regulates loans to countries with a rating lower than BBB or which are unrated.

The internal policy, on the other hand, regulates the methods for identifying, assessing, measuring and monitoring country risk and transfer risk. This policy was revised in 2016 in order to incorporate the decisions of the European Commission on banks resident in non-equivalent countries.

Regarding the transfer risk, from a quantitative point of view, the Bank has decided to include this risk within the wider sphere of the country risk; while from a qualitative point of view, the periodic assessment of the material nature of this risk is envisaged by analysing the composition of the loan portfolio and determining the relevance of exposures to countries belonging to the transfer risk classes provided by the trade association.

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 country risk; the results of the analyses are periodically reported to the Risk Committee, the Advisory Committees and the Board of Directors.

PART F: INFORMATION ON SHAREHOLDERS' EQUITY

SECTION 1 – SHAREHOLDERS’ EQUITY

A. QUALITATIVE INFORMATION

Asset management concerns all the policies and decisions necessary to establish the size of the assets so as to ensure that it is consistent with the activities and risks assumed by the Bank which is subject to the capital adequacy requirements established by the Basel Committee (CRR/CRD IV) and in particular the capitalisation objectives set by the Oversight Body in the SREP area (Supervisory Review and Evaluation Process).

The activity of verifying compliance with the minimum supervisory requirements and the consequent adequacy of the assets is continuous and is a function of the objectives set in the planning phase, which take into account the possible evolution of the risk, and what is regulated at the level of Risk Appetite Framework (known as RAF).

Also in accordance with the recommendations of the European Central Bank of 28 January 2016, compliance with capital adequacy is also guaranteed by compliance with a dividend distribution policy related to achieving the minimum capital requirements mentioned above.

During the year and on a quarterly basis, activities are carried out to monitor compliance with the regulatory ratios and to verify the adequacy with respect to what is regulated in the RAF.

A further phase of analysis and preventive control of the Bank’s capital adequacy takes place every time operations of an exceptional nature are programmed (transactions of major importance). In this case, and on the basis of the information relating to the transaction to be carried out, the impact on the capital ratios is estimated and a risk consistency opinion is formulated by the Risk Manager with the RAF for such transactions.

B. QUANTITATIVE INFORMATION

B.1 Shareholders’ equity: breakdown

		31.12.2017	31.12.2016
1	SHARE CAPITAL	159,861	159,861
2	SHARE PREMIUM ACCOUNT	16,702	16,702
3	RESERVES	42,227	40,363
	OF EQUITY:	42,227	40,363
	A) LEGAL RESERVE	13,019	13,241
	B) STATUTORY RESERVE	28,808	26,724
	C) OWN SHARES		
	D) OTHER	400	398
	OTHER RESERVES		
4	CAPITAL INSTRUMENTS		
5	(TREASURY STOCK)		
6	VALUATION RESERVES	556	531
	- FINANCIAL ASSETS AVAILABLE FOR SALE	788	767
	- 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	(232)	(236)
	- VALUATION RESERVES BOOKED TO SHAREHOLDERS’ EQUITY		
	- SPECIAL REVALUATION LAWS		
7	PROFIT (LOSS) FOR THE YEAR	9,440	3,553
TOTAL		228,786	221,010

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

		31.12.2017		31.12.2016	
		POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1	DEBT SECURITIES	787		767	
2	EQUITIES				
3	HOLDINGS IN UCI				
4	LOANS				
TOTAL		787		767	

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**		**767**			
2	**INCREASES**		**496**			
	2.1	FAIR VALUE ADJUSTMENTS	496			
	2.2	INCOME STATEMENT REVERSAL OF NEGATIVE RESERVES				
		- FROM IMPAIRMENT				
		- FROM DISPOSALS				
	2.3	OTHER INCREASES				
3	**DECREASES**		**476**			
	3.1	FAIR VALUE ADJUSTMENTS	466			
	3.2	IMPAIRMENT WRITE-DOWNS				
	3.3	INCOME STATEMENT REVERSAL OF POSITIVE RESERVES: FROM DISPOSALS				
	3.4	OTHER DECREASES	10			
4	**CLOSING BALANCE**		**787**			

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;
- 42 million Euro in other reserves, including retained earnings;
- accumulated other comprehensive income, positive to the tune of 0.55 million Euro and consisting of:
- 0.23 million Euro in the negative reserve for actuarial losses deriving from defined-benefit plans in accordance with the new IAS19;
- 0.78 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:

- 0.8 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 0.16 million Euro;

- positive filter on negative actuarial reserves (IAS 19), amounting to 0.05 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 0.08 million Euro (+).

B. QUANTITATIVE INFORMATION

		31.12.2017	31.12.2016
A	**COMMON EQUITY TIER 1 (CET1) BEFORE APPLICATION OF PRUDENTIAL FILTERS**	**222,832**	**217,482**
	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)**	**222,832**	**217,482**
D	**ITEMS TO BE DEDUCTED FROM CET1**	(842)	(1,329)
E	**TRANSITIONAL REGIME - IMPACT ON CET1 (+/-)**	(110)	(180)
F	**TOTAL COMMON EQUITY TIER 1 (CET1) (C-D+/-E)**	**221,880**	**215,973**
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 (+/-)**	78	230
P	**TOTAL TIER 2 CAPITAL (T2) (M-N+/-O)**	**100,078**	**100,230**
Q	**TOTAL OWN FUNDS (F+L+P)**	**321,958**	**316,203**

2.2 CAPITAL ADEQUACY

A. QUALITATIVE INFORMATION

The process of self-assessment of the overall capital adequacy of Banca UBAE has been defined by applying the proportionality principle (according to the approach allowed by the Oversight Body for Class 3 banks). The objective is to ensure continuous compliance with capital requirements (with reference both to the risks considered in Pillar I and to the quantifiable risks considered in Pillar II, according to the simplified methodology), and to provide the Board of Directors and the General Management with information necessary to set up the Bank's capital strengthening policies efficiently and effectively.

To achieve these two objectives, even with approximations due to the application of standard methods, the process focuses on the determination and monitoring of four parameters:

- total internal capital, i.e. the sum of capital requirements required for the various risk categories identified in Pillar I (credit risk, market risks and operational risks) and Pillar II (concentration risk for counterparties or groups of related counterparties, and interest rate risk on the banking book), referring to the specific date[4];

- the total internal capital under stress conditions, given by the total internal capital on the specific date, modified to take into account the assumptions of stress envisaged for credit risk, single name concentration and interest rate risk on the banking book;

- the overall prospective internal capital, given by the total internal capital calculated on the equity values approved as a result of the planning and budgeting process and having an impact on credit risks, operational risks, concentration risk and country risk;

- total capital, given by the sum of capital resources and hybrid capitalisation instruments available to the Bank for hedging internal capital and therefore unexpected losses connected to the various risks.

(4) This also includes any additional capital requirements that are estimated internally, although not required by law, to take into account the particular corporate exposure to certain risks (country risk, geo-sectorial concentration risk and strategic risk).

B. QUANTITATIVE INFORMATION

CATEGORIES/VALUES			NON-WEIGHTED AMOUNT		WEIGHTED AMOUNT	
			31.12.2017	31.12.2016	31.12.2017	31.12.2016
A	**RISK ASSETS**					
A1	**CREDIT AND COUNTERPARTY RISK**					
	1	STANDARD METHODOLOGY	3,122,274	3,174,812	1,625,828	1,840,291
	2	METHODOLOGY BASED ON INTERNAL RATINGS				
		2.1 BASED				
		2.2 ADVANCED				
	3	SECURITIZATION				
B	**REGULATORY CAPITAL REQUIREMENTS**					
B1	CREDIT AND COUNTERPARTY RISK				130,066	147,223
B2	CAPITAL REQUIREMENTS				8	99
B3	CAPITAL REQUIREMENTS					
B4	MARKET RISK				7,126	4,458
	1	STANDARD METHODOLOGY			7,126	4,458
	2	INTERNAL MODELS				
	3	CREDIT CONCENTRATION RISK				
B5	OPERATIONAL RISK				6,750	6,073
	1	BASIC INDICATOR APPROACH			6,750	6,073
	2	STANDARDIZED APPROACH				
	3	ADVANCED METHOD				
B6	OTHER CALCULATION FACTORS					
B7	TOTAL PRUDENTIAL REQUIREMENTS					
C	**RISK ASSETS AND CAPITAL REQUIREMENT RATIOS**				**143,950**	**157,853**
C1	RISK-WEIGHTED ASSETS				1,799,378	1,973,181
C2	COMMON EQUITY TIER 1 CAPITAL/RISK-WEIGHTED ASSETS (CET 1 CAPITAL RATIO)				12.33%	11.04%
C3	CAPITAL /RISK-WEIGHTED ASSETS (TIER 1 CAPITAL RATIO)				12.33%	11.04%
C4	TOTAL OWN FUNDS/ RISK-WEIGHTED ASSETS (TOTAL CAPITAL RATIO)				17.89%	16.12%

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 2017.

1. COMPENSATION OF DIRECTORS, AUDITORS AND MANAGEMENT

Compensation during 2017 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		3,790
	- DIRECTORS	1,792	
	- AUDITORS	85	
	- MANAGEMENT	1,913	
(2)	POST-SEVERANCE BENEFITS		102
(3)	OTHER BENEFITS		295

(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.

The following table shows assets and liabilities with such individuals

DESCRIPTION	SENIOR CORPORATE OFFICIALS	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS	785	81	866
FINANCIAL LIABILITIES	496		496
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. 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	175	99,772	99,947
FINANCIAL LIABILITIES	1,624,777	505,323	2,130,100
ISSUED COMMITMENTS	5,689	149,866	155,555

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS		421	421
FINANCIAL LIABILITIES			
ISSUED COMMITMENTS	6,215		6,215

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

COSTS

DESCRIPTION	LFB	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS	24	620	644
COMM. ON LETTERS OF GUARANTEES	958	1,806	2,764
INTEREST	19,708	2,220	21,928
SUBORDINATED LOANS	2,535		2,535
TOTAL	23,225	4,646	27,871

REVENUES

DESCRIPTION	LFB	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS	422	4,199	4,621
COMM. ON LETTERS OF GUARANTEES	531	908	1,439
INTEREST	8	1,316	1,324
TOTAL	961	6,423	7,384

COSTS

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS			
COMM. ON LETTERS OF GUARANTEES	131		131
INTEREST			
SUBORDINATED LOANS			
TOTAL	131		131

REVENUES

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS			
COMM. ON LETTERS OF GUARANTEES	5		5
INTEREST		38	38
TOTAL	5	38	43

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 Board of Statutory Auditors is called upon to report to the Shareholders' Meeting on the oversight activities performed during the year. With this in mind, we inform you that all oversight activities were carried out according to the Civil Code, legislative decree no. 385 of 1 September 1993 (consolidated banking law T.U.B.), legislative decree no. 39 of 27 January 2010, statutory provisions and regulations of the oversight and control authorities, also taking into account the principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts.

With reference to the balance sheet and financial statements of Banca UBAE S.p.A. which closed at 31 December 2017 showing a net profit of 9,439,548 euros, the Board of Statutory Auditors notes that it was drawn up in compliance with the international accounting standards IAS/IFRS (International Accounting Standards and International Financial Reporting Standards), currently in force, and was sent to the Board of Statutory Auditors together with the management report on 27 March 2017. In particular, the financial statements as at 31 December 2017 were prepared on the basis of the "Instructions for preparing financial statements of companies and consolidated financial statements of banks and holding companies responsible for banking groups" issued by the Banca d'Italia with circular no. 262 of 22 December 2005 and subsequent updates.

The financial statement notices, in addition to the specific indications of the rules for preparing financial statements, contain the information deemed appropriate to represent the Bank's equity, financial and economic situation.

The report prepared by the Board of Directors contains the appropriate information on the management, to be considered exhaustive and complete.

The Board of Statutory Auditors has carried out its institutional activities as follows:

- by participating in the meetings of the Board of Directors, the Control and Risk Committee (formerly the Internal Controls Committee and the Risk Supervision Committee) and the Remuneration and Governance Committee;

- by meeting periodically with the Heads of Internal Audit, the Compliance unit and the Risk Management department to exchange information on the activities carried out and the control programmes;

- by carrying out periodic checks, by monitoring compliance with the law and the byelaws, by checking compliance with the principles of correct administration and the adequacy of the organisational structure and the internal control system;

- by holding periodic exchanges of information with the heads of the auditing firm;
- by continuously following the events that have affected the Bank.

1. **Unusual and/or atypical transactions, including those within the group or with related parties.**

   During the year we did not find nor receive indications from the Board of Directors, from the management, from the auditing firm, from the Head of Internal Audit regarding the existence of unusual and/or atypical transactions carried out with third parties, related parties or within the group.

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

   The Board of Statutory Auditors believes that the above-mentioned transactions, of an ordinary nature, should be considered congruous and in line with the interests of the Bank, connected with and inherent to the achievement of corporate aims.

2. **Adequacy of the information provided in the Directors' management report regarding unusual and/or atypical transactions, within the group or with related parties.**

   In addition to the indications in point 1, the Board of Statutory Auditors points out that, as regards transactions concluded with related parties and/or affiliated parties, pursuant to article 2391 bis of the Civil Code, in compliance with the provisions on related parties referred to in Circular no. 285 issued by the Banca d'Italia on 17 December 2013, the Bank has adopted internal regulations with specific procedures that ensure continuous management and monitoring of these operations.

3. **Oversight activities regarding the Consolidated Banking Law for the legal review of accounts.**

   The Board of Statutory Auditors supervised: (i) the financial disclosure process; (ii) the effectiveness of the internal control, internal audit and risk management systems; (iii) on the statutory audit of the annual accounts; (iv) on the independence of the statutory auditor, in particular as regards the provision of non-auditing services.

   The Board of Statutory Auditors examined the audit plan, as well as the report prepared by the statutory auditor, whose activity complements the general framework of the control functions established by law with reference to the financial reporting process.

   This report, issued on 11 April 2018 pursuant to article 14 of legislative decree no. 39/2010 and article 10 of EU Regulation no. 537/2014, shows that the financial statements have been prepared in accordance with the international accounting standards IAS/IFRS issued by the

International Accounting Standards Board and adopted by the European Union, effective as of 31 December 2017, and in compliance with the provisions implementing article 9 of legislative decree no. 38/2005, and were prepared on the basis of the instructions issued by the Banca d'Italia with Circular no. 262/2005 and subsequent amendments and additions.

Therefore, the report provides a truthful and correct representation of the equity and financial situation, of the economic result and of the cash flows for the year ended 31 December 2017. Furthermore, in the opinion of the independent auditor, the report on operations is consistent with the budget documents.

At periodic meetings to exchange information, the statutory auditor did not inform the Board of Statutory Auditors of deeds or facts deemed to be censurable, or irregularities that required specific reports to be made.

4. **Reports pursuant to article 2408 and complaints.**

During the 2017 financial year, the Board of Statutory Auditors did not receive any report pursuant to article 2408 of the Civil Code, nor were there any complaints.

5. **Observations on compliance with the principles of correct administration.**

By taking part in the meetings of the Board of Directors and the Control and Risk Committee, on the basis of information obtained or received by the Directors and by the person appointed to audit the accounts, the Board of Statutory Auditors oversaw compliance with the principles of correct administration, verifying that management decisions complied with the general criteria of economic rationale and that the Directors showed due diligence in carrying out their mandate. In this regard, the Board has no significant comments to make.

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

The Board of Statutory Auditors oversaw the adequacy of the Bank's organisational structure and internal control system, for the matters pertaining to it, through direct observation, information gathering and interviews with the representatives of the auditing firm BDO Italia S.p.A.

7. **Information on corporate bodies.**

Concerning the corporate bodies, the Board of Statutory Auditors notes that with reference to the provisions of article 36 of legislative decree no. 201/2011 – recruitment or exercise of offices in supervisory or control management bodies in companies or groups of competing companies operating in the credit, insurance or financial markets – the Directors and the members of the Board of Statutory Auditors have assessed the respective situations and have taken decisions in order to comply with the aforementioned legislation.

8. **Final evaluation on the oversight activities carried out.**

   Following the supervisory activities carried out by the Board of Statutory Auditors, no reprehensible facts, omissions or irregularities emerged for the purposes of this report.

9. **Proposals by the Board of Statutory Auditors to the Shareholders' Meeting.**

   Bearing in mind the foregoing, and considering the content of the statutory auditor's reports, the Board of Statutory Auditors does not consider, as regards its duties, that there are reasons to impede the approval of the proposal for the financial statements as of 31 December 2017 drawn up by the Board of Directors. With reference to the proposed allocation of the economic result, the Board recalls, also for the 2017 financial year, the recommendation by the Oversight Authority to pursue policies for strengthening capital, also taking into account the adoption of the IFRS9 accounting standard and legislation regarding "Shadow Banking Entities" during this financial year.

We thank you for the trust you have placed in us and we remind you that, with the approval of the financial statements as of 31 December 2017, the mandate granted to the Board of Statutory Auditors and the Board of Directors expires; therefore we invite you to take the necessary steps by adopting the consequent resolutions.

Rome, 11 April 2018

The Board of Statutory Auditors:
Fabio Gallassi
Elenio Bidoggia
Francesco Rocchi

LEGAL AUDITORS' REPORT

Independent auditor's Report
pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

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

Report on the financial statements

Opinion

We have audited the financial statements of Banca UBAE S.p.A. (the Company), which comprise the balance sheet as at December 31, 2017,the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 43 of Legislative Decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Audit responses
Valuation of Loans to Banks and Customers Disclosure reported in the following parts and sections of notes: *Part A - Accounting policies (A.2 - 4 - Loans)* *Part B - Information on the balance sheet (Section 6 - Loans to banks - item 60 / Section 7 - Loans to customers - item 70)* *Part C- Information on the income statement- (Section 8 - Net impairment adjustments - item 130)* *Part E - Risks (Section 1 - Credit risk)* Loans to banks and to customers amount to euro 1,107 and 425 millions, as at December 31, 2017, corresponding to 54% of total assets. These items are key audit matters considering their amount and the complexity of the evaluation process, that include the estimation of some components as impairment indicators, expected cash flows and time of recovery, and evaluation of guarantees.	Our main audit procedures performed in response to the key audit matter regarding the valuation of loans to banks and to customers, included the following: ▪ analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes; ▪ analysis of the adequacy of the IT environment related to IT applications that are relevant to the process of evaluating loans to banks and customers; ▪ procedures for reconciling data between management systems and information reported in the financial statements; ▪ comparative analysis procedures and analysis of the results with the management involved; ▪ analysis of the criteria and methods for the evaluation of credits (analytical and collective) and verification on a sample basis of the reasonableness of the assumptions and of the components used for the assessment and the relative results; ▪ examination on a sample basis of the classification and valuation in the financial statements in accordance with the IFRS adopted by the European Union and the provisions issued pursuant to Article 43 of Legislative Decree 136/2015 (Circular no. 262) ▪ examination of the disclosures provided in the notes.

Key audit matters	Audit responses
Valuation of risks related to litigation Disclosure reported in the following parts and sections of notes: *Part A - Accounting policies (A.2 - 12 - Provisions for risks and charges)* *Part B - Information on the balance sheet (Section 12 - Provisions for risks and charges - item 120)* *Part C- Information on the income statement- (Section 10 - Net provisioning for risks and charges - item 160)* This item is a key audit mattes considering the complexity and judgement in the evaluation process of risks related to the legal and fiscal litigation.	Our main audit procedures performed in response to the key audit matter regarding the valuation of risks regarding the litigation, included the following: ▪ reading the company's books; ▪ analysis and discussion, also through our legal and tax experts, of the company's reports and opinions prepared by external consultants regarding the assessment of risks relating to outstanding disputes; ▪ procedures for external confirmation of legal and tax advisors who support the company in litigation; ▪ examination of the disclosures provided in the notes.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree no. 38/05, as well as the regulation issued to implement art. 9 of Legislative Decree no. 38/05 and art. 43 of Legislative Decree no. 136/15 and, within the terms provided by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor’s report.

Other information communicated pursuant to article 10 of EU Regulation 537/2014

We were engaged by the shareholders meeting of Banca UBAE S.p.A. on September 10, 2012 to perform the audits of the financial statements of each fiscal year from December 31, 2012 to December 31, 2020.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of EU Regulation 537/2014, and that we remained independent of the company in conducting the audit.

We confirm that the opinion on the financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10

The directors of Banca UBAE S.p.A. are responsible for the preparation of the report on operations of Banca UBAE S.p.A. as at December 31, 2017, including its consistency with the financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of Banca UBAE S.p.A. as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations is consistent with the financial statements of Banca UBAE S.p.A. as at December 31, 2017 and is compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Rome, April 11, 2018

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

Emmanuele Berselli
Partner

RESOLUTIONS PASSED BY THE SHAREHOLDERS' ORDINARY GENERAL MEETING HELD ON 27.04.2018

AGENDA

1. Review and approval of the accounts for the financial year ended 31 December 2017 and of the Annual Report on operations;

2. Statutory Auditors’ report;

3. Legal Auditors’ report;

4. Proposal for the allocation of net profit; resolutions pertaining thereto;

5. Approval of Directors’ emoluments exceeding the overall ceiling authorized for financial year 2017 by the AGM on 28 April 2017;

6. Approval of a bonus for the members of the Board of Directors in relation to the Bank’s 2017 result;

7. Appointment of the Board of Directors for the period 2018-2020 and determination of their yearly emoluments in accordance with articles 15 and 21 of the Articles of Association respectively;

8. Appointment of the Board of Auditors for the period 2018-2020 and determination of their yearly emoluments in accordance with art. 28 of the Articles of Association;

9. Appointment of the Statutory Auditors to comprise the Oversight Body mandated by Legislative Decree 231/2001;

10. Approval of the 2018 remuneration-and-incentives policy for Directors, Auditors, salaried staff and personnel not in the Bank’s direct employment (ref. 7th revision of Banca d’Italia’s circular directive 285/2013, containing supervisory provisions on remuneration-and-incentives policies and practices for banks and banking groups);

11. Approval of a supplement to the compensation package originally offered to BDO Italia SpA in the letter of 5 June 2012 retaining their services as the Bank’s Legal Auditors under the terms of articles 13 and 16 of Legislative Decree 39/2010.

Having taken cognizance of the Directors' Annual Report, the Statutory Auditors' report and the Legal Auditors' report accompanying the financial statements for the year to 31 December 2017, the AGM unanimously **approved** the Annual Report, the financial statements themselves and the following allocation of net profit:

	EURO	
NET PROFIT	9,439,548	-
LESS 5% TO LEGAL RESERVE (ART. 30 LETTER **A** OF THE ARTICLES OF ASSOCIATION)	475,000	=
RESIDUE	**8,964,548**	**+**
PLUS PROFITS RETAINED PREVIOUS PERIODS	3,730	=
	8,968,278	**-**
DIVIDED TO BE DISTRIBUTED	2,242,070	=
ALLOCATION TO THE EXTRAORDINARY RESERVE	6,726,208	

As a result, reserves will total € 66,682,633.00.
Shareholders' equity (comprising share capital, reserves, profit carried forward and the share premium account) will amount to **€ 226,543,433.00**.

Besides, the AGM **unanimously resolved**:

- to appoint Messrs. Sharef Said Ali SHALABI, Sharef Sadik ALWAN, Mohamed BENCHAABOUN, Luigi BORRI, Amin Abdulsalam Farag BOTLAG, Salah Amer Mohamed EDBAYAA, Abdulhakim Mohamed Mohamed ELJABOU, Andrea GEMMA, Elamari Mohamed Ali MANSUR, Antonio PIRAS and Fekri Ahmed Ahmed SINAN as Directors for the 2018/2020 three-year period;

- to confirm Mr. Sharef Said Ali SHALABI in his position as Chairman of the Board of Directors;

- to appoint Mr. Fabio Gallassi as Chairman of the Board of Auditors and Messrs Francesco Rocchi and Elenio Bidoggia as Statutory Auditors for the 2018/2020 three-year period.

- Lastly the AGM **voted unanimously** to the appointment of the Statutory Auditors as members of the Oversight Body mandated by Legislative Decree 231/2001 for the 2018/2020 three-year period.

In bringing the proceedings to a close, the Chairman wished to thank the Bank's outgoing Directors, Messrs. Alberto Rossetti, Omran M. Abosrewil and Omran M. Elshaibi for the professionalism they had brought to bear on the Board's deliberations throughout their time in office.

He thanked the Auditors for providing the BD and the Bank's advisory committees with their continued support, not least through their assiduous attendance at those bodies' meetings.

He sincerely commended the Management and the entire workforce on the dedication they had displayed in working towards the altogether satisfying result which the AGM had approved on this day. Finally, the Chairman thanked the shareholders for the confidence they continued to place in Banca UBAE, and was especially grateful to Libyan Foreign Bank for the backing it had never failed to give its affiliate.

ANNEX A

COUNTRY - BY - COUNTRY REPORTING AS AT 31 DECEMBER 2017

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 2017.

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 S.p.A. – 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 53,206,857.00**

c. **Number of employees on equivalent full-time basis[2] = 194**

d. **Pre-tax profit[1] = EUR 16,594,803.00**

e. **Tax on profits[1] = EUR 7,155,255.00**

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

مصرف اليوباي

TRADE COMMERCIAL BUSINESS

L/Cs Finance and Guarantees for Export - Import Operations

SYNDICATIONS & ENERGY

Managing Trade in the Energy and Infrastructure Sectors

FACTORING

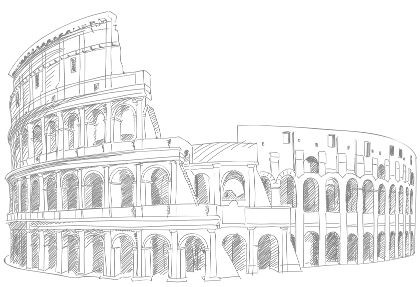
A service for which the Bank has set up a dedicated desk at its Milan Branch

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



Assisting clients in finding global and local banking solutions

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Algeria

Ethiopia

Kuwait, Saudi Arabia

Morocco

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