BANCA UBAE

مصرف اليوباي

ANNUAL REPORT 2018

Report and Financial Statements 2018

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

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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Telephone	+39 06 423771
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Fax	+39 06 4204641
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MILAN BRANCH

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Swift	UBAI IT RR MIL

TRIPOLI (LIBYA) REPRESENTATIVE OFFICE (LIBYA)

Address	Omar Mukhtar Street – Omar Mukhtar Investment Complex
Telephone	+218 21 4446598 / 4447639
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Website: www.bancaubae.it

BOARD OF DIRECTORS 2018-2020 *

Appointed by Shareholder's Meeting on 27 April 2018

Chairman: Sharef S. A. Shalabi

Vice Chairman: Antonio Piras

Directors:
Sharef S. Alwan
Mohamed Benchaaboun
Luigi Borri
Admin A. F. Botlag
Saleh A. M. Edbayaa
Abdulhakim M. Eljabou
Fekri A. A. Sinan
Andrea Gemma
Elamari M.A. Mansur

Secretary of the Board of Directors and the Executive Comittee *
Lavinia Callegari **

BOARD OF STATUTORY AUDITORS ***

APPOINTED BY SHAREHOLDERS' MEETING ON 27.04.2018

Chairman:
Fabio Gallassi

Statutory auditors:
Francesco Rocchi
Elenio Bidoggia

Alternate auditors:
Gabriele Felici
Sergio Montedoro

* The Board of Directors resigned on 22 February 2019.

** On 10.12.2018 the 250th Board of Directors resolved upon the appointment of Mrs Lavinia Callegari as Secretary to the Board in replacement of Mrs Priscilla Simonetta.

*** Members of the Oversight Body as per legislative decree no. 231/2001
The Shareholders' meeting on 20 April 2015 nominated the members of the Auditing Board as members of the Oversight Body as per legislative decree no. 231/2001.

BOARD OF DIRECTORS 2019-2021*

Appointed by Shareholders' meeting on 18 march 2019

Chairman: Sharef S. Alwan

Vice Chairman: Antonio Piras

Directors:
Mohammed K. Mokdad
Samuele Boscagli
Alberto Rossetti
Admin A. F. Botlag
Saleh A. M. Edbayaa
Elamari M. A. Mansur
Fekri A. A. Sinan

Secretary of the Board of Directors and the Executive Committee
Lavinia Callegari

BOARD OF STATUTORY AUDITORS **

APPOINTED BY SHAREHOLDERS' MEETING ON 27.04.2018

Chairman:
Fabio Gallassi

Statutory auditors:
Francesco Rocchi
Elenio Bidoggia

Alternate auditors:
Sergio Montedoro
Gabriele Felici

* Following the resignation of the Board od Directors, the Shareholders' Ordinary Meeting elected the new members of the Board on 18 March 2019.

*** Members of the Oversight Body as per legislative decree no. 231/2001
The shareholders' meeting on 27 April 2018 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 Administration/IT & Organization Area	Fabio Fatuzzo
Head of Credit & Risk Area	Giovanni Gargasole
Head of Finance Area	Antonino Sprizzi

HEADS OF DEPARTMENT

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

BANCA UBAE

مصرف اليوباي

YOUR PARTNER FOR INTERNATIONAL BUSINESS

SUMMARY OF DATA AND FINANCIAL/ECONOMIC RATIOS

FINANCIAL DATA	31 DEC 2016	31 DEC 2017	31 DEC 2018	
FINANCIAL ASSETS	€ 891,306,449	€ 333,687,880	€ 589,310,877	
BANKS FINANCING	€ 697,618,403	€ 601,794,546	€ 431,599,617	
DEPOSITS TO BANKS	€ 887,343,094	€ 1,441,828,720	€ 552,663,202	
CUSTOMER FINANCING	€ 354,394,696	€ 384,773,968	€ 488,190,356	
EARNING ASSETS	€ 2,830,662,642	€ 2,762,085,114	€ 2,061,764,051	
TOTAL ASSETS	€ 2,880,648,136	€ 2,845,669,200	€ 2,526,033,035	
DEPOSITS FROM BANKS AND A/C WITH BANKS	€ 2,291,424,232	€ 2,352,112,620	€ 2,249,914,394	
SUBORDINATED LOANS	€ 100,000,000	€ 100,000,000	€ 100,000,000	
CUSTOMER FUNDING	€ 237,813,177	€ 125,798,327	€ 105,404,441	
TOTAL FUNDING	€ 2,629,237,409	€ 2,577,910,947	€ 2,355,318,835	
RESERVES	€ 57,596,542	€ 59,485,155	€ 34,612,797	
SHARE CAPITAL	€ 159,860,800	€ 159,860,800	€ 159,860,800	
NET PROFIT	€ 3,552,894	€ 9,439,548	€ (51,457,309)	
GROSS WORTH	€ 221,010,236	€ 228,785,503	€ 143,016,287	
NET INTEREST INCOME	€ 21,347,896	€ 18,660,858	€ 13,592,986	
NET COMMISSIONS	€ 12,960,836	€ 17,088,479	€ 16,451,998	
NET FINANCIAL INCOME	€ 2,724,623	€ 17,454,094	€ 1,984,392	
NET TRADING INCOME	€ 37,035,068	€ 53,206,857	€ 32,029,375	
OPERATING CHARGES	€ (29,032,088)	€ (29,647,472)	€ (34,021,612)	
NET OPERATING PROFIT	€ 8,001,267	€ 23,559,385	€ (1,992,237)	
NET PROFIT	€ 3,552,894	€ 9,439,548	€ (51,457,309)	
TURNOVER LETTERS OF CREDIT OIL	€ 5,110,434	€ 150,935,354	€ 360,088,012	
TURNOVER LETTERS OF CREDIT NON-OIL	€ 1,330,899,456	€ 1,777,681,945	€ 1,630,835,629	
TURNOVER GUARANTEES	€ 125,118,475	€ 122,617,313	€ 125,257,518	
OUTSTANDING GUARANTEES	€ 454,428,397	€ 447,204,573	€ 408,131,132	
GROSS WORTH/TOTAL ASSETS	7.67%	8.04%	5.66%	
LOANS/DEPOSITS RATIO	45.91%	41.94%	40.88%	
INTERBANK RATIO	96.17%	86.88%	43.75%	
IMPAIRED LOANS/EARNING ASSETS	0.05%	0.05%	0.10%	
ROE NET PROFIT/PAID CAPITAL	2.01%	5.35%	-32.19%	
ROE NET PROFIT/GROSS WORTH	1.61%	4.13%	-35.98%	
ROI NET PROFIT/ FUNDING & EARNING ASSETS	0.07%	0.18%	-1.19%	
ROA NET PROFIT/TOTAL ASSETS	0.12%	0.33%	-2.04%	(*)
OPERATING CHARGES/NET TRADING INCOME	78.39%	55.72%	106.22%	
NET PROFIT/NUMBER OF EMPLOYEES	€ 18,505	€ 48,161	€ (258,579)	
NUMBER OF EMPLOYEES (FIXED AND NOT FIXED TERMS)	192	196	199	
TOTAL CAPITAL RATIO	16.12%	17.89%	17.34%	
CET1/TIER I CAPITAL RATIO (EQUITY ASSET RATIO)	11.04%	12.33%	10.37%	
BANKING OWN FUNDS	€ 316,202,581	€ 321,957,894	€ 248,694,144	

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

Boardroom

ANNUAL REPORT
1 January - 31 December 2018

Mr. Sharef S.A. Shalabi

CHAIRMAN'S STATEMENT

To all shareholders

During 2018 the Bank operated in a progressively deteriorating domestic and international macroeconomic environment.

The expansive revival of the world economy has in fact slowed down, in a situation of geopolitical uncertainties and vulnerability in emerging markets. World trade showed negative indices in the last months of 2018 on the sidelines of significant downside risks connected both to unresolved commercial tensions and to growth in emerging economies which was not in line with forecasts.

These uncertainties have had repercussions on international financial markets. On the overall prospects, moreover, the risks related to the result of the negotiation on commercial tariffs between the United States and China, the increase in financial tensions in emerging countries and the scenario – to date as yet undefined – of Great Britain's exit from the European Union; these aspects are currently difficult to quantify in economic terms to the extent that the International Monetary Fund has in fact reduced the expectations of global GDP growth for 2019.

In Europe and especially in Italy, the economy has begun to show the first signs of weakening; in particular, the Italian economy remained weak in 2018 mainly due to the consequences of political uncertainty and the problematic situation of public accounts.

Even in foreign countries of traditional interest to the Bank, the economic prospects for 2019 are not very positive; in particular the increase in financing rates and international trade tensions could have a negative impact on the economies of the countries of North Africa and the Middle East (MENA).

As far as oil business it is concerned, the y/2019 forecast on the price per barrel is very uncertain. The 2018 financial year witnessed a somewhat fluctuating trend in terms of price for both the Brent and the WTI which, after a recovery at the beginning of the year, again lost ground. For this reason, making forecasts for 2019 on the price of oil, by analysts and market observers, is not an easy task.

The Bank's 2018 financial statements show a significant negative result, certainly unexpected and above all affected by unexpected events such as adjustments to loans that the Bank prudently considered to make to Italian corporate counterparties in the construction sector following the crisis that affected the sector and continues to do so. The value adjustments reflected the prudential assessment carried out by the Board of Directors which, in compliance with the relevant regulations and on the basis of the new policy adopted, were considered appropriate.

Despite the negative result – to be considered exceptional – the Tier 1 ratio and Total Capital Ratio, which stood at 10.37% and 17.34% respectively, indicate a level that is certainly adequate to meet the limits set by supervisory regulations in terms of solidity and, above all, they are in line with those expected by the Oversight Authority for our Bank.

Fellow shareholders, the 2018 financial year was certainly particular, characterised above all by the penalising introduction of the directive on Shadow Banking Entities (SBE) – banks in countries deemed "not equivalent" from a regulatory point of view – and the international IFRS9 accounting standard whose effects have not just affected the Bank's business; in fact, the provisions contained in these regulations, compared to almost all of the national banking system, have had a considerable impact on UBAE's operations taking into account its peculiar activity and the countries of residence of the banking counterparties to which this activity is addressed.

In any case, the Bank has promptly adjusted to these provisions by reviewing its organisational procedures, credit pricing models and commercial policies also in order to optimise the returns for new risks assumed and thus introducing a different classification of customer counterparties that the new rules have set.
During 2018, the Bank continued to follow the path traced in recent years to strengthen the control and organisational structures, concluding important projects in order to adapt to the various regulations on the subject and in particular those concerning the establishment of the GDPR, privacy, IT security and the subject of international money laundering and terrorism; the Bank has always paid close attention to the latter aspect.

The foregoing has opened a review of the commercial strategies of the Bank to create the necessary protections; on the one hand with the aim of implementing business strategies and on the other hand to mitigate the risk of a possible worsening of creditworthiness, with simultaneous more informed management of the relationship with customers as well as its improvement in terms of effectiveness, efficiency and transparency.

Based on these logical aspects, the business plan was drawn up for the period 2019-2021

– approved in January 2019 by the Board of Directors – also providing for a tangible increase in the Bank's first level capital – in order to equip it with assets in line with operational needs, to enable it to operate at its best in the reference markets, ensuring an economic revival in line with the objectives set and a return to profit already from the next year.

The strategic indications, reported in the plan, relating to the implementation of various business lines, their diversification and the economic objectives to be achieved, were all outlined in full awareness of the introduction of the new rules imposed by the ECB and the EBA guidelines which are increasingly stringent for our Bank (given our specific commercial trading activity) and which forces us to seek sufficient assets to adequately meet future challenges that await us.

Fellow shareholders, we are certain that with the right financial resources, as required by the Board of Directors, UBAE will be able to face the new challenges that await it over the next three years; on the one hand, they will guarantee new and great commercial opportunities, and on the other they will represent a strong barrier to the inevitable growing risks.

Lastly, we wish to inform you that during 2018 the Bank was subject to checks by the supervisory bodies (FIU and Banca d'Italia); the investigations were concluded without sanctions by these authorities.

In hoping that the shareholders look to the bank with renewed confidence and support it in every aspect – commercial, equity and organisational – I would like to thank all the management and employees for their commitment in this year characterised by a difficult economic and political context.

We trust that in future financial years the Bank – strengthened by the strategic orientations that the governing bodies intend to pursue and thanks to the support offered by its shareholders – will be able to consolidate its role as a source of credit with an international vocation that undoubtedly belongs to it.

* * *

I would like to thank the management and all employees for their dedication and commitment that only a severe Italian construction companies crisis and related NPL avoided to achieve positive results in 2018.

Banca UBAE is certainly confirmed as a point of reference for prestige at the service on internationally oriented customers, leveraging the brand connections with markets in Middle East, North Africa and especially in Libya.

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

EUR/mn

COUNTRIES	2018		2017		2016	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS
1 LIBYA	4,190	1,210	2,786	1,090	1,816	1,076
2 BAHRAIN	283	268	110	251	123	264
3 ALGERIA	5,710	3,091	4,958	3,178	4,269	3,710
4 BANGLADESH	1,398	741	1,382	728	1,323	509
5 EGYPT	2,107	2,688	1,824	2,918	1,537	3,087
6 PAKISTAN	654	801	629	757	599	622
7 LEBANON	42	1,383	41	1,517	35	1,168
8 SRI-LANKA	434	253	398	256	340	236
9 ETHIOPIA	57	235	49	277	52	325
10 ANGOLA	442	200	346	282	409	189
11 UNITED KINGDOM	11,141	23,451	11,404	23,130	10,996	22,478
12 MAURITANIA	95	28	109	31	105	31
13 OMAN	84	672	56	656	50	816
14 SUDAN	17	104	24	138	16	130
15 UGANDA	117	59	128	61	99	63
16 JORDAN	52	516	45	701	43	764
17 MOROCCO	1,024	2,028	1,005	1,885	836	1,613
18 TUNISIA	2,486	3,469	2,215	3,194	2,243	2,924
19 TURKEY	9,047	8,784	8,301	10,094	7,474	9,599
20 SWITZERLAND	10,954	22,358	11,178	20,611	10,600	19,015
21 YEMEN	8	44	9	61	4	52
22 PORTUGAL	2,000	4,162	1,759	3,982	1,587	3,512
23 DJIBOUTI	1	18	1	25	1	30
24 NEPAL	10	38	10	14	10	16
25 SPAIN	20,627	24,001	21,175	23,194	19,535	20,968
26 MALAYSIA	1,106	1,177	1,018	1,259	959	1,063
27 CHAD	1	4	1	8	0	9
28 KUWAIT	371	1,066	1,207	1,162	929	1,103
29 QATAR	1,549	1,093	1,170	933	848	905
TOTAL	76,006	103,942	73,340	102,393	66,839	96,277
UBAE'S SHARE	98	1,831	38	1,817	2	1,303
%	0.13	1.76	0.05	1.77		1.35

*Entrance to the Bank in Rome,
Via Quintino Sella, 2*

THE BANK'S ACTIVITIES 2018:

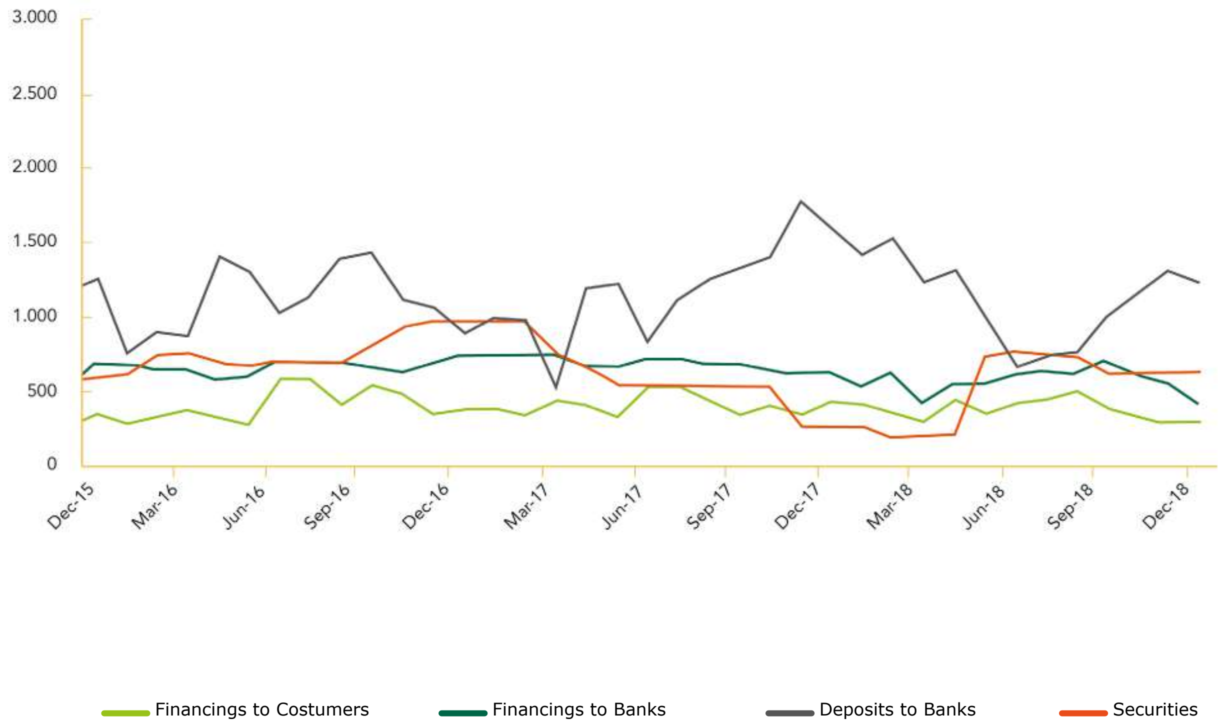
Brief Summary

BANKING OPERATIONS

Loans and Edvances

The Bank's activity is aimed, in general, at supporting financial intermediation operations in support of commercial transactions with counterparties carrying out import/export activities or works for infrastructure construction in the reference countries, with limited interventions in the *retail* market.

In the year under review, the economy was still affected by uncertainties related to international trade policy decisions on the one hand, and the negative consequences, still present, generated by the long financial crisis that has characterised world markets in recent years.
In this context, the Bank's commitments to banking and non-bank counterparties decreased compared to the previous year.
This aspect is reflected in the graph showing the Bank's performance in the loans segment over the last three financial years:



The volume of loans was influenced by the entry into force, in December 2017, of the new legislation on "Shadow banking" whose rules limited UBAE's business in the first months of the year 2018; performance was also significantly affected by the introduction of new commercial and financial policies that reflect the changes brought about by the IFRS9 international standard which came into force on 1 January 2018.

Operations on foreign markets

In 2018, commercial activities with countries of interest represented – as has happened in previous years – the Bank's strength from which it was able to derive appreciable profits.

While the economic scenario continued to grow towards the end of 2018, on the other hand the first signs of worsening have appeared in many economies – not only advanced but also emerging.

The outlook for world trade continues to deteriorate following the slowdown in the first part of last year. Economic uncertainties have had repercussions on international financial markets. In addition, the risks related to a negative outcome of the trade negotiations between the United States and China, the possible recurrence of financial tensions in emerging countries and the ways in which Brexit will take place, are also weighing on global prospects.

The international situation in which the Bank operates showed the following data: in the United States the Gross Domestic Product (GDP) reached 2.9%. The countries forming part of the BRIC group should reach the following percentages: Brazil (+2.1%), Russia (+1.6), India (+7.1%) and China (+6.7%); for these countries, the forecasts for 2019 see a slight downturn in their economies.

This economic scenario – characterised by the above unknowns – could lead to slightly lower GDP forecasts. The International Monetary Fund has effectively reduced global GDP growth expectations from 3.7% to 3.5% for 2019.

In the Eurozone, economic growth has weakened; in the last few months of 2018 industrial production decreased significantly in Germany, France and Italy. Inflation, albeit remaining positive, fell due to the slowdown in energy prices (oil). Against this background, the ECB Governing Council stated its intention to maintain an effective monetary stimulus for a long period (at least until the summer of 2019).

The Eurozone GDP reached +1.8% in 2018 (with a forecast of +1.3% in 2019).

In Italy, the main economic indicators show that activity decreased in the fourth quarter of 2018 after a significant slowdown in the third quarter. The reduction in domestic demand contributed to the weakening of the national economy, in particular investments and, to a lesser extent, household spending. Research carried out by specialised agencies shows that the planned investments of companies in the industrial and services sector would be limited due to political and economic uncertainty as well as commercial tensions. The GDP at the end of the year stood at about 0.9%, while national and international institutions rate the Italian GDP as stable or decreasing slightly. In fact, Italian growth would be below 1% for the next 3 years.

Inflation in the Eurozone stood at around 1.6% while Italy remained low, reaching 1.2% at the end of 2018.
The economic outlook for 2019 is not positive in the countries of traditional interest to the Bank;

in fact, the economies of North African countries and the Middle East (MENA) could be exposed to a tightening of financing conditions and commercial tensions.

The aggravation of financial conditions has already begun to have an impact on several emerging market economies of the MENA countries (Middle East and North Africa) and could have more serious implications if the "sentiment" of the global financial market suddenly deteriorated.

The increase in tension on global import-export could have a direct and immediate limited impact on these regions, but may lead to considerable tension over time through negative effects on trading partners.

For example, due to recent political and economic developments in Turkey and other emerging markets, the spread values of MENA's oil importing countries have increased and this confirms the region's exposure to the volatility of financial markets, causing at the same time particular problems for those countries that rely on the international loan markets.

Even more important is the significant impact on growth in major trading partners that could arise if these tensions turn into lower demand for exports from the MENA countries; this event would have the consequence of slowing its economic development. In particular, a slowdown in demand from China and the Eurozone would cause concern, for example, in Mauritania (minerals, fish) and Tunisia (cars, electronics, food, textiles) where current deficits are already widespread. The economies of oil-exporting countries would be exposed to an economic scenario that is not exactly tranquil.

Furthermore, to complete the picture, we should not underestimate the fact that violent conflicts in the Middle East and Central Asia impose huge humanitarian and economic costs. While direct effects are concentrated only in some countries such as Afghanistan, Iraq, Syria and Yemen, the indirect effects are spreading more and more throughout the region.

The International Monetary Fund estimates that Libya is a country with good financial growth prospects; in fact, if the economy for the MENA countries forecasts a GDP in 2018 and 2019 respectively of 1.4% and 2%, while Libya could reach respectively 10.9% and 10.8%.

In this situation, not exactly brilliant, the Bank has had to give up operations with traditional counterparties in important countries (Iran, Syria, Iraq, Qatar, Sudan, Yemen) and strong limitation with Turkey because of the economic crisis it is going through.
The Bank has revised its commercial and financial strategy, adapting it to sudden changes in the economic conditions of the markets and, at the same time, trying to seize the opportunities for credit demand and international customer services as well as their financial needs.

To this end, the promotional and marketing actions aimed at the countries of interest continued, with a view to stabilising the already acquired market shares by resisting international competition, and adding new markets undergoing growth.

During the course of 2018, UBAE continued its activity oriented towards correspondent banks

to increase commercial operations with the aim of confirming the number and value of letters of credit and international guarantees not connected to oil activities.
Although recovering in 2018, international guarantees have not yet reached the performance of previous years as they are influenced not only by banking offers that are increasingly aggressive but also by geopolitical crises that continue to persist in the geographic area.

In this situation, the Bank has been able to take steps to expand the range of services and support its customers with traditional Italian exports in countries such as Libya, Bangladesh, Lebanon, Egypt and Algeria with assistance aimed at analysing and evaluating new business opportunities and, at the same time, supporting them with commercial and financial interventions, overcoming the difficulties created in the early months of 2018, by the application and interpretation of the new rules dictated by the aforementioned legislation on "shadow banking".

The Management's positive strategy has been to sign collaboration agreements with local Italian regional banks for UBAE to support the international business of the customers of these banks. UBAE has benefited from this initiative, achieving satisfactory results with a positive effect on the balance sheet.

Revenues from commercial activities amounted to Euro 30.87 million (previously Euro 33.99 million), of which 48.09 deriving from commissions on letters of credit and guarantees, 49.95 from financing and commercial discount transactions, 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 82.74% from abroad and 17.26% from Italy.

The new operations relating to the factoring business with the operating desk at the Milan branch also produced excellent results, exceeding the 2017 figure.

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

At the close of 2018, there were 589 counterparties of which 370 banks and 219 customers operating on foreign markets.

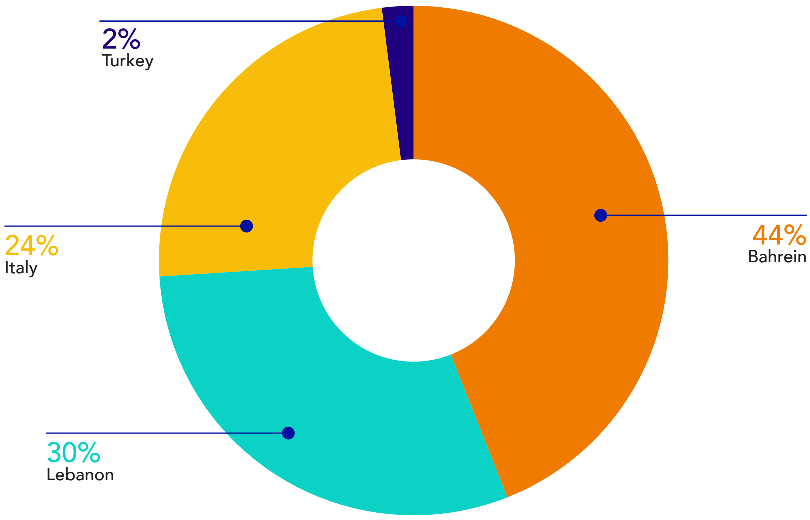
In 2018, promotional actions continued for the development of work abroad, i.e. seminars, forums and round-tables as well as missions aimed at implementing existing activities and identifying new business opportunities with a view to diversifying income sources both in the banking segment and in the business of the companies involved in international trade.

Efforts have been made by the Bank to take actions aimed at expanding into new markets such as Pakistan, Senegal, the Ivory Coast and Angola, which have begun to bring the first revenue results which, of course, will be consolidated in the coming years.

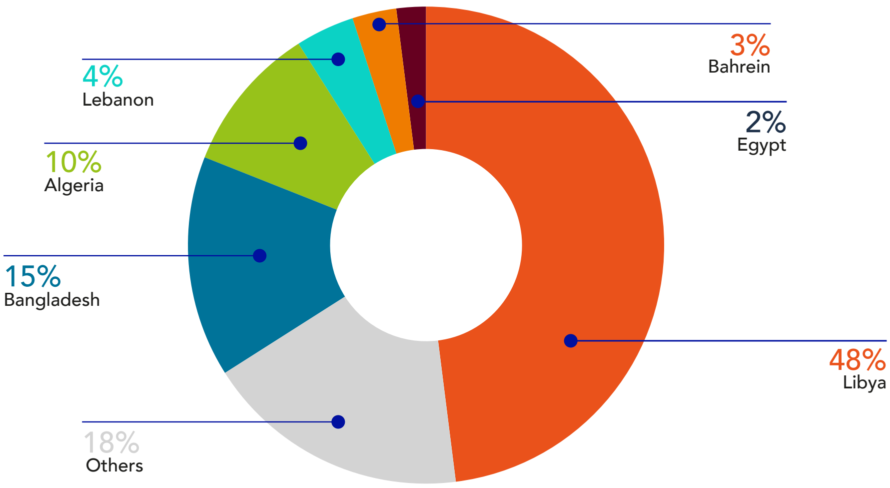
Each of the significant aspects of the operational movements marking the 2018 financial year will be described individually and commented on below, with reference to the completed analysis in the Explanatory Note for individual details.

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

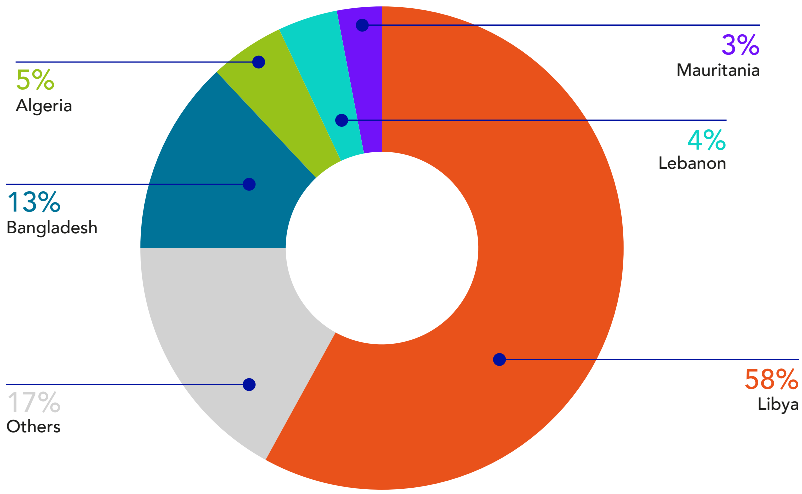
OIL L/Cs - Turnover 2018



NON OIL L/Cs - Turnover 2018



L/Cs - Commissions 2018



Analysis of annual data shows the following trend:

EUR/000

	2018		2017		2016	
	VALUE/ NO.	+/- %	VALUE/ NO.	+/- %	VALUE/ NO.	+/- %
LETTERS OF CREDIT: NUMBER	2,769	(2.19)	2,831	111.90	1,336	(56.38)
NON OIL LETTERS OF CREDIT: TURNOVER	1,630,840	(8.26)	1,777,680	33.57	1,330,900	52.87
OIL LETTERS OF CREDIT: TURNOVER	360,090	138.56	150,940	n.a.	5,110	(99.17)
% OF TOTAL EXPORTS		1.76		1.77		1.35
% OF TOTAL IMPORTS		0.13		0.05		
COMMISSIONS ACCRUED	11,259	(0.17)	11,278	44.18	7,822	8.55

The values recorded in 2018 testify to the consequences of the actions implemented by our Bank in terms of developing Commercial Trade Business.

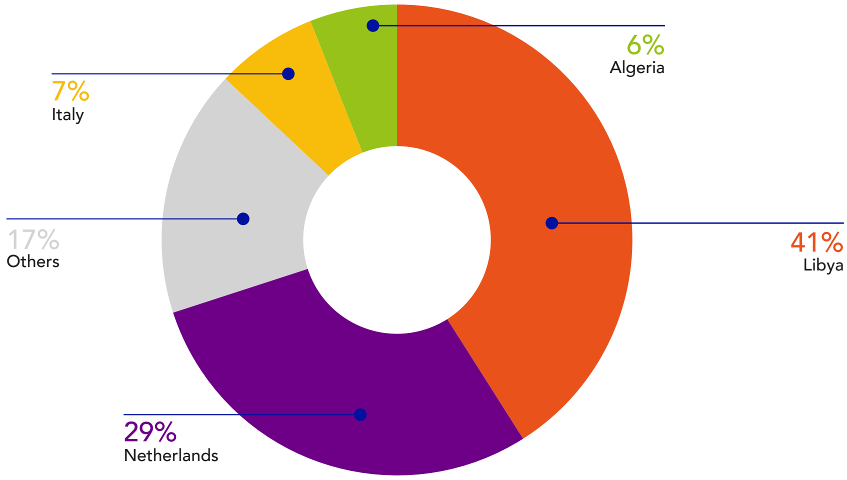
Analysis of the guarantees sector shows the following trend:

EUR/000

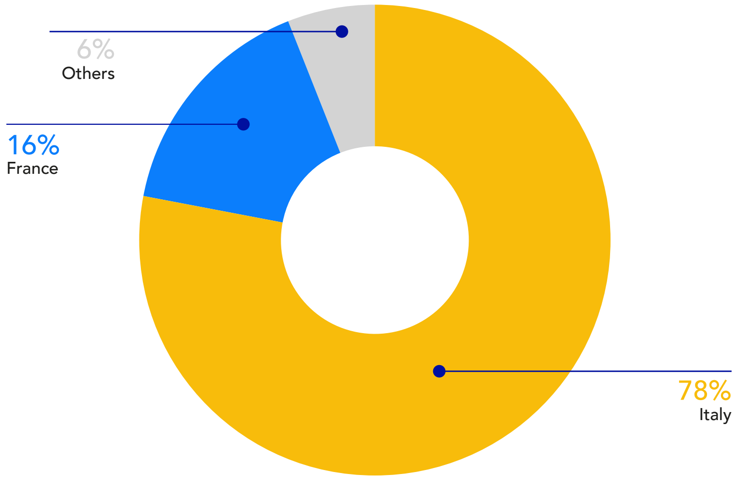
	2018		2017		2016	
	VALUE	+/- %	VALUE	+/- %	VALUE	+/- %
GUARANTEES ISSUED IN YEAR	125,258	2.15	122,617	(2.00)	125,118	24,15
GUARANTEES: OUTSTANDING AT EOY	408,131	(8.74)	447,205	(1.59)	454,428	18.30
COMMISSIONS RECEIVED	3,675	(7.08)	3,955	11,53	3,546	(9.01)

The international guarantees – issued mainly on behalf of Italian companies with a high credit rating for exports and/or significant orders in foreign markets of interest – showed a turnover substantially in line with the figures for the previous year. The stabilisation of volumes throughout 2018 produced good economic returns; in fact, the proceeds, although slightly down (-7.08%) compared to the previous period, stood at satisfactory values.

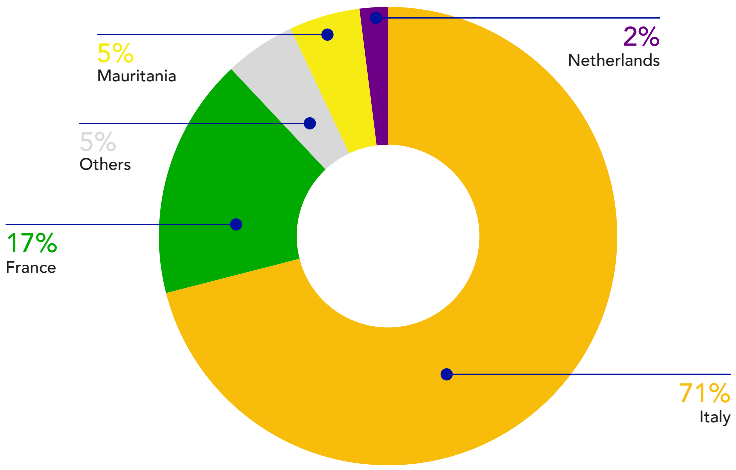
L/Gs - Beneficiary 2018



L/Gs - Applicant 2018



L/Gs - Commissions 2018



Activities on financial markets

Banca UBAE also took steps in the 2018 financial year to seek out more remunerative forms of commitment compared to the financial resources collected from institutional counterparties and from customers.

The average volumes managed during the year recorded decreasing values compared to those of the previous period.

This reduction is also due to the need to comply with the rules of prudential management, because the spread risks deriving from the volatility of the markets could generate losses that would be difficult to sustain in terms of regulatory capital ratios.
In the investment field, the preference for eligible securities was always maintained so as to have substantial reserves that can be used as a guarantee for any refinancing operations required by the European Central Bank.

This trend confirms the main shareholder’s trust (Libyan Foreign Bank-LFB) in UBAE's ability to identify risks and returns geared to careful administration of the available funds and their remunerative management.

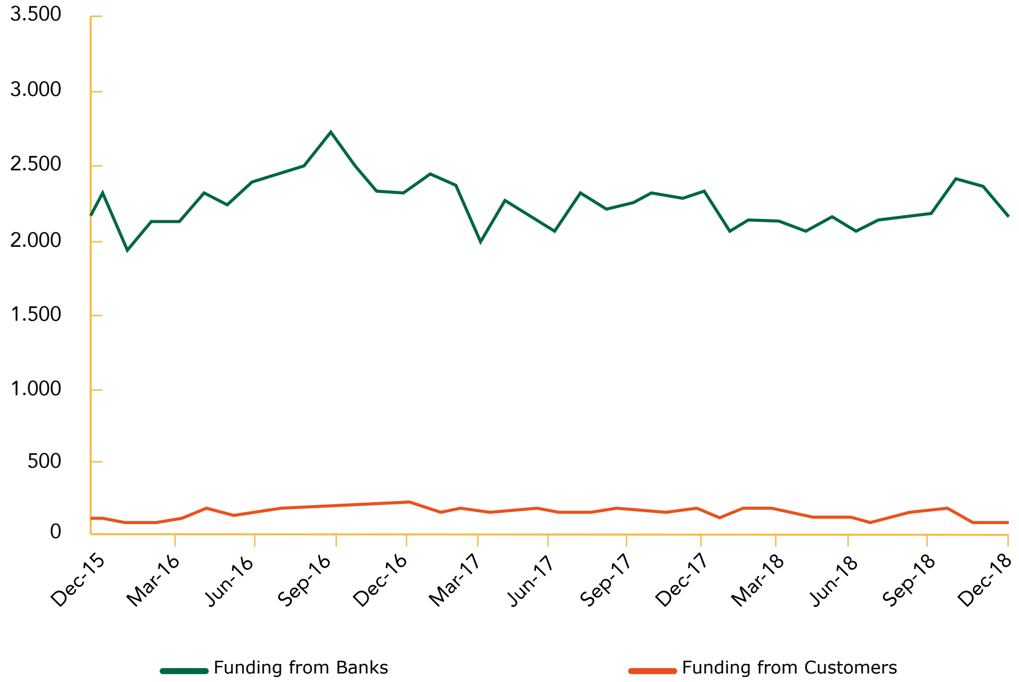
During 2018 Banca UBAE continued to pursue its business objectives by allocating the funds collected to support initiatives mainly directly or indirectly linked to commercial transactions.

In this role, Banca UBAE was facilitated by the Libyan Foreign Bank which renewed two security agreements for a total of USD 315 million and EUR 100 million, of one year duration; they aim at strengthening the timing of the Bank’s fund raising, to enable it to carry out financial transactions with the companies of the LFB group in full compliance with the current Banca d’Italia regulations on large exposures and related parties.

The average amount of total deposits in the period (banks and customers) and the percentage change compared to the previous quarter 2018 are summarised in the table below:

FUNDING 2018							EUR/000
FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER	
VALUE	+/- %	VALUE	+/- %	VALUE	+/- %	VALUE	+/- %
2,277,992	(7.86)	2,196,700	(3.57)	2,321,992	5.70	2,409,553	3.77

The graph below shows the performance of the main funding items in 2018, compared with previous years:



Managing financial activities

The Bank’s securities portfolio, whose largest investment is in Italian government bonds, is functional and supports the Bank's liquidity commitments. The increase in the securities portfolio enables the Bank to manage Treasury commitments increasingly characterised by the concentration of operations in very specific periods.

In fact, during the year the Bank considered reviewing the lending guidelines in this sector, since it was important to encourage more stable uses aimed at optimising medium-term activities to ensure suitable returns and at the same time guarantee an asset quality suitable for supporting the Liquidity Coverage Ratio (LCR).

Some expired securities have not been renewed pending the evaluation of the political events in progress on the spread and therefore on the BTP.

In 2018, the *fair value* of the securities portfolio was marked by considerable volatility which began in May 2018. During the second half of 2018, the level of government bond yields and the spread between Italian and German government bonds remained high. The market was affected in particular by the pressure on Italian bonds, linked to the decisions regarding the deficit target for the next three years set against commitments to the EU community.

In this situation, the Bank continued to work to ensure acceptable returns and risks aligned with those generated by other types of investments.

In 2018 the Bank continued to redefine its size limits in the securities portfolio, adapting them to its activities and business needs.

The composition of the portfolio at the end of the year reflected investments made mainly in bonds issued by supervised intermediaries, Italian government bonds and securities issued by central or non-EU governments or institutions, with an average residual life of 2.57 years (average duration 2 years) for the trading portfolio, and 4.85 years (average duration 0.93 years) for the investment portfolio (both HTC and HTCS). The use of synthetic products, aimed at reducing interest rate risk, brought the average duration to 0.4 years for the investment portfolio. In essence, the Bank has maintained a securities portfolio with a very limited risk profile, both for credit and interest rates.

The Bank's policy, given its low risk approach, was to limit lending in the stock market, with the aim of reducing the risks that could arise from this sector, preferring investments in the bond segment, and in issues at variable and fixed rates by linking the latter to synthetic products suitable for limiting risks arising from the volatility of interest rates.

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

- variable rate issues with higher profitability than the interbank market, to be kept in the portfolio until maturity or available for sale, and issued mainly by the Italian government in order to ensure compliance with the regulatory threshold set for the *Liquidity Coverage Ratio*;

- fixed-rate issues, mostly due in the short term (also involving hedging instruments) issued by the Italian government in order to ensure compliance with the regulatory threshold set for the *Liquidity Coverage Ratio*;

- fixed rate securities underwritten by bank issuers, mainly foreign *(i.e. private placement)*.

Note also that, following the Board’s approval of the new Business Model on 10 December 2018, UBAE intends to focus its investment activities in 2019 on the securities portfolio at amortised cost (“HTC” or *Held to Collect*), therefore making residual the portfolios HTCS (*Held To Collect and Sell*, formerly AFS) and the trading portfolio Trading/FVTPL (*Fair Value True Profit or Loss*, formerly HFT).

Starting from 1 January 2019, this new strategic approach, adopted in compliance with the IFRS9 accounting standard, determines the reclassification of government securities from the HTCS portfolio to the HTC portfolio as if they had always been valued at amortised cost.

Lastly, given the continuing uncertainty of the financial markets (and in line with the indications of customers), UBAE has decided to postpone the use of new technical forms and management tools for the property portfolio, such as harmonised products and collective savings investment (OICR).

Interbank activities

Activities in this sector continued to be strongly influenced by the monetary policies that the ECB adopted in 2018.

Throughout 2018, the ECB maintained rates at the same levels as in the previous year; the Central Bank has stated that these levels will persist for a good part of the year 2019, while at the same time reaffirming the need to preserve a degree of monetary accommodation for a long time until inflation reaches the expected levels.
These monetary policies are aimed at expanding the money supply in the expectation of encouraging an increase in credit to businesses and families at acceptable economic conditions with the aim of bolstering the economy.

The main rate remained at a record low of 0.00%, with bank deposits at -0.40% and marginal refinancing at 0.25%.

In this situation, the Bank reviewed its financial strategy, trying to achieve the maximum return possible from the rare opportunities offered by the money market.
Analysing the result must take into account that the employment strategies in this sector have been conditioned not only by the low levels of market rates, but also by the need to comply with the daily liquidity index (LCR) set by the regulators; more and more, this index – given the particular time distribution of the deposits received and the need for an adequate balance between entry and exit – has considerably influenced financial decisions for the use of funds.
Short-term loans on the money market and loans to foreign banks in the short and medium term have decreased compared to the previous year also as a result of the various actions set in motion by the Bank to try to obtain 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 billion in value for an amount substantially in line with the previous year (Euro 2.4 billion in value).

Main results achieved during the year

In the light of what has been described so far and of the considerable provisions for commercial operations towards the construction sector in Italy, the negative result of the year in question, which is approximately **Euro -51.4** million, was not unexpected, a sharp decrease compared to the previous accounting period (**Euro +9.4** million approximately). This result was affected, as mentioned, by an unexpected and exceptional event concerning adjustments to loans that the Bank prudently considered to make to Italian corporate entities in the construction sector, following the crisis it has experienced which is still affecting this sector in Italy.

To summarise, the result is mainly due to the following aspects:

- the interest margin was Euro 13.6 million (-27.16% compared with 31 December 2017). This reduction was mainly due to the fact that the Bank operated in the presence of an expansive monetary policy undertaken by the European Central Bank, with a direct impact on short-term interest rates, especially in the interbank sector, maintaining the spread at extremely low values, if not actually negative.
  For UBAE, the banking sector represents a very active market involving average volumes of significant amounts every year.
  This sector was also influenced by the Bank's strategy of reviewing investments in securities, while waiting for the new business plan to outline its main guidelines. This sub-fund, as we know, and in particular that of Italian government bonds – an area of valuable operations by the Bank in the past – was influenced in the course of 2018 by political uncertainties, by the stall on the new government coalition and particularly by the approval of the Economic and Financial Document (DEF) which led to a significant widening of the BTP-BUND spread.

- Brokerage income amounted to Euro 18.4 million (previously Euro 34.5 million); on the one hand, income from commissions on letters of credit and international guarantees achieved a good result, confirming as a rule what was done in the previous year, but the review of the Bank's strategy in the finance sector affected its performance.

- Value adjustments and provisions for risks reflected the prudential assessment carried out by the corporate management which deemed the amount of funds allocated to cover credit risks to be sufficient, in line with the approach in previous years and in accordance with the new policy adopted by the Bank.
  Net value adjustments amount to approximately Euro 51 million. This change is mainly due to the combined effect of greater analytical provisions of Euro 46 million (before tax) on positions classified among impaired loans attributable to some traditional Italian corporate entities operating in the construction sector and with individually significant exposures, as well as to higher provisions due to the effects of applying the IFRS9 international standard which resulted in higher provisions of approximately Euro 5 million (before tax).

- In relation to the 2018 loss, the Bank has prudently postponed recognition of “prepaid tax assets” from tax losses, possibly amounting to about Euro 14 million. Taking into account the recent approval of the business plan for the three-year period 2019-2021 which provides for a capital increase and a return to profit in the 2019 financial year, a new assessment will be made of the elements for recognising these “prepaid tax assets” when the proposed capital increase is formally approved by the Shareholders’ Meeting.

Lastly, it should be pointed out that the result also incorporates the Banca d'Italia decision, which took place in April 2018, requesting Italy's entire credit sector to make ordinary and extraordinary contributions to be paid respectively to the Single Resolution Fund (FRU) and the National Resolution Fund (FNR). For Banca UBAE the total amount allocated to administrative expenses was approximately Euro 2.2 million.

In any case, the Bank's action is to continue its development along prudent paths with particular attention to market opportunities, as well as paying close attention to risks and operating costs.

ORGANIZATION AND PERSONNEL

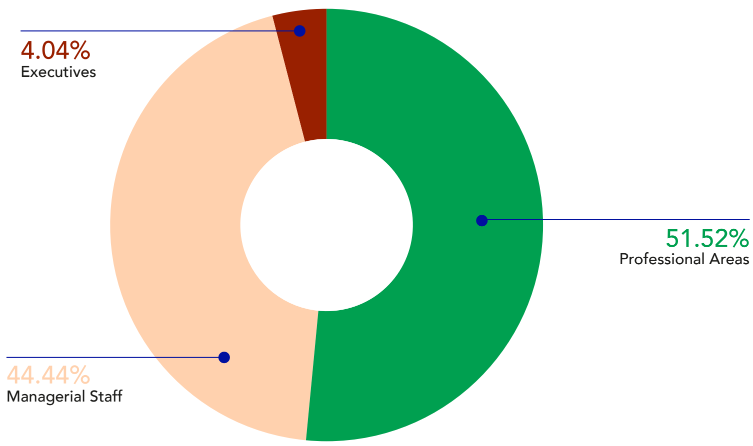
1. PERSONNEL

During 2018, 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, to create added value for the Bank and its shareholders.

During the year, the Bank's attention was focused on strengthening the main organisational and business safeguards (with particular attention to the internal control system) and on the generational changeover.

In this sense and with the authorization of the Board of Directors, such activities led to the hiring of nine people (two managers and seven professionals) and the exit of seven people, so the workforce now numbers 198 at the end of 2018 including 18 people with fixed-term contracts.

- 4.04% executives
- 44.44% managerial staff
- 51.52% professionals



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 HR management also carried out the following activities:

1. maintaining and updating the *performance management* system, aimed at greater understanding and evaluation of professional services; the focus was therefore to direct management actions on the objectives and conduct that directly govern UBAE's business (identifying the critical factors of the Bank's success and translating them into organisational methods and objectives to be achieved);

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

3. consolidating a reward 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, training activities on specialised topics have been introduced, in addition to mandatory sessions (regarding the need to update regulations on the management of personal data, safety in the workplace, privacy, anti-money laundering, and the responsibilities of corporate administrations, MIFID PSD2) as well as specialised subjects (IFRS9, budget analysis, impairment reporting, large exposures).

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.

As far as occupational safety was concerned, medical examinations were carried out for new employees and for those already employed.

The obligatory inspections were carried out by the official doctor and by the Head of the prevention and protection service (RSPP) in all work areas.

Several collaborators took part in training courses for first aid or refresher sessions as required by current legislation.

2. ORGANISATION

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

During 2018, the Bank closely followed the changes to the IT system used by the outsourcer CEDACRI, at the same time monitoring the quality of the solutions provided.

From an analysis carried out, the performance indicators showed *Service Level Agreements* (SLA) in line with the contractual terms. There have been no incidents with a critical impact on the IT system or accidents that have affected its safety and security.

In 2018, the start-up activities of IT solutions relating to IFRS9, Finance and Credit were completed.

Security and control issues have been the subject of major investments together with infrastructure upgrades. The IT risk procedure was improved by including privacy risks, and a first set of IT controls was released based on international standards. The Bank has activated a *Security Operational Centre* providing analysis of events that have an effect on the Bank's IT infrastructures, also using sophisticated analysis tools.
The Home and *Corporate Banking* departments are also monitored using a *Cyber Security* program.

Furthermore, the Bank has taken out a first-risk policy that insures the *hardware* infrastructure and provides coverage against cyber incidents and *Data-Breach risks*.

In 2018 the Bank successfully completed adaptation to the new privacy legislation (Regulation no. 679/2016); this important issue also entailed an *assessment* to check the degree of compliance with the law, and the verification gave a positive result.

The payment channels project involved the Bank in functional tests on the *outsourcer's* new programs concerning PSD2 (September 2019); the new tokens were tested for *Strong Customer Authentication* (SCA) and the functional aspects of third-party connections were checked.

With regard to *Disaster Recovery* and *Business Continuity*, the various tests indicated in the annual business continuity plan were conducted without experiencing any critical issues; in particular for the Finance Area, the new connection operating through personal computers was successfully tested.

Several projects involved the time and resources of the Development Unit which has closely followed the various worksites; among the most important and delicate were the numerous and demanding activities for the introduction of regulations such as IFRS9, Anacredit and SBE, as well as completion of MIFID II *(Markets in Financial Instruments Directive)*.

Investments continued in 2018 on the factoring platform (denominated Arcares) to ensure complete integration with the Cedacri IT system.

In the field of *Data Governance* and data quality, the outsourcer renewed the specific application in 2018 by inserting new controls in the areas of oversight, registration, loans and current accounts, in order to enable users to intervene promptly in the event of critical issues or anomalies.

Also in 2018, the archives of the former outsourcer (SEC Servizi) were completed and transferred to our departmental IT system.

Confirming and consolidating the architectural model of the internal Data *Warehouse*, some applications in 2018 began to support compliance such as the *workflow* of unexpected events and self-assessment of money-laundering risks.

In the *governance* field, the new *policies* on IT incidents were approved, and the IT governance model was released with a first set of risk and performance indicators.

Regarding the Regulatory Department, activities focused on designing and formalising the Bank's processes, in particular on Transparency and MIFID II. Important steps were taken in developing the automatic production process for protocols (legislative decree no. 231) which involved *machine learning* and artificial intelligence technology. The project will be completed by June 2019.

3. EXTERNAL AND INSTITUTIONAL RELATIONS

The main activities of the External & Institutional Relations Department are:

- developing and consolidating institutional relations with counterparties in Italy and abroad, such as embassies, ministries and multinational entities;
- planning strategic projects for marketing, communications and business development.

The Department focuses on innovation and the quality of products and services provided for customers, correspondent banks and business entities, by protecting the corporate reputation and communicating the proper image.
The business drivers guiding activities throughout the year concern four main areas:

A. Developing External and Institutional Relations

The projects linked to this sector of activities occupy a significant role within the Department with the aim of developing synergies with banks and institutions by setting up partnerships in order to provide tangible support for Italian businesses with interests in markets where UBAE operates.

During 2018, collaboration agreements were set up with important banks including: "Cassa di Risparmio di Bolzano" and "Cassa Centrale Banca"; the latter is the leader of more than 100 Italian BCC banks which operate internationally, intermediated by UBAE with an agreement signed by both parties.

B. Corporate identity and external communications

An integral part of the Department's activities involves dealing with *corporate identity*, coordinated image and external communications. Proper communications make it possible to consolidate and expand brand awareness towards markets, customers and competitors.

To this end, the most significant business activities concern:

- relations with press and media agencies;
- preparing press releases and articles;
- creating and producing brochures and sales materials;
- dealing with contents and graphic design of the corporate website;
- daily institutional communication on Siena news online;
- revising and updating corporate forms and texts according to input from the offices involved;
- coordinating the graphic layout, printing and proof-reading of the financial statements;
- handling membership fees and relations with the associations we are members of;
- updating publications (Bankers' Almanac, ABI Yearbook, etc) using input from several
- offices;
- examining advertising and sponsorship proposals to ensure they are in line with corporate values, communication strategies and commercial objectives.

C. Business Development

Activities carried out in collaboration with the Commercial Area and Finance Area, aimed at increasing the strategic opportunities of our Bank and consolidating relations with our main customers in Italy and abroad.
The 2018 initiatives focused mainly on organising round tables and training seminars for Italian and foreign customers and correspondent banks; such initiatives included:

- *Islamic Finance*, Livorno, 10 May 2018

The event was attended by many Italian entrepreneurs, and was sponsored by the Municipality of Livorno, the Tuscany Region, the University of Pisa, the Livorno Foundation and the Port System Authority of the Northern Tyrrhenian Sea.

Banca UBAE took part in the speakers' table where our General Manager presented UBAE's wide range of banking products and services as well as the foreign network, to more than 150 corporate delegates.

- *UBAE meets a partner bank: Banca di Piacenza*, Piacenza, 31 October 2018

Seminar on trends in foreign trade, EU and non-EU, with particular reference to the Emilia Romagna region.
The event was attended by representatives from many companies; Banca UBAE illustrated its products and services, as well as the collaboration opportunities offered by the Bank through its Rome office, the Milan branch and the Tripoli representation office.

Also highlighted was the strategic importance of the commercial collaboration agreement signed with the Banca di Piacenza, in order to provide companies with tangible market support for their business dealings in Italy and abroad, thanks to UBAE's highly qualified staff including several area consultants residing abroad, and a network of correspondent banks that have long recognised the added value of the UBAE brand.

- *On-the-job training*

Theoretical and practical training courses backed by UBAE's expert staff together with lecturers drawn from other banks and corporate clients.

D. Strategic analysis

Preparation of reports and analyses aimed at providing a clear and concise picture for General Management and Commercial Department on issues of interest for supporting strategic decisions, such as: preliminary analysis on potential business with new products and with new countries (Country Report), presentations during conventions, round tables, workshops, etc.

4. RISK MANAGEMENT

The Bank continues to apply the procedures and methods for calculating total internal capital, as described in the ICAAP reports *(Internal Capital Adequacy Assessment Process)*. It also operates in compliance with national and international regulations, maintaining careful monitoring of the Bank's exposure to risks, boosting in particular the liquidity risk management process also in light of the ILAAP *(Internal Liquidity Adequacy Assessment Process)* introduced by the regulations, and continuing to integrate analyses in terms of capital adequacy with the measurement of country risk, geo-sectorial concentration risk and strategic risk and with the assessment of concentration risk, transfer risk and the risk of excessive financial leverage.

From an organisational point of view, the ICAAP/ILAAP report, in addition to defining the roles and responsibilities of the various internal structures involved in the process, outlines the management phases for each type of risk (measurable and non-measurable) and, for quantifiable risks, it governs the methods for calculating the internal capital, stress testing methodologies and prospective analysis techniques. With reference to the ILAAP process, stress scenarios are also defined, quantifying the impact of a liquidity crisis in terms of capital ratio, thus achieving integration between ICAAP, ILAAP and RAF.

It is important to emphasise that, for the purposes of the prudential regulations issued by Banca d'Italia, and in particular of the risk measurement methodologies envisaged by Pillar II, Banca UBAE is rated as a class 3 intermediary, enabling the use of simplified methods for measurable risks together with mitigating policies and procedures for non-measurable risks.
For the purposes of capital adequacy analysis, three additional prudential requirements for country risk, geo-sectorial concentration risk and strategic risk are also considered. These requirements are not prescribed by law, but have been included in internal *capital adequacy* assessments, with the aim of considering all the risks relevant to the Bank's activities. In particular, the country risk, estimated according to an internal calculation methodology, is considered to take into account the Bank's exposure generated by the particular operations carried out in certain countries. It should be noted that the regulatory framework for the internal control system also includes the country risk (and transfer risk) among the risks to be analysed in the ICAAP context.

The definition of a risk management process, consistent with the strategic choices adopted, is a prerequisite for the risk policies adopted by the corporate bodies involved.

The prudential control process aims to ensure continuous compliance with capital requirements (with reference to the risks considered in Pillar I and to the quantifiable risks considered in Pillar II, as well as to risks deemed relevant by the Bank) and to provide the Board of Directors and General Management with the information required to set up the Bank's capital strengthening policies in an efficient and effective manner.

This process has helped to achieve the following specific objectives:

- sensitise management bodies on matters relating to risks and asset planning;

- make personnel aware of the exposure to the various types of risk deriving from the Bank's business performance;

- introduce additional types of risk in the measurement field (such as concentration, interest rate on the *banking book*, as well as country risks, geo-sectorial and strategic concentration);

- strengthen the organisational safeguards and management tools for other risks (liquidity risk, risk of excessive financial leverage and reputational risk);

- emphasise the need to adopt increasingly efficient and adequate risk measurement and monitoring tools;

- broaden the time frame of internal analyses (prospective analysis) and the reference scenario *(stress testing)*;

- improve the strategic planning process by introducing equity policies that are closely linked to the Bank's risk profile and therefore to the results emerging from the ICAAP and the ILAAP report, as well as the levels of risk appetite established by the strategic supervision body *(Risk Appetite Framework* - RAF*).*

Concerning the change in the regulatory environment, during the period in question the Bank launched study activities, impact analyses and internal development projects, also with external specialist support at times.

In particular, the following issues were addressed:

- 15th update of Banca d'Italia Circular no. 263/2006 issued on 2 July 2013 (converted today into Banca d'Italia Circular no. 285/2013). During 2018, UBAE worked to implement the internal *policy* management concerning the interest-rate risk on the banking book. The policy regarding the management process for concentration risk, large exposures and *Shadow Banking Entities* (hereinafter SBE) and the credit risk policy have been defined in light of the *guidelines* concerning the management of non-performing loans (NPL). With regard to the Risk Appetite Framework, the annual review was postponed to the first quarter of 2019, while waiting for the definition of the new 2019-2021 strategic plan and a new level of capital.

- In the area of IT risk, the following documents have been prepared: the strategy for the IT security governance system, outsourcing policy, methodological analysis of IT risks, data security policy, security policy for dealing with third parties. For 2018, projects were planned for the selection and implementation of a *data quality* solution and the definition of processes and the possible use of tools for the programming of IT resources and the economic evaluation of ICT projects.

- **IFRS9** – in 2018, activities were conducted relating to First Time Adoption (FTA), the quarterly tasks continued regarding the determination of impairment based on forward-looking data for PD and LGD and, in December, the working model in light of the business plan and strategic orientation of operations in the finance sector.

- **Recovery plan** – in 2018, the Recovery Plan was reviewed and supplemented on the basis of indications provided by the oversight bodies, in particular by providing for internal warning thresholds for the profitability and asset quality indicators and by recalibrating the recovery triggers for the liquidity indicator. The updated version of the plan was approved by the 242nd Board of Directors on 20 April 2018 and was sent to the Regulatory Authority on 11 June 2018. During the second half of the year, monitoring of recovery indicators was launched and specific quarterly reporting was introduced for management bodies.

- **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 2013/36 (issued by the European Parliament and Council on 26 June 2013 (Capital Requirements Directive – CRD IV) have modified the regulatory framework concerning the prudential supervision of credit institutions and investment firms.
  Banca d'Italia has therefore adopted the new regulatory framework through the publication of Circular no. 285 of 17 December 2013 (hereinafter "Circular") which incorporates the CRD

IV and implements the CRR; Banca UBAE has complied.
As part of the regulatory framework, EBA has published guidelines for the methodology that institutions should use in their internal processes and policies in order to address and manage concentration risk arising from exposures to entities of 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 has therefore declared its intention to comply with the EBA guidelines and has subsequently updated the Circular with the communication of 12 December 2017 (update number 20).

In light of the aforementioned guidelines, the new limits on large exposures will be applied to all exposures to banks that are resident in countries deemed to be "non-equivalent" from a regulatory point of view. "Non-equivalent" countries, according to the EBA definition, would include several 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, management and mitigation of concentration risk, the Bank can define autonomously the limits to be applied to the shadow banking system.
Following specific analyses carried out, it is clear that the regulatory provisions will not have any operational impact on UBAE's activity, since the Bank complies with the new oversight instructions.

ILAAP – Internal Liquidity Adequacy Assessment Process - as regards the new regulatory obligations related to the ILAAP, the Bank has defined the liquidity risk management process, reviewing the internal reference legislation, and making the new alarm and recovery option thresholds defined in the scope of the Recovery Plan. Within the ICAAP/ILAAP report, specific information is provided on the governance and management of liquidity risk, providing a description of the main components of the ILAAP process, the analysis of the composition of liquidity reserves, the description of the contingency funding plan, as well as the conduct of a specific stress scenario based on the assumptions made for the particular event as part of the recovery plan with a simultaneous assessment of the economic and equity impact associated with the recovery options that can be activated, and the effects in terms of capital ratio.

By April 2019, the ICAAP/ILAAP report (relating to the assessment of capital adequacy and the liquidity risk management process as of 31 December 2018) will have to be approved by the BoD and sent to Banca d’Italia. With regard to disclosure to the public, UBAE will issue the qualitative and quantitative information tables as prescribed by Pillar III of the prudential regulations on the corporate website, in the *"Financials"* area, within the deadlines set for the publication of the financial statements.

• Managing Credit Risk and Counterparty Risk

Credit risk represents the risk of suffering losses in the value of assets due to the deterioration of the counterparty’s creditworthiness.

Counterparty risk, on the other hand, represents the risk that a trading counterparty does not fulfil its obligations upon expiry of the contract; once the contractual deadline has expired, counterparty risk becomes a settlement risk in the event of non-performance.

The criteria for sound and prudent management of credit risks have an impact in the phases of granting, monitoring and reviewing credit lines.
In particular, with regard to credit risk, the following elements apply:

- systematic issue of entry *scores* not only for banking counterparties but also for corporate customers;
- periodic monitoring of loans with evidence of internal anomalies (over-runs) and external ones (risk centre);
- periodic *stress testing*.

The exposure to credit and counterparty risk is constantly monitored both in terms of compliance with the operating limits of credit lines (performance control) – by a specific Credit & Control Department – and of deterioration in the quality of the portfolio in terms of capital absorption (credit risk control) – by the Risk Management Department.

The measurement of internal capital against credit risk is carried out by applying the standardised method as required by the current prudential regulations.

In addition, for ICAAP purposes, the Risk Management Department performs *stress analysis* of the scenario simulating the impact on the capital requirement generated by certain information shocks such as the *default* of sovereign states, certain economic sectors, or the deterioration of the domestic or international economic situation.

Activities are also underway to finalise the process of monitoring and reporting credit risk, with particular regard to non-performing positions.

As far as counterparty risk is concerned, the Risk Management Department, in collaboration with the Finance Department, monitors daily the revalued exposures at "mark-to-market" in order to verify compliance with the credit lines granted to individual counterparties.

The measurement of internal capital against counterparty risk is carried out by applying the current value method as required by the legislation. In compliance with the current regulatory framework (Basel 3), the capital requirement for the adjustment risk of the counterparty's creditworthiness assessment, called *Credit Valuation Adjustment* (CVA), has also been calculated.

• Managing market risks

The following risks are included in the category of **market risks**:

exchange rate risk – exchange rate risk represents suffering losses due to adverse changes in foreign exchange prices on all positions held by the bank regardless of the allocation portfolio;

position risk – risk deriving from the fluctuation of the price of transferable securities due to factors relating to market trends (generic position risk) and to the situation of the issuing company (specific position risk). In particular, we highlight the interest rate risk (on the trading book) concerning the risk of suffering losses in value of assets or increases in the value of liabilities due to adverse movements in market interest rates;

settlement risk – transactions in debt securities, equities, derivatives, currencies and commodities, regardless of the portfolio they belong to, not yet settled after their expiry date, expose the Bank to the risk of loss resulting from the failure to settle transaction.

The operations of the Finance Department and compliance with the operational limits established by internal regulations are constantly monitored by the first and second level control functions through access and use of the *ObjFin front-office platform.*
The reporting, produced on a daily basis, is differentiated by desk of competence and has as its object the composition of the positions, the overall performance and the specific performance of the various risk and sensitivity indicators (VaR, Stop Loss).
Compliance with the internal operating limits is monitored on a daily basis and any anomalies are promptly reported to the structures involved to allow corrective actions to be taken and/or the authorisation procedure governed by internal regulations.
Lastly, the Risk Management Department prepares a monthly report for the Risk Committee and for the governing bodies, concerning the monitoring activities carried out, the exceptions found and the performance analyses carried out.
The measurement of internal capital against market risks is carried out by applying the standard methods established by the current prudential regulations.
The Bank has not requested the recognition of internal models for the calculation of the capital requirement for market risks.

• Managing operational risks

Operational risks represent the risk of losses deriving from inadequacy, or from the failure of procedures, human resources, internal systems or from external events (this definition includes legal risks but not strategic and reputational risks).

Despite having opted for the basic calculation method *(Basic Indicator Approach)* in determining the capital requirement required by prudential regulations, in 2017 the Bank launched the implementation of an operational risk management system capable of assessing and monitoring over time the exposure to operational risks and the extent of the losses that may arise from them. To this end, the Bank has continued its planning activities aimed at implementing a "transversal" tool which, by containing a common mapping (of processes and standards) can be used in an integrated manner for risk assessment and loss data collection. At the end of the project activities, the internal policy regarding the operational risk management process will be defined.

• Managing other risks

- Liquidity Risk

The **liquidity risk** represents the risk of being unable to deal with requests for repayment of liabilities, unexpected in terms of volume and/or timing, due to an inability to obtain funds *(funding liquidity risk)* or limits to the sale of assets *(market liquidity risk)*.

The exposure to liquidity risk is constantly monitored by the Finance desk, while the Risk Management Department is responsible for second-level monitoring of the operational limits established by internal regulations, as well as preparing the weekly report for Banca d'Italia.

The process of managing this risk is governed by the internal policy and provides for a *contingency funding plan*. The internal operating limits system currently includes several internal thresholds of attention for the *Liquidity Coverage Ratio* (LCR) in line with the Recovery Plan. Trend monitoring is provided for *early-warning* indicators, concentration funding ratios and *monitoring tools*.
The internal policy is being updated to ensure its integration with the Recovery Plan, the escalation process regulated in it and the new ILAAP process.

From the point of view of the instruments, the Bank uses the JCompass tool connected to the system of the IT provider, Cedacri, an automatic tool for the daily processing of the LCR *(Liquidity Coverage Ratio)* and also an ALM *(Asset liability management)* product provided by the application (ERMAS) and driven directly by the accounting parties, able to provide the corporate *maturity ladder.*
Finally, pending the adoption of a minimum regulatory limit, the Bank monitors and reports on a quarterly basis the Net Stable Funding Ratio (NSFR), a structural liquidity indicator, consisting of the ratio between the amount of available stable funding and the amount of mandatory fixed funding. Its objective is to ensure that long-term assets are financed with an adequate level of funding.

- Concentration Risk

Concentration risk derives from exposures involving counterparties, groups of connected counterparties and counterparties belonging to the same economic sector or that are active in the same business or belonging to the same geographical area. Basically, it is the risk of suffering losses due to the correlation between the counterparties in question.

The current prudential regulation (Pillar II) provides a specific capital requirement to take into account concentration by counterparty or by groups of connected counterparties (for the *corporate* portfolio). For the quantification of internal capital (according to the simplified methodology set out in the regulations), the Bank uses a calculation tool supplied with the data of the supervisory reports. In terms of stress testing, the Risk Management Department conducts quarterly internal simulations to assess the impacts of any strategic-operational changes.
The Bank also integrates the internal measurements, providing an additional capital requirement against the risk of geo-sectorial concentration determined according to the quantitative methodology developed by the trade association applied to the Italian corporate portfolio.

As regards the *"single name"* concentration risk with regard to bank counterparties, UBAE has a system of internal operating limits subject to quarterly monitoring and reporting, capable of containing such risk exposure.
With regard to concentration risk by economic sector and geographical area, for which the legislation does not prescribe any quantification, at present the Bank has opted for the adoption of a qualitative assessment of the credit portfolio as a whole.
In 2018 the internal policy governing concentration risk management, Large Exposures and *Shadow Banking Entities* (SBE) was defined, while the tool for the automatic monitoring of internal and external limits is being finalised.

- Interest rate risk on the banking book

The **interest rate risk on the *banking book*** represents the risk of incurring losses of asset values caused by adverse movements of interest rates on the market.

Compliance with the internal operating limit, set prudently below the regulatory threshold, is monitored by the Risk Management Department, through the integrated treasury product (JCompass).
For ICAAP purposes, to quantify internal capital (according to the calculation algorithm required by law), the Bank uses an IT application produced by ALM (ERMAS) driven directly by the accounting parties and able to provide the *maturity ladder*. Through this product, *stress tests* are also carried out, envisaging parallel and non-parallel *shifts* of the interest-rate curve. In compliance with the new regulatory obligations in this regard, the measurement of the effects produced by a shift in the interest-rate curve cannot be quantified only in terms of changes in the economic value but also in terms of changes in the interest margin.
Lastly, in addition to the regulatory limit (risk indicator) and those established under RAF (risk appetite framework) of the operating limits for cumulative gaps, the internal policy that governs the process of managing interest-rate risk on the banking book provides the related warning thresholds and any internal authorisation thresholds to be activated if the limit is exceeded.
In 2018 the Risk Management Department introduced a monthly report on monitoring the operational gap limits intended for the Risk Committee and the structures involved in the governance of this risk, as well as a specific quarterly report containing the results of the monitoring activities in terms of *capital adequacy* for the Risk Committee and the governing bodies.

- Country risk and transfer risk

Country risk represents the risk of losses caused by events occurring in a country other than Italy. The concept of country risk is broader than that of sovereign risk as it refers to all exposures regardless of the nature of counterparties, be they natural persons, companies, banks or public administrations.
Transfer risk represents the risk that a bank, exposed to a person who finances in a currency other than that in which he receives his main sources of income, incurs losses due to the difficulties of the debtor to convert his currency into the currency in which the exposure is denominated. For internal analysis purposes, this regulatory description is extended, including

the risk associated with restrictions, issued by the authorities, on the movement of capital and the repatriation of dividends and profits.

In light of the prevailing international nature of the Bank's operations, the political risk associated with some countries on which the business is focused also warranted increasing attention in 2018.
From the management point of view, a plafond is granted for each country within the competence of the Board of Directors, which regulates the credits to those countries that have a rating lower than BBB or who do not have a rating.
From the point of view of quantification of the risk exposure, the Risk Management Department has already introduced several years ago an internal estimation method aimed at determining an additional capital absorption against the country risk which integrates the internal analyses in terms of *capital adequacy*. This capital requirement, although not required by law, is calculated using an internal valuation method based on exposure data for supervisory reporting purposes, and on the probability of a banking or currency crisis differentiated by country, taking into account the capital provisions made for balance sheet purposes.

With regard to transfer risk, the Bank has decided to include this risk, from a quantitative point of view, within the more global sphere of the country risk; while from a qualitative point of view, the assessment of the material nature of this risk is envisaged by analysing the composition of the loan portfolio and determining the significance of exposures to countries belonging to the transfer risk classes provided by the trade association (ABI).

- Risk of excessive financial leverage

The **risk of excessive financial leverage** represents the risk that a particularly high level of indebtedness with respect to own resources will cause the Bank to be vulnerable, making it necessary to adopt corrective measures for the business plan, including the sale of assets with accounting for losses that could entail value adjustments on the remaining activities.

The risk of excessive financial leverage is included among the risks to be assessed under ICAAP and, although the minimum thresholds to be met have not yet been established by the oversight authority, a specific ratio has been introduced *(Leverage Ratio)*.
The internal *policy* has regulated the methods of identification, assessment, measurement and monitoring of the risk. In particular, the Bank decided to monitor the level of the leverage ratio by providing for compliance with an internal limit and defining an *early warning* threshold.

- Strategic risk

Strategic risk represents the risk of not achieving objectives in terms of expected economic results due to the volatility of the market scenarios (business risk) and of errors committed when setting and executing the strategy (pure strategic risk).

The strategic risk has always represented a high level of management complexity and required qualitative and scenario assessments in order to quantify the possible impacts deriving from changes in the operating and/or regulatory context. The Bank is institutionalising a process of formulating scenarios necessary for the construction of the annual budget and the three-year strategic plan and the measurement of the variability of the intermediation margin understood as an approximation of risk and as a measure of an additional capital requirement that integrates and completes the analyses in terms of *capital adequacy.*

- Reputational risk

Reputational risk represents the current or prospective risk of a fall in profits or capital deriving from a negative perception of the Bank's image by the various stakeholders (customers, counterparties, shareholders, investors, oversight authorities, the market in general).

Due to the complexity inherent in its treatment, this risk requires qualitative assessments and mitigation policies (especially preventive ones) regarding the occurrence of the harmful event.

Although the quantification of capital absorption is not envisaged, the Bank has defined its internal *policy* for the management of reputational risk which, in addition to defining roles and responsibilities for the various internal structures involved, outlines the model of harmful events, identifies the policies for mitigation measures necessary to contain the negative effects and/or to prevent the occurrence of the harmful event and establish the intervention strategies in case a "reputational crisis" occurs.

5. IT SYSTEMS

In 2018 the Systems Department was mainly engaged in the activities of renewing the IT infrastructure and strengthening the control and implementation systems for IT security.

Specific IT tests were carried out in 2018 to ensure the physical security of the systems, the confidentiality of information and the integrity and availability of data.

A major commitment in the field of controls (working with the Security & Privacy Department) was the analysis of IT risks which led to the release of a first set of IT controls.

In 2018, the programs for l*og management* and *identity management* were activated.

The new internal procedure for managing IT access credentials was particularly important. A structured *workflow* enables users to manage the process for activating, modifying and revoking credentials, while highlighting the operating profiles of users.

Finally, special mention in the field of security should be made of compliance with the requirements of the SWIFT Customer Security Framework; in this context, the Bank successfully closed all the activities required by the SWIFT security program.

Lastly, the change in the company providing the connectivity services created at the end of 2018 was significant; particular attention in the selection process was placed on the modernisation of the equipment and security applications for *IT & Communications Technology*.

This solution will become operational in the first quarter of 2019.

6. MANAGEMENT REPORTING

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

From the standpoint of management control, thanks to ongoing IT projects, the Bank sought to increase the *time to market* of management data in order to support not only communication with the governing bodies and the Bank'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 make improvements regarding the Rome and Milan offices for optimal use of the corporate premises in addition to normal maintenance activities. Significant works were carried out for regulatory purposes and technical efficiency.

In particular, the activities of the Technical Department focused mainly on modernising the technical equipment in addition to ordinary maintenance of the buildings in Rome, Morena (archive) and Milan (branch).

Work was completed in 2018 on a new electricity generator capable of supporting the Bank's equipment for many hours. Modernising work and building automation started on upgrading the four lifts at the main headquarters.

8. SECURITY & PRIVACY DEPARTMENT

In 2018 the main activities in the security and privacy area concerned issuing the control plan and the start of monitoring. Significant effort was also involved in complying with the legislation on *"General Data Protection Regulations"* (GDPR).

In the privacy area: the implementation plan for adjusting the General Data Protection Regulation (GDPR) was completed in compliance with the deadlines and terms indicated by the new regulations whose entry into force was set for 25 May 2018. The Bank proceeded to appoint the Data Protection Officer and, to standardise processes and automate activities, purchased a specific product for dealing with the register of treatments and analyses coming from the phases of *data protection impact analysis*.
In order to check the degree of completeness and maturity of the implemented solutions, a consultancy firm with a high level of experience in the privacy field was sent an assessment of the activities and the documents prepared. The outcome confirmed the adequacy of the solutions adopted and the compliance of the regulatory and organisational set-up.
Still on the subject of data protection, the relationship with the outsourcer was defined and regulated during the period.
The Bank participates in the ABI working group on the subject of data governance and the specific project stream of Privacy-GDPR.
Particular importance was given to the issue of training and updating the skills of the Bank's staff and its suppliers.
In 2019 particular attention will be paid to a closer analysis of internal operating processes in order to meet the requirements of data *protection by default and by design* in a consistent manner and complying with the law.

In the security area: in 2018 the projects indicated in the strategic security plan were implemented, in particular the drawing up of a specific level of controls and indications for increasingly effective monitoring. The Bank carried out an assessment on Banca d'Italia regulation no. 285/2013 which highlighted substantial compliance and indicated some interventions to be carried out. The development and monitoring activities of the Cyber Security implementations aimed at increasing the level of ICT security and internet channels were important.
Data security activities have also had a significant impact on the link with privacy projects.

Based on the results obtained, an adjustment plan has been drawn up. The Bank also has a software application for classifying data whose installation was completed on all staff positions in 2018. On this aspect, particular attention was paid to the topic of a *data breach*[1] that led to the adjustment of the internal *Incident Management*[2] procedure.

A further project started in 2018, to be completed by March 2019, concerns the implementation of connectivity elements involving the setting up of a *Security Operation Centre*.

For activities aimed at mitigating IT risks, the Bank has collaborated with a software company (Augeos) and with Ernst & Young to implement a specific software application in line with the outsourcer's risk analysis procedure.
In order to protect itself against greater risks, the Bank has also set up an insurance policy covering IT risks.

The Bank has given close attention to staff training; in this regard, an area dedicated to informed security has been implemented on the corporate intranet, which is regularly updated on cyber threats and with specific information useful for increasing the degree of awareness of security risks.

For 2019 we expect to adopt a *Cyber Risk framework* with the gradual implementation of the current control system and the new standards proposed by the Cobit 2019 *framework*.

Regarding IT security, the Bank actively participates in the CertFin working groups (ABI, Banca d'Italia).

(1)The Italian version of "data breach" means the violation of personal data causing a security breach that accidentally or unlawfully leads to the destruction, loss, modification, unauthorised disclosure or access to personal data that is transmitted, stored or otherwise processed.
(2) It refers to any event that is not part of the standard operation of a service and that causes, or may cause, an interruption and/or a reduction in the quality of the service.

RECLASSIFIED BALANCE SHEET

EUR/000

	BALANCE AS AT:		CHANGE	
	31.12.2018	31.12.2017	AMOUNT	%
ASSETS				
CASH AND CASH EQUIVALENTS	589,311	932,765	(343,454)	(36.82)
LOANS AND ADVANCES				
- TO CUSTOMERS	266,063	424,970	(158,907)	(37.39)
- TO BANKS	984,263	1,106,952	(122,689)	(11.08)
FINANCIAL ASSETS HELD FOR	15,177	46,980	(31,803)	(67.69)
FIXED ASSETS				
- FINANCIAL [1]	605,766	286,708	319,058	111.28
- TANGIBLE	22,797	23,120	(323)	(1.40)
- INTANGIBLE	357	842	(485)	(57.60)
OTHER ASSETS [2]	42,299	23,332	18,967	81.29
TOTAL ASSETS	2,526,033	2,845,669	(319,636)	(11.23)
LIABILITIES				
ACCOUNTS PAYBLE				
- TO CUSTOMERS	105,405	125,798	(20,393)	(16.21)
- TO BANKS	2,249,914	2,452,113	(202,199)	(8.25)
FINANCIAL LIABILITIES HELD FOR	3,601	6,383	(2,782)	(43.58)
EARMARKED PROVISIONS [3]	7,709	6,674	1,035	15.51
OTHER LIABILITIES [4]	16,388	25,915	(9,527)	(36.76)
SHAREHOLDERS' EQUITY				
- CAPITAL AND RESERVERS	194,473	219,346	(24,873)	(11.34)
- NET PROFIT (LOSS) FOR THE YEAR	(51,457)	9,440	(60,897)	(645.10)
TOTAL LIABILITIES	2,526,033	2,845,669	(319,636)	(11.23)

Inclusive:

(1) of financial assets HTC and HTC&s

(2) of tax assets and other assets

(3) of staff severance fund and provisions for risks ans charges

(4) of tax liabilities and other liabilities

RECLASSIFIED INCOME STATEMENT

EUR/000

	BALANCE AS AT:		CHANGE	
	31.12.2018	31.12.2017	AMOUNT	%
NET INTEREST INCOME	13,593	18,661	(5,068)	(27.16)
NET NON-INTEREST INCOME [1]	18,437	34,546	(16,109)	(46.63)
GROSS OPERATING INCOME	**32,030**	**53,207**	**(21,177)**	**(39.80)**
PERSONNEL EXPENSES	(20,437)	(19,474)	(963)	4.95
ADMINISTRATION EXPENSES AND OTHER OPERATING EXPENSES/INCOME	(10,275)	(9,747)	(528)	5.42
GROSS OPERATING RESULT	1,318	23,986	(22,668)	(94.51)
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS	(1,621)	(1,535)	(86)	5.60
PROVISIONING, WRITE-DOWNS AND WRITE-UPS [2]	(51,154)	(5,856)	(45,298)	n.a.
PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS	**(51,457)**	**16,595**	**(68,052)**	**(410.08)**
INCOME TAX FOR THE YEAR		(7,155)	7,155	(100.00)
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	**(51,457)**	**9,440**	**(60,897)**	**(645.10)**
NET PROFIT (LOSS) FOR THE YEAR	**(51,457)**	**9,440**	**(60,897)**	**(645.10)**

Inclusive:

(1) of net commissions, dividends and net trading income and profits (losses) on disposal or repurchase of financial assets (HTC&S)

(2) of net impairment adjustments and provisioning for risk and charges

COMMENTS

COMMENTS ON BALANCE SHEET ITEMS[3]

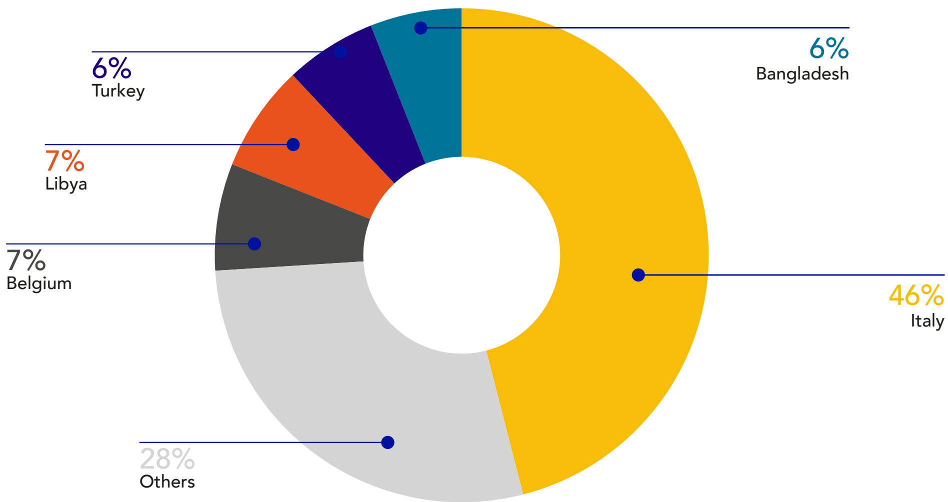
Credit

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2018	31.12.2017	AMOUNT	%
LOANS AND ADVANCES TO CUSTOMERS:				
IN EUROS	172,796	282,072	(109,276)	(38.74)
IN OTHER CURRENCIES	93,267	142,898	(49,631)	(34.73)
LOANS AND ADVANCES TO BANKS:				
IN EUROS	269,604	198,797	70,807	35.62
IN OTHER CURRENCIES	714,658	908,155	(193,497)	(21.31)
TOTAL	1,250,326	1,531,922	(281,596)	(18.38)

The diagram below shows the geographic distribution of loans granted by UBAE as of 31 December 2018:

Loans distribution by country 2018



3 The tables reflect the reclassification of "htc" securities in the item "securities and derivatives assets"

Loans to customers

As of 31 December 2018 these loans amounted to approximately Euro 266 million, down by more than 30% on the same 2017 period mainly due to the reduction of financing operations with corporate entities.

This decrease was also affected by the policy, as illustrated above, of adjusting certain exposures to corporate counterparties that had deteriorated risk profiles; overall, the coverage percentage (coverage ratio) is 62%, up compared to the end of December 2017.

During the 2018 financial year the Bank continued to provide support to its customers with the aim of fostering their commercial activities in countries of 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 operations carried out by UBAE were aimed at financial support to Italian business operators for their *trade finance* activities conducted with countries that have always been considered part of our *core business*, also through participation in pools organised by leading credit institutions.

The significant portion of impaired loans mostly refers to corporate customers in the construction sector in Italy – a sector that has negatively affected primary companies and many Italian and foreign banks as well as their customers.

This negative credit situation experienced by UBAE led to the closure of the year with a heavy loss due to prudential allocations as described in the following paragraph "impaired loans".

The factoring activity carried out at the Milan branch has begun to produce its expected economic benefits which, at the end of 2018, stood at satisfactory values, leaving positive margins for improvement in 2019.

For the valuation criteria adopted, see the Notes to the Financial Statements, Part A - Accounting Policies.

Loans to banks

Loans to banks at the end of the year show an overall decrease of 11% and a different distribution of funds between Euros and foreign currencies. The balance in the 2018 financial year stood at respectable average amounts, albeit slightly down compared to the previous year.

The volumes were influenced by the interest rate policies pursued by the ECB, which affected investment decisions in this sector not only from the strict obligation of having to comply with the daily liquidity index (LCR) set by the *regulators* that has strongly constrained the commercial and financial decisions for using the funds – given the short term of the deposits received and the need to guarantee an adequate balance between incoming and outgoing funds.

Furthermore, it should be noted that the volume of credits granted to our main banking counterparties, given their geographical location, was conditioned by the entry into force – on 1 January 2018 – of the new legislation governing *"Shadow Bank Entities"* (SBE) whose application interpretation was resolved only in the first half of 2018, hence conditioning the Bank's business in the first few months of the year.

The activities concerning the oil flows due to the export of crude oil from the producer countries (especially from Libya) to Italy have also resumed, also characterised by a crude oil price which, although during the year remained at an average higher than in the past, it has not yet reached the desired levels.

Commitments to banks – in the form of loans – were fairly stable during 2018, settling at average levels with moderately satisfactory economic returns, also in consideration of the risk to which the bank is exposed in this sector.

It is also important to remember the effects of the new commercial and financial policies introduced by applying the IFRS9 international standard which came into force on 1 January 2018.

Financial assets and derivatives

The value of financial assets including securities, derivatives and minority holdings amounted to Euro 624 million and represents a marked increase of Euro 297 million compared to the previous year.

The proprietary securities portfolio, whose investment in securities issued by the Italian Republic (government bonds) or in eligible securities which meet the Bank's needs, makes it possible to manage the Bank's liquidity commitments. The increase in the securities portfolio enabled the Bank to manage Treasury commitments increasingly characterised by the concentration of operations in very specific periods. The *fair value* trend of the securities portfolio was marked by significant volatility, which began in May 2018 following the domestic political uncertainties after the result of national elections.
The market was affected in particular by pressure on the prices of Italian securities, linked to the decisions regarding the deficit target for the next three years, in contrast with the commitments entered into in the EU context.

As of 31 December, the nominal value of the securities in the HTC&S portfolio amounted to Euro 357 million (compared to Euro 279 million at 31 December 2017); the securities portfolio at amortised cost (HTC) amounted to Euro 253 million composed almost entirely of government bonds issued by UBAE countries of interest.

During the financial year, taking into account the low spread levels that affected the money market, in particular the interbank market, the Bank maintained a relatively high average volume in order to continue pursuing the low-risk bond investment policy, issued by governments and central administrations of Asian and North African countries.

The Bank's *policy* in this sector was also to preserve, at optimal levels, the portion of securities in the *Held-to-Collect* (HTC) portfolio and in the *Held-to-Collect & Sale* (HTCS) portfolio, destined for the stock of *High Quality Liquid Assets* (HQLA) in order to comply with the short-term coverage indicator (Liquidity Coverage Ratio) set by current legislation.

During 2018 the Bank proceeded with the change in the Business Model with the aim of focusing operations on the *Held-to-Collect* (HTC) portfolio, thus making the operations concerning the *Held-to-Collect & Sale* (HTCS) portfolio residual, in order to encourage share coupon flows with respect to trading income as types of income. The reallocation of government securities from the HTCS portfolio to the HTC portfolio has resulted, as of 1 January 2019, in the exclusion of capital losses for the purposes of calculating the Bank's assets.

The Bank has not made any further transfers between its portfolios during the reference period.

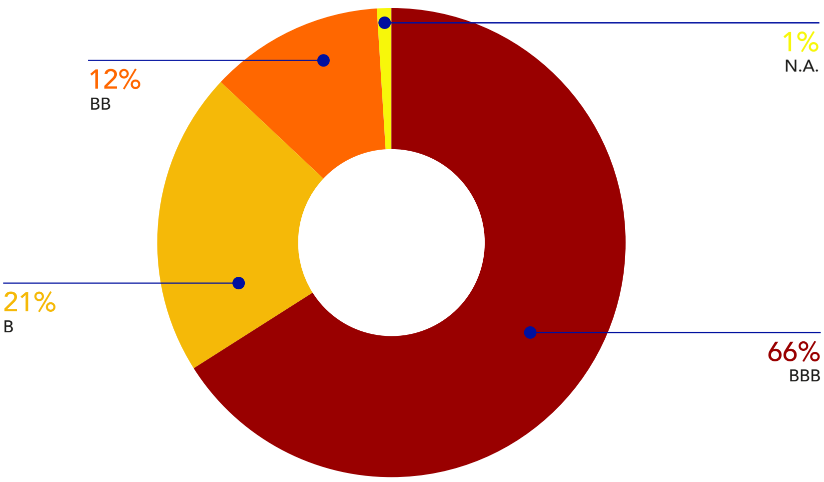
Overall in the asset sector, the Bank has recorded the following results:

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2018	31.12.2017	AMOUNT	%
FINANCIAL ASSETS				
ASSETS HELD FOR TRADING	15,177	46,980	(31,803)	(67.69)
LIABILITIES HELD FOR TRADING	(3,601)	(6,384)	2,783	(43.59)
ASSETS HTC&S	351,946	11,529	340,417	2.952.70
ASSETS HTC	253,820	275,179	(21,359)	(7.76)
TOTAL	617,342	327,304	290,038	88,61

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

HTC - HTC&S



For the criteria used in the valuation of securities, as well as those adopted for the purpose of distinguishing between trading and investment securities, see the description in the Explanatory Notes, Part A - accounting policies.

Impaired loans (Cash, Non cash and Bond)

EUR/000

	31.12.2018			
	Gross Exposure	Write-downs	Net Exposure	coverage %
IMPAIRED ASSETS	132,343	(82,153)	50,190	62.1%
BAD DEBTS	26,370	(25,371)	1,000	96.2%
PROBABLE IMPAIRMENTS	105,973	(56,782)	49,190	53.6%
NON IMPAIRED ASSETS	2,699,940	(18,547)	2,681,393	0.7%
CASH AND NON CASH ASSETS (DEPOSITS EXCLUDED)	2,832,283	(100,700)	2,731,583	3.6%

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%
PROBABLE IMPAIRMENTS	40,622	(10,548)	30,074	26.0%
NON IMPAIRED ASSETS	2,658,014	(3,256)	2,654,758	0.1%
CASH AND NON CASH ASSETS (DEPOSITS EXCLUDED)	2,726,768	(40,901)	2,685,867	1.5%

The total amount of impaired loans before value adjustments amounted to Euro 132.3 million, an increase of Euro 63.5 million compared to Euro 68.8 million in the previous year.
The increase is due to the classification, in the "likely to default" category, of some positions relating to Italian corporate customers operating in the construction sector.
During the year, negative value adjustments were made for a total of Euro 46 million, referring to expected losses on loans to customers and securities classified as impaired, the recovery of previous write-downs, and the elimination of non-performing positions for which only marginal recoveries are considered possible.

As part of the prudential allocations mentioned above, which affected our portfolio (i.e. performing loans both to customers and to banks for cash and signature, as well as performing securities in the HTC and HTC&S portfolios) made in compliance with the provisions of the international IFRS9 accounting standard, a greater provision of approximately Euro 5 million was recorded.

The ratio between loans (cash and signature) and gross non-performing loans is equal to 0.93% (formerly 1.26%) and 0.04% (formerly 0.05%) with respect to net non-performing loans.
The ratio between gross impaired loans and gross loans to customers rose from 2.52% to 4.67% while the overall coverage ratio of impaired loans rose from 54.75% to 62.08%.

A summarised overview of the Bank's impaired loans, both cash and signature, is shown in the table below:

HEDGING OF CREDITS BY STATUS	31/12/2018	31/12/2017
BAD DEBTS	96.21%	96.32%
PROBABLE IMPAIRMENTS	53.58%	25.97%
OVERALL IMPAIRMENTS	**62.08%**	**54.75%**
"IN BONIS"	0.69%	0.12%
OVERALL OF CREDITS	**3.56%**	**1.50%**
PERCENTAGE COMPOSITION OF CREDITS TOWARDS CUSTOMERS (CASH AND SIGNATURE)	31/12/2018	31/12/2017
CREDITS "IN BONIS"	98.16%	80.68%
Impaired credits:	1.84%	1.16%
of which: *AD DEBTS*	0.04%	0.04%
PROBABLE IMPAIRMENTS	1.80%	1.12%
RISK RATIOS	31/12/2018	31/12/2017
GROSS IMPAIRED CREDITS/GROSS	4.67%	2.52%
GROSS BAD DEBTS/GROSS CREDITS	0.93%	1.03%
NET IMPAIRED CREDITS/NET CREDITS	1.84%	1.16%
NET BAD DEBTS/NET CREDITS	0.04%	0.04%

Debts

EUR/000

	BALANCE AS AT:		VARIATION	
	31/12/2018	31/12/2017	AMOUNT	%
PAYABLE TO CUSTOMERS				
IN EUROS	57,844	61,413	(3,569)	(5.81)
IN OTHER CURRENCIES	47,561	64,385	(16,824)	(26.13)
PAYABLE TO BANKS				
IN EUROS	1,227,688	854,322	373,366	43.70
IN OTHER CURRENCIES	1,022,226	1,597,791	(575,565)	(36.02)
TOTAL	2,355,319	2,577,911	(222,592)	(8.63)

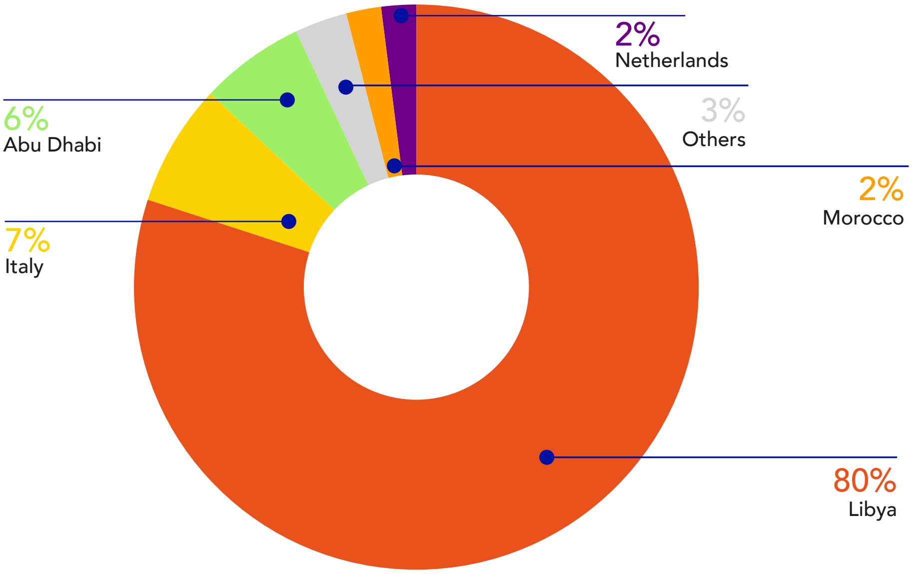
Debts to banks and customers are shown in the financial statements, as per current legislation, at amortised cost.

In the table above, we highlight the data and changes in deposits in euros and currency, from customers and correspondent banks.

As indicated in the report on operations, during 2018 funding from institutional counterparties showed a constant average trend reaching satisfactory volumes at the end of the year, although slightly lower than 31 December 2017.

Although affected by a slight decrease, the volume of funding from corporate customers – especially counterparties resident in countries of interest to the Bank (activities that are not strategic for the Bank) have on average reached respectable values.

Funding by country 2018



Assets

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

EUR/000

	CAPITAL	SHARE PREMIUM	RESERVES	NET PROFIT	TOTAL
31.12.2017	**159,861**	**16,702**	**42,783**	**9,440**	**228,786**
CHANGE IN OPENING BALANCE			**(6,955)**		**(6,955)**
01.01.18-31.12.18 MOVEMENTS					
APPROPRIATION OF PROFIT: RESERVES			**6.641**	(7,198)	**(557)**
DIVIDENDS				(2,242)	**(2,242)**
VALUTATION RESERVE			(24,559)		**(24,559)**
NET PROFIT				(51,457)	**(51,457)**
31.12.2018	**159,861**	**16,702**	**17,910**	**(51,457)**	**143,016**

The net equity of Banca UBAE, including valuation reserves and the result for the period as of 31 December 2018, amounts to approximately 143 million euros, showing a decrease compared to the previous year (228 million euros).

The 2018 equity was also affected by the changeover to the IFRS9 international accounting standard which led to a negative impact of about Euro 7 million, net of the relative tax effect.

The Ordinary Shareholders' Meeting, when approving the 2018 Financial Statements, resolved to allocate part of the profit for the year to increase the reserves (approximately Euro 7.2 million) and part to the distribution of dividends to shareholders (approximately Euro 2.2 million).

At the end of the year, Banca UBAE had a CET1/Tier1 capital ratio of 10.37% compared to 12.33% at 31 December 2017. The total capital ratio stood at 17.34% compared to 17.89% for the financial year 2017.

Furthermore, as a result of the prudential review and assessment process carried out by Banca d'Italia (SREP), the Oversight Authorities determined, in 2018, the new additional capital requirements that the Bank will have to hold in addition to the minimum amounts required by current legislation; to date, the Bank appears to be in line with the new requirements established by the Oversight Authority (see table).

	31.12.2018	REGULATORY BLINDING LIMITS	LIMIT EXPECTED BY BANCA D'ITALIA
COEFFICIENT OF CET 1	**10.37%**	7.29%	7.65%
COEFFICIENT OF CLASS 1	**10.37%**	9.10%	9.46%
COEFFICIENT OF TOTAL CAPITAL	**17.34%**	11.50%	11.87%

As already illustrated in the previous paragraphs, following the corporate reorganisation accompanied by a new Business Plan 2019-2021, the Board of Directors approved the strategic reorientation of Finance Area, aimed at favouring medium and long term investments in securities, including the change in the Bank’s Business Model which, as of 01 January 2019, resulted in the transfer of 96% of the securities in the HTC&S portfolio to the HTC portfolio, thus also eliminating the effects of the negative valuations that impacted the balance sheet own funds (approximately - Euro 25 million net of the tax effect). The Bank's shareholders' equity from 1 January 2019 stands at Euro 168 million.

The change in the Business Model was approved by the 250th Board of Directors on 10-11 December 2018.

The impact of this operation on the above indices is as follows:

	01.01.2019	REGULATORY BINDING LIMITS	LIMIT EXPECTED BY BANCA D'ITALIA
COEFFICIENT OF CET 1	**12.39%**	7.91%	8.28%
COEFFICIENT OF CLASS 1	**12.39%**	9.72%	10.09%
COEFFICIENT OF TOTAL CAPITAL 1	**19.52%**	12.13%	12.49%

Shares

The Bank’s capital as of 31 December 2018 amounted to Euro 159,860,800 divided into 1,453,280 ordinary shares with a value of 110 euros each.

Subordinated loan

To ensure that the Bank is able to strengthen its capital and to guarantee an adequate and stable level of Own Funds aimed at full compliance with the relevant indexes and new regulatory requirements (EU Regulation no. 575/2013, previously article 63 letters J and K of the legislation), the majority Shareholder - Libyan Foreign Bank – agreed, in August 2018, to extend the subordinated loan for a total value of Euro 100,000,000 until December 2024 (previously 2023), at the same time establishing the exclusion of any early repayment clause for the loan which will be repaid only at the end of the period (2024). The principle remains that, for the sole purpose of calculating Own Funds, in the last five years (from 2020) a reduced value of 20% will continue to apply each year.

COMMENTS ON THE INCOME STATEMENT

Net Interest Income

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2018	31.12.2017	AMOUNT	%
10. INTEREST INCOME AND RELATED REVENUE	51,396	47,449	3,947	8.32
20. INTEREST CHARGES	(37,803)	(28,788)	(9,015)	31.32
NET INTEREST INCOME	13,593	18,661	(5,068)	(27.16)

The net interest margin decreased by 27.16% to Euro 13.6 million (Euro 18.7 million in the previous year).

The year's result was influenced by some negative factors that reflected a decrease in revenues for interests such as:

- the time distribution of funding in the *Money Market* which is highly unbalanced in terms of "tenor" which prevented long-term investments with consequent reduced economic returns due to the need to comply with the daily liquidity index (LCR). This aspect has considerably constrained the commercial and financial decisions for using funds, which were reflected with negative effects on revenues;

- the introduction of new legislation on shadow banking entities"(SBE) which, in fact, affected the counterparties residing in countries of interest, involved in the new directive in the first few months of the year and not just in terms of UBAE's business;

- the introduction of the new commercial and financial policies that reflect the innovations dictated by the application of the international IFRS9 standard which came into force on 1 January 2018;

- the willingness of the Bank to review, during the year, the investment policies in the securities sector which led to a new *Business model* approved by the Board of Directors at the end of 2018.

The analysis of the result achieved must also take into account the effects that the ECB's accommodating monetary policies had, which maintained a high availability of low-cost *funding* on the market for the entire year. Consequently, UBAE's activity on the deposit market was affected by this ECB approach – strong levels of interbank rates which consolidated at negative levels (or near zero) – consequently reducing the spread on this market where Banca UBAE is also strongly active.

BROKERAGE AND OTHER INCOME

The proceeds from financial intermediation can be summarised as follows:

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2018	31.12.2017	AMOUNT	%
30. DIVIDENDS AND OTHER PROCEEDS		3	(3)	(100.00)
40. COMMISSIONS RECEIVED	21,442	21,351	91	0.43
50. COMMISSIONS PAID	(4,990)	(4,262)	(728)	17.08
NET COMMISSIONS	**16,452**	**17,089**	**(637)**	**(3.73)**
80. PROFITS (LOSSES) ON TRADING	2,236	17,249	(15,013)	n.a.
100. PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE HTC&S	(251)	205	(456)	(222.44)
NET NON-INTEREST INCOME	18,437	34,546	(16,109)	(46.63)

Brokerage and other income decreased compared to the previous year, and the balance settled at Euro 18.4 million (previously Euro 34.5 million in 2017).

The net commissions amount to Euro 16.5 million on levels substantially in line (-3.7%) with those of the previous year; this result, despite the economic difficulties that have occurred in some countries of interest to the Bank, is the direct consequence of implementing the strategic lines decided by the corporate bodies and aimed at identifying business opportunities in countries with adequate risk profiles, also to replace some of the Bank’s traditional partners whose political and social conditions no longer allowed the continuation of commercial relations.

This policy gave positive economic returns during the year, allowing the Bank to achieve significant performance with regard to the result of commissions relating to the section of letters of credit and international guarantees.

The decrease in the result for the Finance Area in 2018, although confirmed as positive, must be seen taking into account the economic environment in which the Bank operated.
The final result was influenced by the Bank's decision to review the investment plans for the 2018 financial year, set in the previously approved budget.

In fact, securities were bought, in particular Italian government bonds – a source in the previous year of important revenues – and the result was affected by economic and political events in the course of 2018 that heavily influenced the prices of securities, advising the Bank’s competent bodies to establish new investment strategies for the future.

The year-end figure for trading activities stood at around Euro 2.2 million compared to Euro 17.2 million in 2017.

ADMINISTRATION EXPENSES AND OTHER OPERATING EXPENSES/INCOME

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2018	31.12.2017	AMOUNT	%
A) PERSONNEL EXPENSES:				
WAGES AND SALARIES	(12,234)	(11,416)	(818)	7.16
SOCIAL SECURITY CONTRIBUTIONS	(3,499)	(3,433)	(66)	1.91
STAFF SEVERANCE PAYMENTS	(784)	(763)	(21)	2.76
OTHER EXPENSES	(1,365)	(1,419)	54	(3.78)
TOTAL EMPLOYEE EXPENSES	**(17,882)**	**(17,031)**	**(851)**	**5.00**
ADMINISTRATORS	(2,048)	(1,943)	(105)	5.42
STATUTORY AUDITORS	(106)	(85)	(21)	25.27
NON-STAFF ASSOCIATES	(400)	(415)	15	(3.60)
TOTAL PERSONNEL EXPENSES	**(20,437)**	**(19,474)**	**(963)**	**4.94**
B) OTHER ADMINISTRATION EXPENSES	(13,585)	(11,492)	(2,093)	18.21
C) OTHER OPERATING EXPENSES	3,310	1,745	1,565	89.68
TOTAL	(30,712)	(29,221)	(1,491)	5.10

Administrative expenses and Other Operating expenses/income as of 31 December 2018 amounted to Euro 30 million, an increase of 5.1% compared to 2017 (Euro 29 million).

Personnel costs, amounting to Euro 20.4 million, stood at values in line with the previous year (+4.94%) if not decreasing in consideration of the fact that the incremental effect is substantially due to the costs related to bonuses – exceptional – granted both to the Board of Directors and to Bank personnel, approved by the Shareholders' Meeting held in 2018, with reference to the excellent performance achieved in 2017.

Other administrative expenses amounted to Euro 13.6 million (formerly Euro 11.5 million). The result includes the cost concerning the contribution (ordinary and extraordinary) of approximately 2.1 million euros (formerly 1.3 million euros in 2017), imposed by Banca d'Italia in favour of the Single Resolution Fund and of the National Resolution Fund.

At the end of the year, not taking into account the above contributions, the figure for administrative expenses stood at values substantially in line with those for 2017, reflecting the particular attention paid by the Bank to containing them, without compromising the efficiency of the organisational structure.

Good result for other management income amounting to 3.3 million euros compared to the 2017 figure of 1.7 million euros.

FORMATION OF THE YEAR'S PROFIT

EUR/000

	DATI DI BILANCIO				VARIAZIONI	
	31.12.18		31.12.17		ASS.	%
GROSS OPERATING PROFIT		1.318		23.986	(22.668)	(94.51)
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS		(1,621)		(1,535)	(86)	5.60
NET IMPAIRMENT ADJUSTMENTS:						
TO LOANS	(46,642)		(3,788)			
TO FINANCIAL ASSETS AVAILABLE FOR SALE	(2,167)		(320)			
TO FINANCIAL ASSETS HELD TO MATURITY			2			
TO OTHER FINANCIAL OPERATONS	(2,247)		(1)			
NET PROVISIONING FOR RISKS CHANGES	(98)		(1,749)			
TOTAL		(51,154)		(5,856)	(45,298)	n.a.
PROFIT (LOSS) BEFORE TAX		(51,457)		16,595	(68,052)	(410.08)
INCOME TAX FOR THE YEAR				7,155	7,155	(100.00)
NET PROFIT (LOSS)		(51,457)		9,440	(60,897)	(645.10)

The comparison of the financial years at the respective closing dates shows a result of **Euro -51.5 million** at 31 December 2018 and **Euro 9.4 million** at 31 December 2017.

For the reasons explained above, the final figure as of 31 December 2018 is to be considered exceptional as it was achieved exclusively against substantial accruals regarding receivables from customers reclassified in the year 2018 among the impaired loans.

At 31 December 2018, following prudential assessment of the exposures and following the results of careful risk assessments, the decision-making bodies decided to adjust the previously allocated risk provisions with a marked increase. Provisions accounted for approximately **Euro 51 million** as of 31 December 2018 against an amount of **Euro 6 million** as of 31 December 2017.

As regards the Bank’s VAT position for the financial years 2005 up to 2008, subject to litigation by the Revenue Agency, it was decided – in line with past years – not to make provisions since the conduct of the Bank in this regard, was deemed compliant with current regulations, also supported by the tax consultants.

For further information on the data indicated above, see the Notes to the Financial Statements, Part c) Information on the Income Statement.

Verifications by the Oversight Bodies

During 2018 both the Banca d'Italia and the Financial Intelligence Unit (FIU) subjected the Bank to ordinary inspection.

On completion of these activities, no sanctions were imposed on UBAE.

SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

On 18 March 2019, following the resignation of the Board of Directors, the ordinary Shareholders' Meeting elected the new members for the three-year period 2019-2021; pursuant to current by-laws, the Shareholders' Meeting also appointed the Chairman and the Vice-Chairman.
At the meeting on 27 March 2019, the Board of Directors, as required by the internal regulations, reconstituted the advisory committees such as the Audit & Risk Committee and the Remuneration Committee.

OTHER INFORMATION

Change in UBAE's Business Model

For accounting principle IFRS 9 "Financial instruments", a business model shows the way in which groups of financial assets (portfolios) are managed in order to achieve defined strategic objectives, i.e. the collection of contractual cash flows, the achievement of profits through the sale or a combination of these, which in relation to the contractual characteristics of the cash flows of the same financial assets determines their measurement at amortised cost, at the fair value recognised in the income statement or at the fair value recognised in equity. The business model is decided at a higher level of aggregation (portfolio) and is determined by the management based on the scenarios that are reasonably expected to occur.

When applying IFRS 9 (FTA - *First Time Adoption*), in order to allocate financial instruments to the business models, only the *Held to Collect* (or HTC) *business* model was defined for the loan portfolio which reflects the operating method always followed by Banca UBAE in the management of loans granted to customers and banks, corporate entities and retail businesses while for the portfolio of proprietary financial instruments three business models have been defined, respectively *Held to Collect* (HTC), *Held to Collect and Sell* (HTC & S) and Trading (FVTPL), for which the main destination for bond instruments (mainly Italian government bonds and securities issued by central governments and banks resident in the countries of interest of the Bank) held for investment purposes, has been identified by the Bank in the accounting categories HTC and HTC & S.
In consideration of the evolution of the reference situation, the Bank's Board of Directors carefully monitored the effects of the operational choices made in order to achieve the strategic objectives defined later in the 2019-2021 Bank's business plan. In the aforementioned plan the centrality of the commercial activity (loans, discounts, confirmations of letters of credit and issuance of international guarantees) was affirmed as the main driving force of profitability,

accompanied by a consistent management in a prudential and conservative perspective of the portfolio property.
The analysis of the final results referring to 30 September 2018 has therefore given new impetus to the implementation of the initiatives aimed at protecting the assets, including the finalisation of a specific assessment relating to the overall strategic management of the Bank's investment activities to identify possible interventions of redefinition of the business models of the owned securities portfolio.

In the light of the conclusions reached, the UBAE in reiterating the need to maintain a particularly prudent risk profile in the management of the owned securities portfolio, has therefore opted for a more decisive management strategy aimed at privileging the stability in the collection of financial flows in the medium-long term of the securities portfolio, with respect to trading income which determined a potential risk of reduction of capital endowments for supervisory purposes.

With the new *Business Model*, the HTC portfolio has therefore been configured as the predominant category for investments, while the HTC&S portfolio, which has shown a strong sensitivity to the risk of market fluctuations, becomes the recipient of short-term investments with a residual connotation with respect to the past. The portfolio dedicated to trading activity remains marginal in relation to the Bank's core business.
In order to make the organisational structure consistent with the new strategic approach outlined in the Business Model, it was necessary to revise the structure of the Finance Area as well as the structure of the quantitative and qualitative limits of the portfolios.

In December 2018, the Board of Directors approved the strategic re-orientation of the Finance Area and the new version of the Business Model.

The accounting effects of this decision, which is exclusively of a patrimonial nature, took place starting from January 2019.

The financial instruments subject to reclassification from HTC&S to HTC are mainly Italian sovereign debt securities, for a total nominal value of Euro 381 million. The relative cumulative loss at the reclassification date, of Euro 25 million (net of the related tax effect), previously recognised in the other components of the comprehensive income statement (valuation reserve), is eliminated from shareholders' equity as a balancing entry to the fair value of the same financial instruments which, consequently, are recorded as if they had always been valued at amortised cost.

- **The Bank does not carry out research and development activities.**
- **The Bank does not have treasury shares in its portfolio.**
- **Information regarding relations with related parties is contained in section "H" of the Notes to the Financial Statements.**

OUTLOOK

Uncertainty is increasing for the world's economic prospects, with the first signs of a slowdown in the USA and China's problems of maintaining a high growth rate. In this situation the Eurozone has already shown a marked downturn in 2018 and future prospects are uncertain for 2019.

There are many factors that are difficult to quantify, including the problems related to Brexit and the resolution of US-China trade tensions. If these uncertainties are resolved for the better, there might be a less marked fall in business activity.

Italy is in a position of particular fragility, due to the effects of political uncertainty that marked the entire second half of 2018 together with a very complex situation for public finances.

The agreement reached by the Italian government with the EU Commission on the 2019 budget has limited for now the concerns of operators about the stability of Italian public finances; the effect of the current economic slowdown presents significant risks for the budget in the medium term and could lead to new situations of tension if not addressed in time.

The new business plan for the period 2019-2021 – approved in January 2019 by the Board of Directors – which provides for an adequate increase of the Bank's first-tier capital – in order to provide a level of capital that is in line with operational needs, enabling UBAE to operate with peace of mind in the reference markets, guaranteeing an economic recovery in line with expectations and a return to profit already in the next financial year.

With a strengthening of the balance sheet in the first part of 2019 and subsequent procedural authorisation by Banca d'Italia, UBAE will continue to grow robustly and solidly, knowing how to take advantage of the opportunities that will be offered by domestic and international economic forces.

The 2018 budget was unexpected not in terms of a lack of profitability in the core business but rather due to adjustments on receivables far higher than expected and concentrated on a single business segment (Italian construction companies) leading to significant allocations.

The attractiveness of Banca UBAE, especially in other countries and in light of relations with correspondent banks, will continue in 2019 with the aim of achieving adequate revenues and profits by the end of the year.

UBAE has set itself the following key objectives for the coming financial year:

- increasing the Bank's capital for Euro 150 million in order to support the conditions for growth and the possibility of creating them;
- more activity with particular attention not only to Italian corporate entities that operate abroad but also to the factoring sector;
- cost-cutting, avoiding extraordinary expenses;
- renewed attention to monitoring risk performance;

- boosting pro-active financial activity also in the bonds sector (especially Italian government bonds).

In the three-year period 2019-2021 of this business plan, an extremely important objective will be to strengthen the active management of non-performing loans with constant monitoring of credit lines, careful analysis and timely management of positions when the first signs of anomaly appear, thus aiming to reduce the amount of impaired loans recorded in the 2018 financial year.

Furthermore, increased activities will strengthen our market position with customers and banks in key countries such as Italy, Libya, Algeria, Bangladesh, Egypt, Jordan as well as Lebanon and Mauritania, while developing new markets such as Senegal and the Ivory Coast.

Impetus will be given to the activities of Forex exchange, expanding operations to new banking counterparties of primary credit standing, taking advantage not only of the Bank’s IT platform but also of the factoring sector at the Milan branch.

From a logistical point of view, the main aim will be to consolidate the existing control and organisational structures while responding effectively to new European and international regulations.

In a situation of low interest rates – whose forecasts remain throughout 2019 – and in order to ensure an adequate balance between assets and liabilities to comply with the limits set for the liquidity coverage ratio (LCR), our Treasury will mainly operate as a service centre in the commercial sector and in the securities sector, with a reduced volume of managed deposits; consequently in 2019 our commitment in the money market will be more contained than that of loans to banks and companies.

Finally, as part of the initiatives aimed at increasing and differentiating funding, the Bank has entered into an agreement – for retail deposits in Europe – with an open banking platform of a leading company specialising in enabling selected European banks (in our case, German) to propose to their savers offers of financial products (time deposits) arranged by Banca UBAE.

This activity started in the early months of 2019.

PROPOSAL TO THE SHAREHOLDERS

Approval of the financial statements for the year ended 31 December 2018 and covering the loss for the year

To all Shareholders,

- having examined the Bank's draft financial statements closed on 31 December 2018;
- having regard to the Board's Report on Operations;
- taking into account the capital resources available at 31 December 2018;
- acknowledging the Reports by the Board of Statutory Auditors and the BDO Independent Auditors;

we propose to you

- to approve Banca UBAE's financial statements as of 31 December 2018, accompanied by the Board's Report on Operations, which shows a loss for the year of **Euro 51,457,309**;

- to approve the proposal to cover the loss for the year at 31 December 2018 as follows:
- full use of the extraordinary reserve for Euro **35,625,318**;
- the residual figure of Euro **15,831,991** to be covered by the same amount from the share premium fund;

If the above scheme is approved, Shareholders' Equity will amount to EUR 143,0161,287 and will be composed as follows:

-Share Capital	Euro	159,860,800
-Legal Reserve	Euro	13,494,100
-Share premium account	Euro	870,225
-IFRS9 FTA reserve from 2018 loss	Euro	(6,955,039)
-IAS FTA reserve from 2005 IAS profit	Euro	305,240
-Revalutation Reserves (1)	Euro	(24,559,039)
		143,016,287

We should point out that, with the change in the Business Model and the consequent re-allocation of government bonds from the HTC&S portfolio to the HTC portfolio (thereby excluding capital losses from the asset calculation), **as of 1 January 2019 the Bank's assets amount to Euro 168,379,309 divided as follows:**

-Share Capital	Euro	159,860,800
-Legal Reserve	Euro	13,494,100
-Share premium account	Euro	870,225
-IFRS9 FTA reserve from 2018 loss	Euro	(6,955,039)
-IAS FTA reserve from 2005 IAS profit	Euro	305,240
-Revalutation Reserves	Euro	(803,983)
		168,379,303

Roma, 27 March 2019 **THE CHAIRMAN**

Rome Headquarters,
Via Quintino Sella, 2

FINANCIAL STATEMENTS 2018

(amounts in euros)

BALANCE SHEET: ASSETS

	ITEMS	31.12.2018	31.12.2017 (*)
10	CASH AND CASH EQUIVALENTS	589,310,877	932,764,832
20	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	15,176,777	46,980,335
	A) FINANCIAL ASSETS HELD FOR TRADING	15,176,777	46,980,335
30	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	351,945,844	11,528,902
40	FINANCIAL ASSETS MEASURED AT AMORTISED COST	1,504,146,171	1,807,100,486
	A) DUE FROM BANKS	1,015,955,815	1,181,283,571
	B) LOANS TO CUSTOMERS	488,190,356	625,816,915
80	PROPERTY AND EQUIPMENT	22,797,261	23,120,138
90	INTANGIBLE ASSETS	356,625	842,425
100	TAX ASSETS	31,773,490	17,834,058
	A) CURRENT	10,911,303	12,448,641
	B) DEFERRED	20,862,187	5,385,417
120	OTHER ASSETS	10,525,991	5,498,024
TOTAL ASSETS		2,526,033,035	2,845,669,200

(*) Reclassified according to Circular 262/2005 5th Update

BALANCE SHEET: LIABILITIES AND SHAREHOLDERS' EQUITY

	ITEMS	31.12.2018	31.12.2017 (*)
10	FINANCIAL LIABILITIES	2,355,318,835	2,577,910,947
	A) DUE TO BANKS	2,249,914,394	2,452,122,620
	B) DUE TO CUSTOMERS	105,404,441	125,798,327
20	FINANCIAL LIABILITIES HELD FOR TRADING	3,601,070	6,383,560
60	TAX LIABILITIES	1,055,245	11,701,871
	A) CURRENT	1,055,245	11,312,822
	B) DEFERRED		389,049
80	OTHER LIABILITIES	15,333,478	14,213,537
90	EMPLOYEE TERMINATION INDEMNITIES	1,103,941	1,461,260
100	ALLOWANCES FOR RISKS AND CHARGES	6,604,181	5,212,522
	A) COMMITMENTS AND GUARANTEES GIVEN	5,972,481	2,917,421
	B) OTHER ALLOWANCES FOR RISK AND CHARGES	631,700	2,295,101
110	VALUTATION RESERVES	(24,559,039)	555,760
140	RESERVES	42,469,619	42,227,179
150	SHARE PREMIUM RESERVE	16,702,216	16,702,216
160	SHARE CAPITAL	159,860,800	159,860,800
180	NET INCOME (LOSS) (+/-)	(51,457,309)	9,439,548
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,526,033,035	2,845,669,200

(*) Reclassified according to Circular 262/2005 5th Update

INCOME STATEMENT

	ITEMS	31.12.2018	31.12.2017 (*)
10	INTEREST AND SIMILAR INCOME	51,395,490	47,449,044
	OF WHICH: INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST RATE METHOD	49,322,194	42,976,020
20	INTEREST AND SIMILAR EXPENSE	(37,802,505)	(28,788,186)
30	INTEREST MARGIN	13,592,986	18,660,858
40	FEE AND COMMISSION INCOME	21,442,121	21,350,532
50	FEE AND COMMISSION EXPENSE	(4,990,123)	(4,262,053)
60	NET FEE AND COMMISSION INCOME	16,451,998	17,088,479
70	DIVIDEND AND SIMILAR INCOME		3,426
80	PROFITS (LOSSES) ON TRADING	2,235,924	17,249,254
100	PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF:	(251,532)	204,840
	B) FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(251,532)	204,840
120	NET INTEREST AND OTHER BANKING INCOME	32,029,375	53,206,857
130	NET LOSSES/RECOVERIES FOR CREDIT RISKS ASSOCIATED WHITH:	(48,808,005)	(4,105,731)
	A) FINANCIAL ASSETS MEASURED AT AMORTISED COST	(46,640,598)	(3,785,785)
	B) FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(2,167,407)	(319,946)
150	NET INCOME FROM BANKING ACRIVITIES	(16,778,630)	49,101,126
160	ADMINISTRATIVE EXPENSES:	(34,021,612)	(30,965,472)
	A) PERSONNEL EXPENSES	(20,436,698)	(19,473,730)
	B) OTHER ADMINISTRATIVE EXPENSES	(13,584,914)	(11,491,742)
170	NET PROVISIONS FOR RISKS AND CHARGES	(2,344,987)	(1,750,787)
	A) PERSONNEL EXPENSES	(2,246,972)	(1,331)
	B) OTHER ADMINISTRATIVE EXPENSES	(98,016)	(1,749,456)
180	NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT	(840,285)	(801,046)
190	NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS	(781,442)	(733,504)
200	OTHER OPERATING EXPENSES (INCOME)	3,309,646	1,744,486
210	OPERATING EXPENSES	(34,678,679)	(32,506,323)
260	INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	(51,457,309)	16,594,803
270	TAXES ON INCOME FROM CONTINUING OPERATIONS		(7,155,255)
280	INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	(51,457,309)	9,439,548
300	NET INCOME (LOSS)	(51,457,309)	9,439,548

(*) Reclassified according to Circular 262/2005 5th update

STATEMENT OF COMPREHENSIVE INCOME

	ITEMS	31.12.2018	31.12.2017 (*)
10	NET INCOME (LOSS)	(51,457,309)	9,439,548
OTHER COMPREHENSIVE INCOME (NET OF TAX) THAT MAY NOT BE RECLASSIFIED TO THE INCOME STATEMENT			
70	DEFINED BENEFIT PLANS	40,813	3,949
OTHER COMPREHENSIVE INCOME (NET OF TAX) THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT			
140	FINANCIAL ASSETS (OTHER THAN EQUITIES) MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(25,155,612)	20,501
170	TOTAL OTHER COMPREHENSIVE INCOME (NET OF TAX)	(25,114,799)	24,450
180	TOTAL COMPREHENSIVE INCOME (CAPTIONS 10 + 170)	(76,572,108)	9,463,998

(*) Reclassified according to Circular 262/2005 5th Update

STATEMENT OF CHANGES IN EQUITY - 01.01.2018 - 31.12.2018

	BALANCE AS AT 31.12.2017	CHANGE IN OPENING BALANCE	BALANCE AS AT 01.01.2018	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		INTERVENING VARIATIONS								SHAREHOLDERS' EQUITY AS AT 2018
							CHANGES TO EQUITY							
				RESERVES	DIVIDENDS AND OTHERS	CHANGES TO RESERVES	NEW SHARES ISSUED	TREASURY STOCK BOUGHT	EXTRAOR-DINARY DIVIDENDS PAID	CHANGES TO CAPITAL INSTRUMENTS	DERIVATES ON TREASURY STOCK	STOCK OPTIONS	COMPREHENSIVE NET INCOME 2018	
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	42,227,179	(6,955,038)	35,272,141	7,197,478										42,469,619
B) OTHER														
REVALUATION RESERVES [1]	555,760		555,760										(25,114,799)	(24,559,039)
CAPITAL INSTRUMENT														
TREASURY STOCK														
NET PROFIT FOR THE YEAR [1]	9,439,548		9,439,548	(7,197,478)	(2,242,070)								(51,457,309)	(51,457,309)
SHAREHOLDERS' EQUITY	228,785,503		221,830,465		(2,242,070)								(76,572,108)	143,016,287

STATEMENT OF CHANGES IN EQUITY - 01.01.2017 - 31.12.2017

	BALANCE AS AT 31.12.2016	CHANGE IN OPENING BALANCE	BALANCES AS AT 01.01.2017	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		INTERVENING VARIATIONS									SHAREHOLDERS' EQUITY AS AT 2017
							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	COMPREHEN-SIVE NET INCOME 2017		
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 RE-SERVES [1]	531,310		531,310											24,450	555,760
CAPITAL INSTRUMENT															
TREASURY STOCK															
NET PROFIT FOR THE YEAR	3,552,894		3,552,864	(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

CASH FLOW STATEMENT

	INDIRECT METHOD	31.12.2018	31.12.2017
A	OPERATING ACTIVITIES		
1	OPERATIONS	(49,336,776)	22,109,246
	-PROFIT (LOSS) FOR THE PERIOD (+/-)	(51,457,309)	9,439,548
	NET IMPAIRMENT ADJUSTMENTS	48,808,005	4,105,731
	-NET IMPAIRMENT LOSSES/REVERSALS ON PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (+/-)	1,621,727	1,534,550
	NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES AND OTHER EXPENSES/INCOME (+/-)	1,391,659	1,681,233
	UNPAID TAXES, DUTIES AND TAX CREDITS (+/-)	(24,586,059)	5,323,734
	OTHER ASSETS	(25,144,799)	24,450
2	LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL ASSETS	(66,450,079)	678,021,758
	FINANCIAL ASSETS HELD FOR TRADING	31,803,558	6,871,815
	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(340,416,942)	197,470,693
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	247,191,272	474,993,199
	OTHER LIABILITIES	(5,027,967)	(1,313,949)
3	NET LIQUIDITY GENERATED (ABSORBED) BY OPERATING ACTIVITIES	(224,611,981)	(51,877,131)
	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	(222,592,112)	(51,326,463)
	FINANCIAL LIABILITIES HELD FOR TRADING	(2,782,490)	3,155,841
	OTHER LIABILITIES	762,622	(3,706,509)
	NET LIQUIDITY GENERATED (ABSORBED) BY OPERATING ACTIVITIES	(340,398,837)	648,253,873

	INDIRECT METHOD	31.12.2018	31.12.2017
B	INVESTMENT/DIVESTMENT ACTIVITIES		
2	LIQUIDITY ABSORBED BY:	(813,049)	(814,493)
	PURCHASE OF TANGIBLE FIXED ASSETS	(517,407)	(567,671)
	PURCHASE OF INTANGIBLE FIXED ASSETS	(295,642)	(246,822)
	NET LIQUIDITY GENERATED (ABSOBED) BY INVESTIMENT/DIVESTMENT ACTIVITIES	**(813,049)**	**(814,493)**
C	FUNDING		
	DISTRIBUTION OD DIVIDENDS AND OTHER	(2,242,070)	(1,688,731)
	NET LIQUIDITY GENERATED (ABSORBED) BY FUNDING ACTIVITIES	(2,242,070)	**(1,688,731)**
NET LIQUIDITY GENERATED (ABSORBED) DURING THE YEAR		(343,453,956)	645,750,649

RECONCILIATION	31.12.2018	31.12.2017
CASH AND CASH EQUIVALENTS AT START OF YEAR	932,764,832	287,014,183
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	(343,453,956)	645,750,649
CASH AND CASH EQUIVALENTS: EFFECT OF EXCHANGE RATE VARIATIONS		
CASH AND CASH EQUIVALENTS AT THE YEAR END	589,310,876	932,764,832

OUR MISSION:

TO CREATE ADDED VALUE FOR OUR CUSTOMERS, SHAREHOLDERS AND EMPLOYEES

Meeting room of our Milan branch

NOTES TO THE FINANCIAL STATEMENTS

1 January - 31 December 2018

PART A: ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

The financial statements at 31 December 2018 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", 5th 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 2019, 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 30 April 2019 (first call) and 15 May 2019 (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 27 March 2019, 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 2018 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 2019, 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

Compared to the criteria used in the consolidated financial statements for the year ended 31 December 2017, note that the new international accounting standard came into force as of 1 January 2018:

IFRS 9 - Financial instruments

The new principle provides that the "classification and measurement" of financial instruments must be guided by:

- the corporate business model (BM);
- the cash-flow structure of the financial instrument.

Based on these two discriminating factors, financial assets can be classified as:

> Financial assets acquired to be held: hold-to-collect (HTC) which will be accounted for at amortised cost;
> Financial assets acquired to be held or sold: hold-to-collect-and-sell (HTC&S or FVTOCI) which will be accounted for in the Future Value (FV) with the changes recorded in net assets;
> Financial assets purchased to be sold in the short term: hold-to-sell (HTS or FVTPL) which will be accounted for in the FV with the changes recorded in the income statement.

With regard to the *impairment* process, the accounting principle requires that all financial assets must be submitted to the evaluation process at each reporting date (quarterly). There are three categories:

1) activities that are performing in line with expectations;
2) activities that are performing significantly below expectations;
3) non-performing activities (NP).

Classification must be based on the performance of the counterparty's creditworthiness. The process for categories 1 and 2 is of the generic type, while it is analytic for NP positions (3).

The table below shows the relative connections between the items in the balance sheet assets and liabilities, published in the financial statements as at 31 December 2017, under the headings introduced by the 5th update of Banca d’Italia circular no. 262 “Bank balance sheets: layout and rules for completion”:

Recalculation of comparative data

Banca UBAE has exercised the right not to recalculate the comparative values on a uniform basis in the first year of applying IFRS9; therefore the values for 2017, determined in accordance with IAS 39, are not fully comparable.
For the sole purpose of enabling uniform comparison of the data for the period, the balance sheet and income statement of the previous periods have been reclassified and restated under the new headings set out in the 5th update of circular no. 262 “Bank balance sheets: layout and rules for completion” issued by Banca d’Italia to ensure that bank balance sheets include the new items introduced by the IFRS 9 accounting standard.

ASSETS CIRCULAR 262/2005 4TH UPDATE		31.12.2017	AMOUNT AT CLASSIFICATION IMPACT	31.12.2017 RESTATED	ASSETS CIRCULAR 262/2005 5TH UPDATE	
10	Cash and cash equivalents	932,764,832		**932,764,832**	**10**	Cash and cash equivalents
	-			**46,980,335**	**20**	Financial assets measured at fair value through profit or loss
20	Financial assets held for trading	**46,980,335**		46,980,335		a) financial assets held for trading
						b) financial assets designated at fair value
						c) other financial assets mandatorily measured at fair value
40	Financial assets available for sale	11,528,902		11,528,902	**30**	Financial assets measured at fair value through other comprehensive income
50	Financial assets held to maturity	275,178,643	(275,178,643)	1,807,100,486	**40**	Financial assets measured at amortised cost
60	Loans and advances to banks	1,106,952,126	74,331,445	1,181,283,571		a) due from banks
70	Loans and advances to costumers	424,969,717	200,847,198	625,816,915		b) loans to costumers
110	Tangible fixed assets	23,120,138		23,120,138	**80**	Property and equipment
120	Intangible fixed assets	842,425		842,425	**90**	Intangible assets
130	Tax assets	17,834,058		17,834,058	**100**	Tax assets
150	Other assets	5,498,024		5,498,024	**120**	Other assets
TOTAL ASSETS		2,845,669,200		2,845,669,200	TOTAL ASSETS	

LABILITIES CIRCULAR 262/2005 4TH UPDATE		31.12.2017	AMOUNT AT CLASSIFICATION IMPACT	31.12.2017 RESTATED	LABILITIES CIRCULAR 262/2005 5TH UPDATE	
	-			**2,577,910,947**	**10**	Financial liabilities measured at amortised cost
10	Accounts payable to banks	2,452,112,620		2,452,112,620		a) due to banks
20	Accounts payable to costumers	**125,798,327**		125,798,327		b) due to customers
						c) securities issued
40	Financial liabilities held for trading	6,383,560		**6,383,560**	**20**	Financial liabilities held for trading
80	Tax liabilities	11,701,871		11,701,871	**60**	Tax liabilities
100	Other liabilities	17,130,958	(2,917,421)	14,213,537	**80**	Other liabilities
110	Employee termination indemnities	1,461,260		1,461,260	**90**	Employee termination indemnities
120	Allowances for risks and charges	2,295,101	2,917,421	5,212,522	**100**	Allowances for risks and charges
	-		2,917,421	2,917,421		a) Commitments and guarantees given b)post-employment benefits
	b) post-employment benefits					b) quiescenza e obblighi simili
	c) other allowances for risks and charges	2,295,101		2,295,101	**110**	c) other allowances for risks and charges
130	Valutation reserves	555,760		555,760	**140**	Valuation reserves
160	Reserves	42,227,179		42,227,179	**150**	Riserves
170	Share premium reserve	16,702,216		16,702,216	**160**	Share premium reserve
180	Share capital	159,860,800		159,860,800	**180**	Share capital
200	Net income (loss) (+/-)	9,439,548		9,439,548	**180**	Net income (loss) (+/-)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,845,669,200		2.845.669.200	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	

The table below shows the relative connections between the items of the income statement, with the headings introduced by the 5th update of Banca d’Italia circular no. 262 "Bank balance sheets: layout and rules for completion".

	INCOME STATEMENT CIRCULAR 262/2005 4TH UPDATE	31.12.2017	AMOUNT AT CLASSIFICATION IMPACT	31.12.2017 RESTATED		INCOME STATEMENT CIRCULAR 262/2005 5TH UPDATE
10	Interest and similar income	47,449,044		47,449,044	**10**	Interest and similar income
20	Interest charges and similar expenses	(28,788,186)		(28,788,186)	**20**	Interest and similar expense
30	**Interest margin**	**18,660,858**		**18,660,858**	**30**	**Interest margin**
40	Fee and commission income	21,350,532		21,350,532	**40**	Fee and commission income
50	Fee and commission expense	(4,262,053)		(4,262,053)	**50**	Fee and commission expense
60	**Net fee and commission income**	**17,088,479**		**17,088,479**	**60**	**Net fee and commission income**
70	Dividend and similar income	3,426		3,426	**70**	Dividend and similar income
80	Profits (Losses) on trading	17,249,254		17,249,254	**80**	Profits (Losses) on trading
90					**90**	Fair value adjustments in hedge accounting
100	Profits (Losses) on disposal or repurchase of:	204,840		204,840	**100**	Profits (Losses) on disposal or repurchase of:
	a) loans and advances					a) financial assets measured at amortised cost
	b) financial assets available for sale	204,840		204,840		b) financial assets measured at fair value through other comprehensive income
						c) financial liabilities
120	**Net interest and other banking income**	**53,206,857**		**53,206,857**	**120**	**Net interest and other banking income**
130	Net losses/recoveries for credit risks associated with:	(4,107,062)		(4,105,731)	**130**	Net losses/recoveries for credit risks associated with:
	a) loans and advances	(3,787,658)	**1,873**	(3,785,785)		a) financial assets measured at amortised cost
	b) financial assets available for sale	(319,946)		(319,946)		b) financial assets measured at fair value through other comprehensive income
	d) other financial assets	1,873	**(1,873)**			
	d) other financial assets	(1,331)	**1,331**			
140	**Net income from banking activities**	**49,099,795**	**1,331**	**49,101,126**	**150**	**Net income from banking activities**
150	Administrative expenses:	(30,965,472)		(30,965,472)	**160**	Administrative expenses:
	a) personnel expenses:	(19,473,730)		(19,473,730)		a) personnel expenses
	b) other financial assets	(11,491,742)		(11,491,742)		b) other administrative expenses
160	Net provisions for risks and charges	(1,749,456)	**(1,331)**	(1,750,787)	**170**	Net provisions for risks and charges
	-		**(1,331)**	(1,331)		a) commitments and guarantees given
	-			(1,749,456)		b) other net provisions
170	Net adjustaments to tangible fixed assets	(801,046)		(801,046)	**180**	Net adjustments to / recoveries on property and equipment
180	Net adjustaments to intangible fixed	(733,504)		(733,504)	**190**	Net adjustments to / recoveries on intangible assets
190	Other operating income / charges	1,744,486		1,744,486	**200**	Other operating expenses (income)
200	**Operating charges**	**(32,504,992)**		**(32,504,992)**	**210**	**Operating expenses**
250	**Profit from countinuing operations before tax**	**16,594,803**		**16,594,803**	**260**	**Income (Loss) before tax from countinuing operations**
260	**Income tax for the year on countinuing operations**	**(7,155,255)**		**(7,155,255)**	**270**	**Taxes on income from countinuing operations**
270	**Net profit from continuing operations**	**9,439,548**		**9,439,548**	**280**	**Income (Loss) after tax from continuing operations**
290	**Net profit for the year**	**9,439,548**		**9,439,548**	**300**	**Net income (loss)**

Effects of first application

The effects of applying IFRS 9 are shown below, divided between those deriving from the new impairment criterion and those deriving from the measuring process (hereinafter *Measurement*) of the financial assets resulting from a cash-flow test (named SPPI - Solely Payments of Principal and Interest) and identification of the business model.
These effects, which concern both the amount and the composition of shareholders' equity, derive mainly from:

a) the obligation to recalculate the value adjustments on the financial assets in the portfolio (both performing and impaired) using the *"expected credit losses"* model to replace the previous *"incurred credit losses"* model. In particular, with regard to performing exposures, the increase or decrease in value adjustments is attributable to:

- the classification in Stage 2 of a portfolio quota with consequent *"lifetime"* adjustment;
- the application of adjustments also to portfolios previously not subject to *impairment* (loans to banks, government securities, guarantees received);

b) the need to reclassify some financial assets in the portfolio based on the combined result of the two classification drivers required by the accounting principle: the business model used to manage these instruments, and the contractual characteristics of the relative cash flows (SPPI test).

The combined effect of the above resulted in a negative impact of Euro 7 million on the Bank's shareholders' equity, net of the related tax effect.

The effects of the transition to IFRS 9 are shown below, starting from the balance sheet figures as at 31 December 2017 restated according to the 5th update of Banca d’Italia circular no. 262 *“Bank balance sheets: layout and rules for completion”*.

ASSETS CIRCULAR 262 / 2005 5TH UPDATE		AMOUNT AT 31.12.2017 RESTATED	IFRS 9 IMPACT		AMOUNT AT 01.01.18
			MEASUREMENT	IMPAIRMENT	
10	Cash and cash equivalents	932,764,832			**932,764,832**
20	Financial assets measured at fair value through profit or loss	**46,980,335**			**46,980,335**
	b) financial assets designated at fair value	**46,980,335**			46,980,335
30	Financial assets measured at fair value through other comprehensive income	11,528,902		(416,064)	11,112,838
40	Financial assets measured at amortised cost	1,807,100,486		(9,167,361)	1,797,933,125
	a) due from banks	1,181,283,571		(5,921,284)	1,175,362,287
	b) loans to customers	625,816,915		(3,246,076)	622,570,839
90	Property and equipment	23,120,138			23,120,138
100	Intangible assets	842,425			842,425
110	Tax assets	17,834,058		3,436,473	21,270,531
130	Other assets	5,498,024			5,498,024
TOTAL ASSETS		2,845,669,200		(6,146,951)	2,839,522,249

LIABILITIES CIRCULAR 262 / 2005 5TH UPDATE		AMOUNT AT 31.12.2017 RESTATED	IFRS 9 IMPACT		AMOUNT AT 01.01.18
			MEASUREMENT	IMPAIRMENT	
10	Financial liabilities measured at amortised	2,577,910,947			2,577,910,947
	a) due to banks	2,452,112,620			2,452,112,620
	b) due to costumers	125,798,327			125,798,327
	c) securities issued				
20	Financial liabilities held for trading	6,383,560			6,383,560
60	Tax liabilities	11,701,871			11,701,871
80	Other liabilities	14,213,537			14,213,537
90	Employee termination indemnities	1,461,260			1,461,260
100	Allowences for risks and charges	5,212,522			6,020,610
	a) commitments and guarantees given	2,917,421		808,088	3,725,509
	b) post-employment benefits				
	c) other allowances for risks and charges	2,295,101			2,295,101
120	Valutation reserves	555,760			555,760
150	Reserves	42,227,179		(6,955,039)	35,272,140
160	Share premium reserve	16,702,216			16,702,216
170	Share capital	159,860,800			159,860,800
200	Net income (loss) (+/-)	9,439,548			9,439,548
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,845,669,200		(6,146,951)	2,839,522,249

Starting from 1 January 2018, the following items have also come into force:

- **IFRS 15 – Revenues generated by contracts with customers**
  IFRS 15 was issued with the aim of providing a standard reference framework applicable to all commercial contracts, for the recognition of revenues, with the exception of leasing contracts, insurance contracts and financial instruments. The new standard has replaced the previous references (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, SIC 31). The principle also extends the mandatory disclosure to be provided in the notes to the financial statements, in terms of quantity and quality.

IFRS 15 provides for the recognition of revenue based on the following five phases:

- ◇ identifying the contract with the customer;
- ◇ identifying the commitments and services provided by the contract (*"performance obligations"*);
- ◇ identifying the transaction fee;
- ◇ allocating the transaction fee to the related contractual obligations and services;
- ◇ recognising revenues based on proper performance (*"at a point in time" or "over time"*).

The standard also introduces new rules for accounting for the costs incurred for obtaining and fulfilling a contract, allowing it to be recorded as an asset if the entity expects to recover them with the execution of the contract.

With regard to the application of IFRS 15 from 1 January 2018, the UBAE bank examined the main types of revenues deriving from contracts with customers in order to estimate the impacts generated by the introduction of the new accounting standard.
The object of analysis was the contracts whose revenues recognised by customers are accounted for under the item "active commissions".

The analyses carried out showed that, basically, the accounting treatment of the main types of revenues arising from contracts with customers was already in line with the provisions of the new standard and, consequently, no significant accounting impact emerged.

- **Amendment to IFRS 2 "Classification and measurement of share-based payment transactions" (published on 20 June 2016)**. It contains some clarifications regarding the recognition of the effects of vesting conditions in the presence of cash-settled *share-based payments*, the classification of *share-based payments* with *net settlement* characteristics, and the accounting of changes to the terms and conditions of share-based payment which modify the classification from *cash-settled* to *equity-settled.*

- **Document on "Annual Improvements to IFRS's 2014-2016 Cycle", published on 8 December 2016** (including IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS

12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard) which partially integrate the previous standards.

- **Interpretation of IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (published on 8 December 2016)**. The purpose of the interpretation is to provide guidelines for transactions in foreign currency where the non-cash advances or advances are recognised in the financial statements, prior to the recognition of the related asset, cost or revenue. This document provides indications on how an entity must determine the date of a transaction, and consequently, the spot-exchange rate to be used when foreign currency transactions occur in which payment is made or received in advance.

- **Amendment to IAS 40 "Transfers of Investment Property" (published on 8 December 2016)**. These changes clarify the transfers of a property to or from investment property. In particular, an entity must reclassify a property amongst, or from, real estate investments only when there is evidence that a change in use of the property has occurred. This change must be traced back to a specific event that has taken place and should not therefore be limited to a change in intentions by the entity's management.

Given the Bank's operations, the entry into force of the above documents did not have any significant effects on UBAE.

The following items came into force on 1 January 2019:

- **IFRS 16 – Leasing.** The IFRS 16 standard introduces a new accounting criterion for leasing contracts, both for lessors and for tenants.

The new standard, which will replace the current IAS 17, renews the definition of a lease and requires a lessee to record the assets and liabilities arising from a lease. The aim of IFRS 16 is to ensure that tenants and lessors provide appropriate information in a manner that faithfully represents transactions. The information therefore provides the users of the financial statements with the elements to assess the effect of the lease on the financial position, the economic result and the cash flows of the entity.

The standard provides a new definition of lease and introduces a criterion based on the control *(right of use)* of an asset to distinguish leasing contracts from service contracts, identifying the asset as discriminating, the right to replace it, the right to obtain substantially all the economic benefits deriving from the use of the asset, and the right to direct the use of the asset underlying the contract.
The operations excluded from the scope of application of the principle include, in particular:

- the intellectual property licenses granted by the lessor pursuant to IFRS 15 "Revenues from contracts with customers";
- the rights held by the lessee under license agreements pursuant to IAS 38 "Intangible assets".

The principle also recognises the possibility of applying certain exceptions to the situation:

- for *short-term leasing*, with contractual duration of 12 months or less;
- for leasing operations where the underlying activity is a *low-value asset.*

The two conditions necessary for the existence of a leasing contract are:

- the existence of an asset that is well-identified and physically distinct;
- the right to control the use of the asset that is explicit in the tenant's right to obtain substantially all the economic benefits arising from the use of the asset during the period of use and in the right to direct the use of the asset, establishing how and for what purpose it is used, throughout the period of use. Therefore the landlord must not have a substantial right of replacement.

Contracts for rent, hire, lease and free loan, for example, also fall within the definition of "lease contracts", in addition to the leasing contracts proper.
For a contract that contains a leasing element and non-leasing additional components (such as in the case of leasing an asset and providing a maintenance service), the standard provides for the accounting of each leasing component separately compared to non-leasing components. The amount due must therefore be allocated to the various components based on the relative stand-alone prices, following the logic of IFRS 15 envisaged for service contracts. As a practical expedient, a lessee may however choose, by class of underlying assets, not to separate the non-leased components from the leasing components and to account for all the components as a lease.
The most significant changes introduced by the principle regard the lessee, for which a single accounting model is defined, without distinction between operating lease and financial lease, with an impact on both the income statement and the balance sheet.In fact, any leasing contract gives the lessee the accounting, respectively, in liabilities and assets in the balance sheet of:

- a *lease liability*, equal to the current value of future payments determined using the discount rate defined at the start of the lease contract;
- a *right of use* (RoU), equal to the *lease liability* plus initial direct costs.

The lessee must evaluate the activity consisting in the right-of-use by applying the cost model. The income statement will essentially be affected by the amortisation portion of the right-of-use, recognised under operating expenses, and by the interest accrued on the lease liability, recognised on the interest margin.
The distinction between operating and financial leases remains for the lessor, for which the IFRS 16 approach does not introduce substantial changes with respect to IAS 17.

With regard to the first application of the principle, full or modified retrospective application is permitted. The full retrospective option provides for the application of IFRS 16 for the year 2018, recording the impact on shareholders' equity at 1 January 2018 as if the IFRS 16 had always been applied, through a restatement of the comparative data. The modified retrospective option provides instead:

- for 2018, the application of IAS 17 with no need for restatement of comparative data;
- for 2019, the application of IFRS 16 with impact on the net assets as of 1 January 2019 (under the item reserves) of the cumulative effect of the new principle on the date of first application, only for current contracts on that date, indicating the impact deriving from the first application of the principle in the balance sheet notes.

UBAE has chosen to apply the modified retrospective option which does not involve restatement of the comparative data for 2018.

Amendment to IFRS 9 "Prepayment Features with Negative Compensation (published on 12 October 2017). This document specifies that instruments that provide for early repayment may comply with the SPPI test even if the "reasonable additional compensation" to be paid in the event of early repayment is a "negative compensation" for the lender. The amendment applies from 1 January 2019, but early application is permitted. Administrators do not expect significant effects following the entry into force of this new amendment.

It should also be noted that, at the date of this report, the competent bodies of the European Union have not yet completed the approval process necessary for the adoption of the amendments and principles listed below.

IFRIC 23 – Uncertainty over Income Tax Treatments. On 7 June 2017, the IASB published the interpretative document; the document deals with the question of uncertainties on the fiscal treatment to be adopted in the area of income taxes. The document provides that uncertainties in determining liabilities or assets for taxes should be shown in the financial statements only when it is probable that the entity will pay or recover the amount in question. Furthermore, the document does not contain any new disclosure obligations but emphasises that entities will have to establish whether it will be necessary to provide information on the considerations made by management and related to the uncertainty inherent in tax accounting, as per IAS 1. The new interpretation applies from 1 January 2019, but early application is permitted. At the moment, administrators are evaluating the possible effects of the introduction of these amendments on the Bank's financial statements.

Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures" (published on 12 October 2017)". This document clarifies the need to apply IFRS 9, including the requirements related to *impairment*, to other long-term interests in associates and joint ventures for which the equity method is not applied. The amendment applies from 1 January 2019, but early application is permitted. Administrators do not expect any significant effects following the entry into force of this new standard.

- **Document on "Annual Improvements to IFRS's 2015-2017 Cycle", published on 12 December 2017** (including IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Recalculation of previously held interest in a joint operation, IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity, IAS 23 Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalisation) which incorporates changes to certain principles as part of the annual improvement process. The amendments apply from 1 January 2019, but early application is permitted. At present the possible effects of the introduction of these amendments on the Bank's balance sheet are being assessed.

- **Amendment to IAS 19 "Plant Amendment, Curtailment or Settlement" (published on 7 February 2018)**. The document clarifies how an entity should recognise a change (i.e. curtailment or settlement) of a defined benefit plan. The amendments require the entity to update its hypotheses and to recalculate the liability or net assets deriving from the plan. The amendments clarify that after the occurrence of this event, an entity should use up-dated assumptions to measure the *current service cost* and interest for the remainder of the reporting period following the event. The amendments apply from 1 January 2019, but early application is permitted. The possible effects of the introduction of these amendments on the Bank's financial statements are currently being assessed.

4.2 - STATEMENT OF COMPREHENSIVE INCOME

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

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

4.3 - USE OF ESTIMATES WHEN PREPARING THE FINANCIAL STATEMENTS (SPECIFICALLY AS REGARDS THE PROVISIONS OF IAS 1 PARAGRAPH 125 AND DOCUMENT NO. 2 OF 6 FEBRUARY 2009 ISSUED JOINTLY BY BANCA D'ITALIA/CONSOB/IVASS)

Preparation of the Financial Statements also requires recourse to estimates and assumptions that can have a significant effect on amounts recognized in the Balance Sheet and Income Statement, and also as regards information concerning potential assets and liabilities reported in the Financial Statements.
Preparing estimates implies using available information and subjective assessments, also based on past experience, utilized in order to formulate reasonable assumptions to account for facts concerning operations.
Given their nature, estimates and assumptions can vary from period to period. It cannot be excluded therefore that in future years the actual amounts recognized in the Financial Statements may differ, even significantly, as a result of changes in the subjective assessments used.

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

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

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

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

4.4 - INFORMATION HAS TO BE PROVIDED IN FINANCIAL REPORTS ON AUDITS COVERING IMPAIRMENT OF ASSET VALUES (IMPAIRMENT TESTS), WITH SPECIFIC REFERENCE TO THE PROVISIONS OF 14539 AND DOCUMENT NO. 4 ISSUED JOINTLY BY BANCA D'ITALIA / CONSOB / ISVAP, ON 3 MARCH 2010.

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

4.5 – CONTRIBUTIONS TO DEPOSIT GUARANTEE SCHEMES AND RESOLUTION MECHANISM

With Directives 2014/49/EU *(Deposit Guarantee Schemes Directive - "DGSD")* of 16 April 2014 and 2014/59/EU *(Bank Recovery and Resolution Directive - "BRRD")* of 15 May 2014 and the establishment of the Mechanism of Single Resolution (EU Regulation no. 806/2014 of 15 July 2014), the European legislator has made significant changes to the regulation of banking crises, with the strategic objective of strengthening the single market and systemic stability. Following the transfer of these directives into national law, starting in 2015, credit institutions are obliged to provide the financial resources necessary for financing the Interbank Deposit Protection Fund (FITD) and the National Resolution Fund, merged into the Single Resolution Fund (FRU), starting from 2016, through the payment of ordinary contributions and extraordinary contributions when required.

In compliance with the DGSD directive, the FITD has stated that Italian banks must pay ordinary

annual contributions until the target level is reached, equal to 0.8% of the total protected deposits of Italian banks belonging to the FITD. This level must be achieved by 3 July 2024. The amount of the contribution requested from individual banks is proportional to the amount of its protected deposits existing on 30 September of each year compared to the total protected deposits of the Italian banks participating in the FITD and the degree of risk relating to the associated bank with deposits protected against the degree of risk of all the other banks participating in the FITD.
According to the BRRD, Italian banks must pay annual ordinary contributions to provide the FRU with financial resources at least equal to 1% of the total protected deposits of all authorised credit institutions in all participating Member States. This level must be achieved by 1 January 2024. The contributions of each entity are calculated based on the ratio between the amount of its liabilities (net of protected deposits and own funds and, for institutions belonging to a group, net of intragroup liabilities) compared to the total liabilities (net of protected deposits and own funds) of Italian banks and the degree of risk relating to each credit institution with respect to the degree of risk of all other Italian banks.

It should be noted that if the available financial resources of the FITD and/or the FRU are not sufficient, respectively to guarantee reimbursement to depositors or to finance resolutions, it is envisaged that credit institutions must provide for the payment of extraordinary contributions.
In the 2018 Financial Statements, the ordinary and extraordinary contribution was recognised – for economic purposes – in the item "160 – other administrative expenses" in application of the interpretation IFRIC 21 "Levies", based on which the liability relating to the payment of a tax (the contributions in question were considered similar to a tax under the accounting profile), arises when the so-called "obligating event" occurs, i.e. when the obligation to pay the annual fee arises.

The ordinary contribution of Banca UBAE to the FRU, paid in the first half of the year, for the 2018 financial year amounted to approximately Euro 1.6 million (Euro 1.3 million was the contribution referring to the financial year 2017).
In 2018 the extraordinary contribution to the National Resolution Fund paid in the first half of the year was approximately Euro 584,000 (no contribution was requested during 2017).

A.2 MAIN BALANCE SHEET ITEMS

1 - Financial activities assessed at fair value with impact on income statement (FVTPL)

(a) Classification criteria

Financial assets held for trading are classified in this category as financial instruments held with the intent of generating short-term profits deriving from changes in the prices of such instruments and derivative contracts not designated as hedging (HTS business model), in particular:

- debt securities (listed/not listed);
- capital securities (listed);
- capital securities (not listed) only when their fair value can be determined reliably;
- derivative contracts (except for those designated as hedging instruments) which have a positive fair value at the balance sheet date; if the fair value of a derivative contract subsequently becomes negative, it is accounted for under financial liabilities held for trading. This item also includes financial assets that are mandatorily valued at *fair value*, represented by financial assets that do not meet the requirements for measurement at amortised cost or at *fair value* with an impact on the overall profitability (i.e. SPPI test not passed) or that are not held as part of an HTS business model, and financial assets designated at *fair value*, i.e. financial assets as defined at the time of initial recognition. In relation to this case, an entity can irrevocably designate an entry for a financial asset as measured at *fair value* with an impact on the income statement if, and only if, an appreciable inconsistency is significantly reduced accordingly.

The derivative is a financial instrument (or another contract) having all three of the following characteristics:

a) its value changes in response to changes in a specific interest rate, the price of a financial instrument, the price of a commodity, the exchange rate of a foreign currency, a price or rate index, a credit rating or a credit index or other variables;
b) does not require an initial net investment or requires an initial net investment lower than what would be required by other types of contracts from which similar responses can be expected to varying market factors;
c) will be settled at a future date.

The category consists of financial and credit derivatives.

The financial derivatives category includes forward purchase and sale contracts for securities and currencies, derivative contracts with underlying security and those without underlying security linked to interest rates, indices or other assets, as well as derivative contracts on currencies.
Derivative contracts also include those that may be incorporated in other complex financial instruments, and have been recognised separately from the host instrument as such:

- the economic characteristics and risks of the embedded derivative are not strictly correlated with the economic characteristics and risks of the primary contract;
- the embedded instruments, even if separated, satisfy the definition of a derivative;
- the hybrid instruments to which they belong are not valued at fair value with changes in value shown in the income statement.

The item also includes equity investments subject to significant influence or joint control (respectively, IAS 28 and IFRS 10) which enable them to be assigned to this portfolio.

Reclassifications to other categories of financial assets are only possible if the entity changes its business model for the management of financial assets. In such cases, which are likely to be very infrequent, financial assets may be reclassified from the category measured at fair value with impact on the income statement into one of the other two categories envisaged by IFRS 9 ("financial assets valued at amortised cost" or "financial assets measured at fair value with an impact on total profitability"). The transfer value is represented by the fair value at the time of the reclassification. The reclassification date and its value will be considered for the calculation of the effective interest rate of the reclassified asset and for the allocation activity in the various stages of credit risk during the assignment stage.

(b) Registration criteria

The initial recognition of debt and equity securities occurs at the "settlement date" while the derivative instruments are recognised at the "registration date".
The initial value is equal to the cost (purchase price) understood as the fair value of the instrument, without considering any transaction costs or income directly attributable to the instrument itself, which are recorded in the income statement.

(c) Valuation criteria

Subsequent to initial recognition, financial assets held for trading are measured at fair value with recognition of the changes found in the income statement under item 80 "Net result from trading activities
For the determination of the fair value of financial instruments listed on an active market, market quotations are used.
An active market is defined as one where the prices, which reflect normal market transactions, are promptly and regularly available through stock exchanges, brokers, intermediaries, companies in the sector, listing services or authorised bodies, and express the price of effective and regular market transactions taking place in a normal reference period.
With regard to securities, the Bank has identified two conditions for a security to be considered listed on an active market, namely:

- the security must be traded on a regulated market or in an alternative trading system; the listing on a regulated market, therefore, is not in itself a condition that is necessary or sufficient to define an active market;
- the price expressed by that market must be "significant", that is the result of regular and effective transactions between counterparties who freely decide to buy and sell and are not forced to do so by their particular stressful conditions.

In the absence of an active market, for the purposes of determining the fair value of the securities, all relevant market information is considered that are in some way available especially, where possible, parameters directly observable on the market such as: prices of recent transactions or contributions and/or market quotations available at the valuation date, even if related to a market considered not active; valuations provided by the issuer or a calculation agent or in any case by an external valuation service, even if, since these are not prices deriving from actual market transactions, they are considered with particular caution and subject to verification by the Bank; mark-to-model valuations, carried out by discounting the expected future cash flows

of the security taking into account all the available information.
With regard to other financial instruments, i.e. unlisted derivatives, the fair value corresponds to the presumable replacement cost obtained from the price of listed derivative contracts with identical characteristics (for underlying, working price and maturity) or discounting future financial flows (certain or estimated) at market rates measured by information circuits normally used internationally and/or applying best-practice valuation models.

(d) Cancellation criteria

Financial assets held for trading are derecognised when the contractual rights on the cash flows deriving from them expire or when the financial assets are sold with the substantial transfer of all the risks and benefits associated with them.
Financial assets sold are derecognised even when the bank retains the contractual right to receive the financial flows deriving from them, but at the same time it assumes the contractual obligation to pay such funds to third parties.
Securities received as part of a transaction that contractually provides for the subsequent sale, and securities delivered as part of a transaction that contractually provides for repurchase, are not recorded or written off in the financial statements.

2 - Financial activities assessed at fair value with impact on overall profitability (FVOCI)

(a) Classification criteria

This category includes financial activities that meet the following conditions at the same time:

a) the financial activity is held according to a business model whose objective is achieved both by collecting the cash flows provided for in the contract or by selling ("Hold-to-Collect-and-Sell" business model);

b) the contractual terms of the financial activity provide, at certain dates, for financial flows represented solely by payments of principal and interest on the amount of outstanding principal to be repaid (i.e. SPPI test passed).

The category also includes capital instruments, not held for trading purposes, for which at the time of initial recognition the option was taken for fair value designation with impact on the overall profitability.
The following items are therefore included under this heading:

a) debt securities according to a Hold-to-Collect-and-Sell business model which have passed the SPPI test;
b) shareholdings, which cannot be qualified for control, connection and joint control, which are not held for trading, for which the option has been taken for designation at fair value with impact on overall profitability;

c) financial activities according to a Hold-to-Collect-and-Sell business model, which have passed the SPPI test.

Reclassifications to other categories of financial assets are only possible if the entity changes its business model for the management of financial assets. In such cases, which are likely to be very infrequent, financial assets may be reclassified from the category measured at fair value with impact on the income statement into one of the other two categories envisaged by IFRS 9 ("financial assets valued at amortised cost" or "financial assets measured at fair value with an impact on total profitability"). The transfer value is represented by the fair value at the time of the reclassification. In the case of reclassification from the category in question to that of amortised cost, the cumulative gain (loss) recorded in the valuation reserve is adjusted to reflect the fair value of the financial asset at the date of the reclassification. In the case of reclassification in the fair value category with impact on the income statement, the cumulative gain (loss) recorded previously in the valuation reserve is reclassified from equity to profit (loss) for the year.

b) Registration criteria

The initial registration of debt and equity securities occurs at the "settlement date" and at the disbursement date for loans.
Financial instruments are recognised at the time of initial registration at a value equal to the *fair value* generally coinciding with the cost (purchase price) including any transaction costs or income directly attributable to the instruments themselves.

c) Valuation criteria

Following initial recognition, financial assets are measured at fair value with the recognition in the income statement of the instrument's remuneration calculated on the basis of the IRR method, while changes in fair value are recognised in a specific equity item called "Reserve from evaluation" until the financial asset is cancelled or a loss in value is recorded; at the time of disposal, the accumulated profit or loss is then written off on the income statement.
The equity instruments for which the choice was made for classification in this category are assessed at fair value; however, the amounts recognised as a contra-entry to the shareholders' equity (statement of comprehensive income) must not subsequently be transferred to the income statement, even in the case of sale. The only component referable to the equity instruments in question that is recognised in the income statement is represented by the related dividends. The fair value is determined on the basis of the criteria already illustrated for financial assets measured at fair value with an impact on the income statement.
Financial assets valued at fair value with an impact on the overall profitability – in the form of debt securities and loans – are subject to verification of the significant increase in credit risk (impairment) required by IFRS 9, like the assets at amortised cost, with the consequent recognition in the income statement of a value adjustment to cover expected losses.

All instruments are classified into three categories:

a) financial activities that are performing in line with expectations (stage 1 assigned on origination date);
b) financial activities that are performing significantly below expectations (stage 2 bonis that have registered a deterioration of their creditworthiness);
c) non-performing activities: stage 3 or non-performing (NP).

Classification must be based on the performance of the counterparty's creditworthiness. Credit worthiness on the date on which the credit is incurred must be compared with the credit rating at the valuation date. For the activities included in the first class of merit, a valuation process must be applied to expected losses over a 12-month time span. For activities in classes two and three, the evaluation process must be applied over the instrument’s entire life. The process for classes 1 and 2 is generic, while it is analytical for NP positions (3).

Capital securities are not subject to the impairment process.

d) Cancellation criteria

Financial assets are derecognised when the contractual rights on the financial flows deriving from them expire or when the financial assets are sold, transferring all the risks and benefits associated with them. The economic result deriving from the sale of financial assets is charged to the income statement, except for equity instruments.

3 - Financial activities at amortised cost

(a) Classification criteria

This category includes financial activities that meet both the following conditions:

a) the financial asset is held according to a business model whose objective is achieved by collecting the cash flows provided for in the contract (*“Hold-to-Collect”* business model)
b) the contractual terms of the financial activity provide, at certain dates, for financial flows represented solely by payments of capital and interest on the outstanding amount of the principal to be repaid (i.e. SPPI test passed).

Assuming the two requisites above have been met, this category includes:

a) commitments with banks in various technical forms;
b) commitments with customers in various technical forms;
c) debt securities.

Reclassifications to other categories of financial assets are only possible if the entity changes its business model for the management of financial assets. In such cases, which are likely to be very infrequent, financial assets may be reclassified from the category valued at amortised cost into one of the other two categories envisaged by IFRS 9 (“financial assets measured at fair value with impact on the income statement" or "financial assets valued at fair value with impact on overall profitability").

The transfer value is represented by the *fair value* at the time of the reclassification. In the event of reclassification from the category in question to *fair value* with impact on the income statement, the cumulative profit (loss) will be shown in the income statement. In the case of reclassification in the fair value category with an impact on total profitability, the cumulative gain (loss) will be recorded in the specific valuation reserve under shareholders' equity.

(b) Registration criteria

The initial registration of receivables takes place on the date of disbursement or, in the case of a debt security, on the settlement date, based on the fair value of the financial instrument that is equal to the amount disbursed, or subscription price, inclusive of costs or income directly attributable to the same and determinable from the beginning, even if liquidated at a later date. All charges that are reimbursed by the debtor counterparty or which are attributable to internal administrative costs are excluded. For credit transactions that may be concluded under conditions other than market conditions, the fair value is determined using specific valuation techniques; the difference with respect to the amount disbursed or to the subscription price is shown directly on the income statement.

(c) Valuation criteria

Following initial registration, financial assets held to maturity are measured at amortised cost using the effective interest rate method. The result deriving from the application of this method is shown on the income statement under item 10 (interest income and similar income). Profits or losses referring to these assets are recognised in the income statement when the assets are cancelled or impaired.
At the time of preparing the financial statements or interim reports, the positions in this category are subject to impairment with recognition in the income statement of the identified value adjustments.

All the instruments are classified into three categories:

- financial activities that are performing in line with expectations (stage 1 assigned on origination date);
- activities that are performing significantly below expectations (stage 2 - bonis that have registered a deterioration of their creditworthiness, with expirations above 30 days or subject to the granting of tolerance measures - forbearance);
- deteriorated activities (stage 3 or non-performing).

Classification must be based on the performance of the counterparty's creditworthiness. Credit worthiness on the date on which the credit is incurred must be compared with the credit rating at the valuation date. For the activities included in the first class of merit, a valuation process must be applied to expected losses over a 12-month time span. For the activities in classes two and three, the evaluation process must be applied over the entire residual life of the instrument. The process for classes 1 and 2 is generic, while it is analytical for *non-performing* positions (stage 3). The financial assets in question, where they are performing (stage 1 and 2) are subject to an assessment, aimed at defining the value adjustments to be recorded in the financial statements, at the level of individual credit (or "tranches"), according to the risk parameters represented by *probability of default* (PD), *loss given* default (LGD) and *exposure at default* (EAD). The assessment also takes into account the guarantees received for the purposes of credit risk mitigation.

The valuation model for the generic fund is established according to the following formula:
ECL = EAD x PD x LGD
where:
ECL = *Expected Credit Loss*
EAD = *Exposure At Default*
PD = *Probability of Default*
LGD = *Loss Given Default*

The collective write-downs of securities and receivables are therefore calculated according to the following principles:

- at each *reporting date*, if the credit risk of a financial instrument is not significantly increased with respect to the disbursement or purchase date (stage 1), the expected loss for such financial instrument should be measured as the amount of expected losses in the following 12 months;
- at each reporting date, if the credit risk of a financial instrument is significantly increased compared to the date of disbursement or purchase (stage 2), the expected loss for such financial instrument is measured as the amount of expected losses in the instrument's residual life (lifetime);

For the purposes of *staging* financial assets, each activity in the *origination* is classified in "stage 1" and subsequently:

- in the field of securities, evidence of a significant increase in credit risk (and therefore the security's transfer to "stage 2") is shown by the worsening of two notches of the rating assigned to the instrument by external rating firms, together with a final speculative rating level;

- in the field of loans, the deterioration of the original rating expressed in percentage terms (internally defined and differentiated by class of scores) is considered evidence of a significant increase in credit risk.

The PDs used are estimated starting from PD point-in-time data (based on quantitative and qualitative information and data) to which a combined macroeconomic scenario is applied that determines the forward-looking PD for each counterparty or issuer.

The LGDs used are estimated on the basis of the time series and (using macroeconomic models) are transformed from "point-in-time" into "forward-looking". These data are differentiated by type of counterparty and by technical form of the exposure and can be adjusted according to the guarantees received.

For the classification of impaired exposures in the various risk categories (non-performing loans, probable defaults, past-due and/or overdue impaired exposures), the Bank refers to the regulations issued by the Banca d'Italia and the EBA guidelines on the management of NPLs. Impaired loans are subject to an analytical evaluation process regardless of amounts. The amount of the value adjustment to be made to each credit is equal to the difference between the book value of the same at the time of valuation (amortised cost) and the present value of expected future cash flows, calculated by applying the original effective interest rate. Expected cash flows take into account recovery forecasts, estimated recovery times and the presumed realisation value of any guarantees. Cash flows relating to receivables whose recovery is expected within a short period are not discounted. The original effective rate of each loan remains unchanged over time even if a restructuring of the relationship has taken place which has led to the change in the contractual rate and even if the relationship becomes, in practice, non-interest bearing. The losses in value are shown on the income statement.

d) Cancellation criteria

Financial assets measured at amortized cost are derecognised from the financial statements when the contractual rights to the cash flows deriving from them expire or when the financial assets are sold with the substantial transfer of all the risks and benefits connected to them.

6 – Tangible assets

(a) Classification criteria

These are material assets (property, technical plant, furniture, furnishings and equipment of all kinds) held for functional use and which are expected to be used for more than one period. Tangible assets also include real estate investments and costs for improvements to third party assets, when they are separable from the assets themselves if such costs do not have autonomous functionality and usability but expect future benefits from them, are included in "other assets" and are amortised over the shortest period between that of foreseeable usability of the improvements and that of the residual duration of the lease.

(b) Registration criteria

Tangible assets are recorded at purchase cost including any accessory charges directly attributable to the purchase and commissioning of the asset. Extraordinary maintenance costs that result in an increase in future economic benefits are recognised as an increase in the value of the assets, while ordinary maintenance costs are shown on the income statement.

(c) Valuation criteria including the income components

Tangible assets are valued at cost less cumulative amortisation and any permanent loss of value in accordance with IAS 16. The same criterion is also applied to property investments using the option of valuation subsequent to cost.
Tangible assets are systematically depreciated over their useful life, understood as the period of time in which it is expected that the asset can be used, adopting the straight-line method as the amortisation criterion. Works of art are not subject to depreciation as their value is generally expected to increase over time.
In consideration of the fact that tangible assets may comprise components of different value such as land, whether they are separate or included in the value of the building, are not subject to amortisation as assets which possess an indefinite useful life.
At each balance sheet or interim report, in the presence of symptomatic situations of the existence of permanent losses in value, the recoverable value of the asset is compared. Whichever is greater: its value in use (current value of the assets) and its economic functions, or its exchange value (presumable transfer value net of transaction costs) and its carry-forward amount net of amortisation. Any adjustments are recorded in the income statement under item 210 "Net value adjustments and/or write-backs on tangible assets". If the reasons that led to the recognition of the loss cease to exist, the value is recovered, which cannot exceed the value that the asset would have had, net of depreciation without previous losses in value.

(d) Cancellation criteria

A tangible asset is eliminated from the balance sheet upon disposal, or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Capital gains and losses deriving from the disposal or withdrawal of tangible assets are determined as the difference between the net sale price and the book value of the asset and are recorded in the income statement on the same date on which they are eliminated from the accounts.

7 – Intangible assets

(a) Classification criteria

IAS 38 defines intangible assets as non-monetary assets, without physical consistency, but identifiable anyway, used in the performance of long-term business activities. The characteristics necessary to meet the definition of intangible assets are:

- being identifiable;
- having full control of the resource;
- existence of future economic benefits.

In the absence of one of the above characteristics, the expense to acquire or generate the same resource internally is recognised as a cost in the financial year in which it was incurred. Intangible assets include *software* with long-term use and goodwill with start-up costs.
Goodwill is classified in intangible assets. It represents the positive difference between the

purchase cost and the fair value of the assets and liabilities acquired as part of the combination transactions.
The other intangible assets are recorded as such if they are individually identifiable and originate in legal and contractual rights.

(b) Registration criteria

Intangible assets are recorded at purchase cost including any accessory charges and subsequent costs incurred to increase their initial economic functions.

(c) Valuation criteria

Intangible assets with a limited duration are valued according to the cost principle, net of amortisation and depreciation as governed by IAS 38.
At each balance sheet date or infra-annual report, in the presence of situations showing the existence of lasting impairments, the compilers proceed to estimate the recoverable value of the asset entered on the income statement under item 210 "net value adjustments and/or write-ups on intangible assets", calculating the difference between the carry-forward amount of the asset and the recoverable value. Intangible assets with an indefinite useful life, such as goodwill, are not amortised, but periodically subjected to the so-called impairment test.
These losses in value can no longer be restored in subsequent years.

(d) Cancellation criteria

Intangible assets are derecognised as a result of disposals or when they have fully exhausted their economic functions and no future economic benefits are expected.

9 – Current and Deferred Taxes

a) 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.

b) 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.

c) 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.

d) 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.

10 – Provisions for Risks and Charges

a) Registration and classification criteria

Provisions for risks and charges are recognised in the income statement and recorded on the liabilities side of the balance sheet if these conditions are met:

- there is a present obligation (legal or implicit) deriving from a past event;
- the disbursement of financial resources for the fulfilment of the obligation is deemed probable;
- a reliable estimate can be made of the probable future disbursement.

Provisions are recorded at the value representing the best estimate of the amount required to settle the obligation, or to transfer it to third parties at the end of the period.
When the financial effect related to the passage of time is significant and the payment dates of the obligations can be reliably estimated, the provision is subject to discounting at current market rates at the balance sheet date.

b) Evaluation and recognition criteria of income components

The amount recognised as a provision represents the best estimate of the expenditure required to fulfil the obligation existing at the balance sheet date and reflects risks and uncertainties that inevitably characterise many facts and circumstances. The amount of the provision is represented by the current value of the expenses that are supposed to be necessary to settle the obligation where the effect of the current value is a relevant aspect. Future events that may affect the amount required to settle the obligation are only taken into account if there is sufficient objective evidence that they will occur.

Allocations to the Provisions for Risks and Charges include the risk deriving from any tax dispute. The Funds for Risks and Charges also include:

- provisions relating to commitments and financial guarantees issued subject to the impairment rules of IFRS 9;
- the charges relating to the defined-benefit pension funds pursuant to the provisions of IAS 19.

c) Cancellation policy

Provisions are used only for the charges for which they were originally registered. If it is no longer deemed probable that the fulfilment of the obligation will require the use of resources, the provision is reversed, by re-allocation to the income statement.

11 – Financial liabilities valued at amortised cost

(a) Classification criteria

The liabilities included here are due to banks, debts to customers and outstanding securities; they are made up of the various financial instruments through which the Bank and its subsidiaries realise interbank funding with customers and deposits made with outstanding debt securities – net, therefore, of any repurchased amounts.
Interest expense is recorded in the income statement under item 20 "Interest expense and similar charges".

(b) Registration criteria

The liabilities in question are recorded upon receipt of the sums collected or, for debt securities, at issue or at the time of a new relocation, or cancelled, even in the case of repurchase, on the basis of the "regulation date", and cannot be transferred to the trading book. Initial recognition is based on fair value, normally equal to the amount collected or the issue price, adjusted for any additional costs and revenues directly attributable to the various funding or issue transactions. Internal administrative costs are excluded. The fair value of any financial liabilities issued at less than market conditions is subject to a specific estimate and the difference with respect to the market value is recorded directly in the income statement. The structured securities are separated in their constitutive elements that are separately recorded, when the derivative components implicit in them are of an economic nature and of different risks from those of the underlying securities and are configurable as autonomous derivative instruments.

(c) Valuation criteria
After initial recognition, the valuations of financial liabilities are based on the amortised cost principle with the effective interest rate method, with the exception of short-term liabilities where the time factor is negligible, which remain recorded for the amount collected; if costs are charged, they are allocated to the income statement in a linear manner for the contractual duration of the liabilities.

(d) Cancellation criteria

Financial liabilities are derecognised from the financial statements when they have expired or have become extinct. The cancellation also occurs at the time of the repurchase of previously issued securities; the difference between the book value of the liabilities and the amount paid to purchase, is shown on the income statement. The re-placement on the market of own securities subsequent to their repurchase is considered as a new issue with recognition of the new placement price, with no effect on the income statement.

12 - Financial trading liabilities

(a) Classification criteria

This item includes derivative trading instruments with negative fair value, including embedded derivatives present in structured and financial instruments that are separate from them. Also included are any "technical overdrafts" originating from securities trading activities.

(b) Registration criteria

Derivative instruments are recognised in relation to the "contracting date" while transactions in securities are accounted for on the "settlement date".
Financial liabilities held for trading are initially recorded at fair value, i.e. at the purchase price.

(c) Valuation criteria

After initial recognition, financial liabilities held for trading are measured at fair value, determined according to the methods described in the paragraph relating to "financial assets held for trading". The financial instruments for which it is not possible to determine the fair value in a reliable manner as indicated above, are maintained at cost. The results of the valuations and those of the trading are shown on the income statement under item 80 "net result of trading activity".

(d) Cancellation criteria

Financial liabilities held for trading are derecognised when the contractual rights on the financial flows deriving from the liabilities expire, or when the financial instruments are sold.

14 – Forex Transactions

(a) 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.

(b) 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.

15 – 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. <u>Level 1 – prices listed on active markets (mark-to-market)</u>, 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. <u>Level 2 – methods based on observable market parameters</u>, 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.

A.3 - DETAILS OF TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

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 used

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

	FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	TOTAL 31.12.2018			TOTAL 31.12.2017		
		L1	L2	L3	L1	L2	L3
1	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT	8,980	6,197		24,269	5,678	17,033
	A) FINANCIAL ASSETS HELD FOR TRADING	8,980	6,197		24,269	5,678	17,033
	B) FINANCIAL ASSETS DESIGNETED AT FAIR VALUE						
	C) OTHER FINANCIAL ASSETS WITH MANDATORY VALUTATION AT FAIR VALUE						
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY	344,630	3,061	4,254	4,377	3,143	4,009
3	DERIVATES FOR HEDGING						
4	TANGIBLE ASSETS						
5	INTANGIBLE ASSETS						
TOTAL		353,610	9,258	4,254	28,646	8,821	21,042
1	FINANCIAL LIABILITIES HELD FOR TRADING		3,601			6,384	
2	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE						
3	DERIVATES FOR HEDGING						
TOTAL			3,601			6,384	

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)

		TOTAL	OF WHICH: A) FINANCIAL ASSETS HELD FOR TRADING	OF WHICH: B) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	OF WHICH: C) OTHER FINANCIAL ASSETS WITH MANDATORY VALUTATION AT FAIR VALUE	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY	DERIVATES FOR HEDGING	TANGIBLE ASSETS
1	**OPENING BALANCE**		**17,033**		**4,009**			
2	**INCREASES**				**530**			
2.1	PURCHASES							
2.2	PROFITS							
2.2.1	INCOME STATEMENT							
	OF WHICH: CAPITAL GAINS							
2.2.2	NET ASSETS							
2.3	TRANSFERS FROM OTHER LEVELS							
2.4	OTHER VARIATIONS WITH INCREASE				530			
3	**DECREASES**		**17,033**		**285**			
3.1	SALES							
3.2	REFUNDS		17,000					
3.3	LOSSES							
3.3.1	INCOME STATEMENT							
	OF WHICH: LOSSES							
3.3.2	NET ASSETS							
3.4	TRANSFERS TO OTHER LEVELS							
3.5	OTHER VARIATIONS WITH DECREASE		33		285			
4	**CLOSING BALANCE**				**4,254**			

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

ASSETS / LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS		31.12.2018				31.12.2017			
		VB	L 1	L 2	L 3	VB	L 1	L 2	L 3
1	FINANCIAL ASSETS VALUTED AT AMORTISED COST	1,504,146	31,734	222,151	1,250,326	275,179	61,379	216,566	
2	TANGIBLE ASSETS HELD FOR INVESTMENT PURPOSES					1,106,952			1,106,952
3	NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE					424,970			427,717
	TOTAL	1,504,146	31,734	222,151	1,250,326	1,807,101	61,379	216,566	1,534,669
1	FINANCIAL LIABILITIES VALUTED AT AMORTISED COST	2,355,319			2,355,213	2,452,113			2,452,113
2	LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE					125,798			125,798
	TOTAL	2,355,319			2,355,213	2,577,911			2,577,911

Legend:

VB=Value of Balance
L1= Level 1
L2= Level 2
L3= Level 3

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

ITEMS / VALUE	TOTAL (31.12.2018)	TOTAL (31.12.2017)
A) CASH	765	551
B) FREE DEPOSITS WITH CENTRAL BANKS	588,546	932.214
TOTAL	589,311	932,765

The item b) contains an overnight deposit made at the Banca d'Italia of EUR 588 million.

SECTION 2 – FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT – ITEM 20

2.1 Financial assets held for trading: breakdown by type

ITEMS / VALUES		TOTAL (31.12.2018)			TOTAL (31.12.2017)		
		L1	L2	L3	L1	L2	L3
A	NON-DERIVATES ASSETS						
1	DEBT SECURITIES	8,980			24,269		17,033
	1.1 STRUCTURED SECURITIES						3,000
	1.2 OTHER DEBT SECURITIES	8,980			24,269		14,033
2	EQUITY SECURITIES						
3	HOLDINGS IN UCI						
4	LOANS						
	4.1 REPO						
	4.2 OTHER DEBT SECURITIES						
TOTAL (A)		8,980			24,269		17,033
B	DERIVATES:						
1	FINANCIAL DERIVATES		6,197			5,678	
	FOR TRADING		6,197			5,678	
	CONNECTED AT FAIR VALUE OPTION						
	OTHER						
2	CREDIT DERIVATES						
	2.1 FOR TRADING						
	2.2 CONNECTED AT FAIR VALUE OPTION						
	2.3 OTHER						
TOTAL (B)			6,197			5,678	
TOTAL (A+B)		8,980	6,197		24,269	5,678	17,033

Legend:

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

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

ITEMS / VALUE	TOTAL (31.12.2018)	TOTAL (31.12.2017)
A. ASSETS FOR CASH		
1. DEBT SECURITIES	**8,980**	**41,302**
A) CENTRAL BANKS		3,029
B) PUBLIC ADMINISTRATIONS		
C) BANKS	870	19,131
D) OTHER FINANCIAL COMPANIES		19,142
OF WHICH: INSURANCE FIRMS		
E) NON-FINANCIAL COMPANIES	**8,110**	
2. CAPITAL SECURITIES		
A) BANKS		
B) OTHER FINANCIAL COMPANIES OF WHICH: INSURANCE FIRMS		
OF WHICH: INSURANCE FIRMS		
C) NON-FINANCIAL COMPANIES		
OTHER ISSURES		
3. O.I.C.R. SHARES (FOR COLLECTIVE INVESTMENT)		
4. FINANCINGS		
A) CENTRAL BANKS		
B) PUBLIC ADMINISTRATIONS		
C) BANKS		
D) OTHER FINANCIAL COMPANIES		
OF WHICH: INSURANCE FIRMS		
E) NON-FINANCIAL COMPANIES		
F) FAMILIES		
TOTAL (A)	8,980	41,302
B. DERIVATE INSTRUMENTS A) CENTRAL COUNTERPARTIES B) OTHERS	**6,197** 6,197	**5,678** 5,678
TOTAL (B)	6,197	5,678
TOTAL (A+B)	15,177	46,980

SECTION 3 – FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY – ITEM 30

3.1 Financial assets measured at fair value with an impact on total profitability: product composition

ITEMS / VALUES		TOTAL (31.12.2018)			TOTAL (31.12.2018)		
		L1	L2	L3	L1	L2	L3
1.	**DEBT SECURITIES**	**344,630**	**3,061**	**1,657**	**4,377**	**3,143**	**1,411**
	1.1 STRUCTURED SECURITIES						
	1.2 OTHER DEBT SECURITIES	344,630	3,061	1,657	4,377	3,143	1,411
2.	**CAPITAL SECURITIES**			2,598			2,598
3.	**FINANCING**						
TOTAL		344,630	3,061	4,255	4,377	3,143	4,009

3.2 Financial assets measured at fair value with an impact on total profitability: composition by debtors/issuers

ITEMS / VALUES	TOTAL (31.12.2018)	TOTAL (31.12.2017)
1. DEBT SECURITIES	**349,348**	**8,932**
A) CENTRAL BANKS		3,143
B) PUBLIC ADMINISTRATIONS	346,146	
C) BANKS		
D) OTHER FINANCIAL COMPANIES		5,789
OF WHICH: INSURANCE FIRMS		
E) NON-FINANCIAL COMPANIES	3,202	
2. CAPITAL SECURITIES	**2,597**	**2,597**
A) BANKS		
B) OTHER ISSUERS:	2,597	2,597
- OTHER FINANCIAL FIRMS		
OF WHICH: INSURANCE FIRMS		
- NON-FINANCIAL COMPANIES	2,597	2,597
- OTHERS		
4. FINANCINGS		
A) CENTRAL BANKS		
B) PUBLIC ADMINISTRATIONS		
C) BANKS		
D) OTHER FINANCIAL COMPANIES		
OF WHICH: INSURANCE FIRMS		
E) NON-FINANCIAL COMPANIES		
F) FAMILIES		
TOTAL	351,945	11,529

3.3 Financial assets measured at fair value with an impact on total profitability: gross value and total value adjustments

	GROSS VALUE				TOTAL VALUE ADJUSTMENTS			
	FIRST STAGE	OF WHICH INSTRUMENTS WITH LOW CREDIT RISK	SECOND STAGE	THIRD STAGE	FIRST STAGE	SECOND STAGE	THIRD STAGE	TOTAL PARTIAL WRITE-OFFS (*)
DEBT SECURITIES FINANCINGS	343,816	343,816	3,271	6,371	(731)	(210)	(3,169)	
TOTAL (31.12.18)	**343,816**	**343,816**	**3,271**	**6,371**	**(731)**	**(210)**	**(3,169)**	
TOTAL (31.12.17)		5,089		**5,524**		**1**	**1,681**	
OF WHICH: IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED								

(*) Value to be displayed for information purposes

The item "debt securities" in the first stage consists of Italian government bonds for a nominal value of 381 million. The second stage consists of a security issued by a foreign institutional counterparty for a nominal value of 3.7 million euros. The third stage consists of securities issued by companies classified as probable default for a nominal value of 6.4 million euros.

SECTION 4 – FINANCIAL ASSETS AT AMORTISED COST – ITEM 40

4.1 Financial assets measured at amortised cost: product composition of loans to banks

TYPES OF OPERATIONS / VALUES		TOTAL (31.12.2018)						TOTAL (31.12.2017)					
		BALANCE SHEET VALUE			FAIR VALUE			BALANCE SHEET VALUE			FAIR VALUE		
		1ST & 2ND STAGE	3RD STAGE	OF WHICH: IMPAIRED, ACQUIRED / ORIGINATED	L1	L2	L3	1ST & 2ND STAGE	3RD STAGE	OF WHICH: IMPAIRED, ACQUIRED / ORIGINATED	L1	L2	L3
A.	**LOANS TO CENTRAL BANKS**							**802**					**802**
1.	DEPOSITS AT MATURITY												
2.	MANDATORY RESERVE												
3.	REPURCHASE AGREEMENTS												
4.	OTHER							802					802
B.	**LOANS TO BANKS**	**1,013,084**	**2,871**			**32,052**	**983,903**	**1,180,482**	**280**				**1,180,762**
1.	**FINANCINGS**	981,391	2,871				984,262	**1,106,150**	280				1,106,430
1.1	CURRENT ACCOUNTS AND DEPOSITS	266,729	2,531				269,260	219,434					219,434
1.2	DEPOSITS AT MATURITY	283,403					283,403	285,723					285,723
1.3	OTHER FINANCINGS:							600,993	280				601,273
	- ACTIVE REPURCHASE AGREEMENTS												
	- FINANCIAL LEASING												
	OTHER	431,259	340				431,599	600,993	280				601,273
2.	**DEBT SECURITIES**	31,693				32,052		74,332					**74,332**
2.1	STRUCTURED SECURITIES												
2.2	OTHER DEBT SECURITIES	31,693				32,052		74,332					74,332
TOTAL		1,013,084	2,871			32,052	984,262	1,181,284	280				1,181,284

Legend:

L1= Livel 1
L2= Livel 2
L3= Livel 3

4.2 Financial assets measured at amortised cost: product composition of loans to customers

TYPES OF OPERATIONS/ VALUES		TOTAL (31.12.2018)						TOTAL (31.12.2017)					
		BALANCE SHEET VALUE			FAIR VALUE			BALANCE SHEET VALUE			FAIR VALUE		
		1ST & 2ND STAGE	3RD STAGE	OF WHICH: IMPAIRED, ACQUIRED / ORIGINATED	L1	L2	L3	1ST & 2ND STAGE	3RD STAGE	OF WHICH: IMPAIRED, ACQUIRED / ORIGINATED	L1	L2	L3
A.	**FINANCINGS**	**237,606**	**28,457**				**266,063**	**413,133**	**11,837**				**424,970**
1.1	CURRENT ACCOUNTS	825	8,032				8,857	26,379	4,311				30,690
1.2.	ACTIVE REPURCHASE AGGREEMENTS												
1.3.	MORTGAGES	9,432	108				9,540	9,090	106				9,196
1.4.	CREDIT CARDS, PERSONAL LOANS AND EMPLOYEE LOANS	2,884					2,884	2,680					2,680
1.5.	FINANCIAL LEASING												
1.6.	FACTORING	35,213					35,213	20,610					20,610
1.7.	OTHER FINANCINGS	189,252	20,317				209,569	354,374	7,420				361,794
DEBT SECURITIES		**222,127**			**31,734**	**190,098**		**200,847**			**10,874**	**189,973**	
1.1.	STRUCTURED SECURITIES												
1.2.	OTHER DEBT SECURITIES	222,127			31,734	190,098		200,847			10,874	189,973	
TOTAL		459,733	28,457		31,734	190,098	266,063	613,980	11,837		**10,874**	189,973	424,970

Legend:

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

4.4 Financial assets measured at amortised cost: composition by debtors/ issuers of loans to customers

TYPES OF OPERATIONS / VALUES		TOTAL (31.12.2018)			TOTAL (31.12.2017)		
		1ST & 2ND STAGE	3RD STAGE	OF WHICH: IMPAIRED, ACQUIRED / ORIGINATED	1ST & 2ND STAGE	3RD STAGE	OF WHICH: IMPAIRED, ACQUIRED / ORIGINATED
1.	**DEBT SECURITIES**	**222,127**			**200,847**		
A)	PUBLIC ADMINISTRATIONS	222,127			200,847		
B)	OTHER FINANCIAL COMPANIES OF WHICH: INSURANCE FIRMS						
C)	NON-FINANCIAL COMPANIES						
2.	**FINANCING**	237,606	28,457		413,133	11,837	
A)	PUBLIC ADMINISTRATIONS	14,273			28,948		
B)	OTHER FINANCIAL COMPANIES OF WHICH: INSURANCE FIRMS	460			2,323	11,730	
C)	NON-FINANCIAL COMPANIES	209,670	28,346		369,166		
D)	FAMILIES	13,203	111		12,696	107	

Legend:

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

4.5 Financial assets measured at amortised cost: gross value and total value adjustments

	GROSS VALUE				TOTAL VALUE ADJUSTMENTS			
	FIRST STAGE	OF WHICH INSTRUMENTS WHITH LOW CREDIT RISK	SECOND STAGE	THIRD STAGE	FIRST STAGE	SECOND STAGE	THIRD STAGE	TOTAL PARTIAL WRITE-OFFS (*)
DEBT SECURITIES	220,652	220,652	38,266		(4,055)	(1,043)		
FINANCINGS	1,148,057		79,684	105,565	(7,992)	(751)	(74,237)	3,344
TOTAL	**1,368,709**	**220,652**	**117,950**	**105,565**	**(12,047)**	**(1,794)**	**(74,237)**	**3,344**
TOTAL (31.12.17)		**1,794,386**		**43,751**	**(2,147)**		**(28,889)**	
OF WHICH: IMPAIRED, ACQUIRED/ ORIGINATED								

(*) Value to be displayed for information purposes

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

No data to report.

SECTION 6 - ADJUSTMENTS TO FINANCIAL ASSETS SUBJECT TO MACRO-HEDGING - ITEM 60

No data to report.

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

No data to report.

SECTION 8 – TANGIBLE FIXED ASSETS - ITEM 80

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

ASSETS/VALUES		TOTAL (31.12.2018)	TOTAL (31.12.2017)
1	**PROPRIETARY ASSETS**	**22,797**	**23,120**
	A) LAND	8,187	8,187
	B) BUILDINGS	13,940	14,553
	C) FURNISHINGS	135	148
	D) ELECTRIC/ELECTRONIC EQUIPMENT	2	3
	E) OTHER ITEMS	533	229
2	**ASSETS ACQUIRED VIA FINANCIAL LEASING**		
	A) LAND		
	B) BUILDINGS		
	C) FURNISHINGS		
	D) ELECTRIC/ELECTRONIC EQUIPMENT		
	E) OTHER ITEMS		
TOTAL		22,797	23,120
OF WHICH: OBTAINED THROUGH ENFORCEMENT OF GUARANTEES RECEIVED			

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.

8.6 Tangible fixed assets held for operational use: Yearly variations

		LAND	BUILDINGS	FURNISHINGS	ELECTRONIC PLANT	OTHER	TOTAL
A. GROSS OPENING BALANCE		**8,187**	**23,031**	**1,795**	**2,377**	**2,574**	**37,964**
A.1	REDUCTION OF TOTAL NET VALUES		8,478	1,647	2,374	2,345	14,844
A.2	**NET OPENING BALANCE**	**8,187**	**14,553**	**148**	**3**	**229**	**23,120**
B. INCREASES:			**92**	**12**		**411**	**515**
B.1	PURCHASES		92	12		411	515
B.2	EXPENSES FOR CAPITALISED IMPROVEMENTS						
B.3	WRITE-BACKS						
B.4	POSITIVE VARIATIONS OF FAIR VALUE						
	ATTRIBUTED TO:						
	A) NET ASSETS						
	B) INCOME STATEMENT						
B.5	POSITIVE DIFFERENCES OF EXCHANGE RATES						
B.6	TRASNFERS FROM PROPERTIES HELD FOR INVESTMENT PURPOSES						
B.7	OTHER VARIATIONS						
C. DECREASES:			**705**	**25**	**1**	**107**	**838**
C.1	SALES						
C.2	AMORTISATIONS		705	25	1	107	838
C.3	VALUE ADJUSTEMENTS FROM DETERIORATION ATTRIBUTED TO:						
	A) NET ASSETS						
	B) INCOME STATEMENT						
C.4	NEGATIVE VARIATIONS OF FAIR VALUE						
	A) NET ASSETS						
	B) INCOME STATEMENT						
C.5	NEGATIVE DIFFERENCES OF EXCHANGE RATES						
C.6	TRANSFERS TO:						
A)	TANGIBLE ASSETS HELD FOR INVESTMENT PURPOSES						
B)	NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE						
C.7	OTHER VARIATIONS						
D. NET CLOSING BALANCE		**8,187**	**13,940**	**135**	**2**	**533**	**22,797**
D.1	REDUCTION OF TOTAL NET VALUES		9,183	1,672	2,375	2,452	15,682
D.2	GROSS CLOSING BALANCE	8,187	23,123	1,807	2,377	2,985	38,479
E.	VALUTATION AT COST						

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 9 – INTANGIBLE FIXED ASSETS – ITEM 90

9.1 Intangible fixed assets: breakdown by type

ITEM/VALUES		TOTAL (31.12.2018)		TOTAL (31.12.2017)	
		LIMITED LIFE	UNLIMITED LIFE	LIMITED LIFE	UNLIMITED LIFE
A.1	**GOODWILL**				
A.2	**OTHER INTANGIBLE ASSETS**	**357**		**842**	
A.2.1	ASSETS VALUED AT COST	357		842	
	A) INTANGIBLE ASSETS DEVELOPED IN-HOUSE				
	B) OTHER ASSETS	357		842	
A.2.2	ASSETS ASSESSED AT FAIR VALUE				
	A) INTANGIBLE ASSETS DEVELOPED IN-HOUSE				
	B) OTHER ASSETS				
	TOTAL	**357**		**842**	

9.2 Intangible fixed assets: Yearly variations

		GOODWILL	OTHER INTANGIBLE ASSETS: GENERATED INTERNALLY		OTHER INTANGIBLE ASSETS: VARIOUS		TOTAL
			DEF	INDEF	DEF	INDEF	
A. OPENING BALANCE			**842**				**842**
A.1	REDUCTION OF TOTAL NET VALUE						
A.2	**NET OPENING BALANCE**		**842**				**842**
B. INCREASES			**296**				**296**
B.1	PURCHASES		296				**296**
B.2	INCREASE OF INTANGIBLE ASSETS INTERNALLY						
B.3	VALUE ADJUSTMENTS						
B.4	POSITIVE VARIATIONS OF FAIR VALUE:						
	- TO NET ASSETS						
	- TO INCOME STATEMENT						
B.5	POSITIVE DIFFERENCES IN EXCHANGE RATES						
B.6	OTHER VARIATIONS						
C. DECREASES			**781**				**781**
C.1	SALES						
C.2	VALUE ADJUSTMENTS		781				**781**
	- AMORTISATIONS		781				**781**
	- WRITE-DOWNS:						
	+ NET ASSETS						
	+ INCOME STATEMENT						
C.3	NEGATIVE VARIATIONS OF FAIR VALUE:						
	- TO NET ASSETS						
	- TO INCOME STATEMENT						
C.4	TRANSFERS TO NON-CURRENT ASSETS HELD FOR SALE						
C.5	NEGATIVE DIFFERENCES IN EXCHANGE RATES						
C.6	OTHER VARIATIONS						
D. NET CLOSING BALANCE			**357**				**357**
D.1 TOTAL NET VALUE ADJUSTMENTS							
E. GROSS CLOSING BALANCE			**357**				**357**
F.	VALUATION AT COST		357				357

Legend:

DEF = definite duration
INDEF = indefinite duration

Other intangible assets as of 31 December 2018 are amortized in constant proportions for an estimated period of five years from the date of coming into force.

SECTION 10 – TAX ASSETS AND TAX LIABILITIES - ITEM 100 (ASSETS) AND ITEM 60 (LIABILITIES)

10.1 Pre-paid tax assets: breakdown

		TOTAL (31.12.2018)	TOTAL (31.12.2017)
TOTAL		**20,862**	**5,385**
INCOME STATEMENT		5,385	5,385
1	TAX LOSSES		
2	LOAN LOSSES	4,253	4,253
3	OTHER	1,132	1,132
SHAREHOLDER'S EQUITY		15,477	
4	VALUTATION RESERVES	15,477	
5	OTHER		

10.2 Deferred Tax liabilities: breakdown

		TOTAL (31.12.2018)	TOTAL (31.12.2017)
TOTAL			**389**
1	INCOME STATEMENT		
	SHAREHOLDERS' EQUITY		389
2	VALUTATION RESERVES		389
	OTHER		

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

		TOTAL (31.12.2018)	TOTAL (31.12.2017)
1.	**OPENING BALANCE**	**5,385**	**5,091**
2.	**INCREASES**		**536**
2.1	PRE-PAID TAX ASSETS RECORED 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
3.	**DECREASES**		**242**
3.1	PRE-PAID TAX ASSETS ANNULLED DURING THE YEAR		242
	A) REVERSALS		242
	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 2 214/2011		
	B) OTER		
4.	**CLOSING BALANCE**	**5,385**	**5,385**

10.5 Changes in prepaid tax assets: Contra-item in in shareholders' equity

		TOTAL (31.12.2018)	TOTAL (31.12.2017)
1.	**INITIAL AMOUNT**		
2.	**INCREASES**	**15,477**	
2.1	DEFERRED TAX ASSETS RECOGNISED DURING THE YEAR		
	A) RELATING TO PREVIOUS YEARS		
	B) DUE TO CHANGES IN ACCOUNTING CRITERIA	3,436	
	C) OTHER		
2.2	NEW TAXES OR INCREASES IN TAX RATES		
2.3	OTHER INCREASES	12,041	
3.	**DECREASES**		
3.1	DEFERRED TAX ASSETS CANCELLED DURING THE YEAR		
	A) REVERSALS		
	B) UNRECOVERABLE WRITE-OFFS		
	C) DUE TO CHANGES IN ACCOUNTING CRITERIA		
	D) OTHER		
3.2	REDUCTION IN TAX RATES		
3.3	OTHER DECREASES		
4.	**FINAL AMOUNT**	**15,477**	

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

		TOTAL (31.12.2018)	TOTAL (31.12.2017)
1.	**INITIAL AMOUNT**	**389**	**379**
2.	**INCREASES**		**10**
2.1	DEFFERED TAXES RECORDED DURING THE YEAR		
	A) RELATING TO PREVIOUS YEARS		
	B) DUE TO CHANGES IN ACCOUNTING CRITERIA		
	C) OTHER		
2.2	NEW TAXES OR INCREASES IN TAX RATES		
2.3	OTHER INCREASES		10
3.	**DECREASES**	**389**	
3.1	DEFERRED TAXES CANCELLED DURING THE YEAR		
	A) REVERSALS		
	B) DUE TO CHANGES IN ACCOUNTING CRITERIA		
	C) OTHER		
3.2	REDUCTION IN TAX RATES		
3.3	OTHER DECREASES	389	
4.	**FINAL AMOUNT**		**389**

SECTION 11 – NON-CURRENT ASSETS AND GROUPS OF ASSETS BEING DIVESTED AND ASSOCIATED LIABILITIES – ITEM 110 (ASSETS) AND ITEM 70 (LIABILITIES)

No data to report.

SECTION 12 – OTHER ASSETS – ITEM 120

12.1 Other assets: breakdown

		TOTAL (31.12.2018)	TOTAL (31.12.2017)
1	GOLD, SILVER AND PRECIOUS METALS		
2	ACCRUED INCOME		
3	IMPROVEMENTS TO ASSETS PERTAINING TO THIRD PATIES		
4	OTHER (ILLIQUID ITEMS, AS YET UNPROCESSED AMOUNTS)	10,525	5,498
TOTAL		10,525	5,498

LIABILITIES

SECTION 1 – FINANCIAL LIABILITIES VALUED AT AMORTISED COST - ITEM 10

1.1 Financial liabilities valued at amortised cost: composition of debts towards banks

TYPE OF OPERATIONS / VALUES		TOTAL (31.12.2018)				TOTAL (31.12.2017)			
		BALANCE VALUE	FAIR VALUE			BALANCE VALUE	FAIR VALUE		
			L1	L2	L3		L1	L2	L3
1.	**DEBTS TOWARDS CENTRAL BANKS**	**310,860**				**282,948**			
2.	**DEBTS TOWARDS BANKS**	**1,939,054**				**2,169,165**			
2.1	CURRENT ACCOUNTS AND DEPOSITS AT SIGHT	609,810				528,985			
2.2	DEPOSITS AT MATURITY	1,156,466				1,540,180			
2.3	FINANCING OPERATIONS	172,778				100,000			
2.3.1	REPURCHASE AGREEMENTS	72,778							
2.3.2	OTHERS	100,000				100,000			
2.4	PAYABLES FOR REPURCHASE COMMITMENTS OF OWN EQUITY INSTRUMENTS								
2.5	OTHER PAYABLES								
TOTAL		2,249,914			2,249,914	2,452,113			2,452,113

Legend:

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

The Item 1 includes deposits received from foreign Central Banks.

1.2 Financial liabilities valued at amortised cost: product composition of amounts due to customers

TYPE OF OPERATIONS / VALUES		TOTAL (31.12.2018)				TOTAL (31.12.2017)			
		BALANCE VALUE	FAIR VALUE			BALANCE VALUE	FAIR VALUE		
			L1	L2	L3		L1	L2	L3
1.	CURRENT ACCOUNTS AND DEPOSITS AT SIGHT	77,584				105,416			
2.	DEPOSITS AT MATURITY	27,551				19,896			
3.	FINANCING OPERATIONS								
3.1	REPURCHASE AGREEMENTS								
3.2	OTHERS					486			
4.	PAYABLES FOR REPURCHASE COMMITMENTS OF OWN EQUITY INSTRUMENTS								
5.	OTHER PAYABLES	270							
TOTAL		**105,405**			**105,404**	**125,798**			**125,798**

Legend:

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

1.4 Detail of subordinated bonds/ liabilities

	TOTAL (31.12.2018)
2. DEBTS TOWARDS BANKS	
SUBORDINATED LIABILITIES	100,000

SECTION 2 – ACCOUNTS PAYABLE TO CUSTOMERS - ITEM 20

2.1 Financial liabilities held for trading: breakdown by type

		31.12.2018				31.12.2017			
		NV	FV *			NV	FV *		
			L1	L2	L3		L1	L2	L3
A.	**CASH LIABILITIES**								
1.	ACCOUNTS PAYABLE TO BANKS								
2.	ACCOUNTS PAYABLE TO COSTUMERS								
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.	**DERIVATES**								
1.	FINANCIAL DERIVATES			3,601				6,384	
1.1	HELD FOR TRADING			3,601				6,384	
1.2	LINKED TO FAIR VALUE OPTION								
1.3	OTHER								
2.	CREDIT DERIVATES								
2.1	HELD FOR TRADING								
2.2	LINKED TO FAIR VALUE OPTION								
2.3	OTHER								
TOTAL B				**3,601**				6,384	
TOTAL (A+B)				**3,601**				6,384	

Legend:

NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

FV* = fair value as reckoned by excluding variations in value due to changes intervened in the issue's creditworthiness since the issue date

SECTION 3 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE - ITEM 30

No data to report.

SECTION 4 – HEDGING DERIVATIVES – ITEM 40

No data to report.

SECTION 5 – VALUE ADJUSTMENT OF FINANCIAL LIABILITIES SUBJECT TO GENERIC HEDGING – ITEM 50

No data to report.

SECTION 6 – FISCAL LIABILITIES - ITEM 60

See Section 10 of the assets.

SECTION 7 – LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE - ITEM 70

See Section 11 of the assets.

SECTION 8 – OTHER LIABILITIES – ITEM 80

8.1 Other liabilities breakdown

		TOTAL (31.12.2018)	TOTAL (31.12.2017)
1	ACCRUED LIABILITIES		
2	OTHER LIABILITIES (SUMS AVAILABLE TO COSTUMERS, ILLIQUID ITEMS)	15,333	14,214
TOTAL		15,333	14,214

SECTION 9 – EMPLOYEE SEVERANCE BENEFITS - ITEM 90

9.1 Staff severance fund: Yearly variations

ITEMS / VALUES				TOTAL (31.12.2018)	TOTAL (31.12.2017)
A	OPENING BALANCE			**1,461**	**1,566**
B	INCREASES			**16**	**28**
	B.1	PROVISIONING FOR THE YEAR		16	19
	B.2	OTHER INCREASES			9
C	DECREASES			**373**	**133**
	C.1	SEVERANCE PAYMENTS		349	133
	C.2	OTHER DECREASES		24	
D	CLOSING BALANCE			**1,104**	**1,461**
TOTAL				1,104	1,461

9.1.1 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.

9.1.2 Reconciliation of actuarial valuations under IAS 19

	TOTAL (31.12.2018)	TOTAL (31.12.2017)
OPENING BALANCE	**1,461**	**1,566**
REALIGNMENT		
PENSION COST		
FINANCIAL CHARGES	16	19
BENIFITS PAID	**(349)**	**(133)**
TRANSFERS		
EXPECTED LIABILITIES	**1,128**	**1,452**
ACTUARIAL LOSS	(24)	9
CLOSING BALANCE	**1,104**	**1,461**

9.2 Other information

	TOTAL (31.12.2018)
PROVISIONING FOR THE YEAR	**(118)**
PENSION COSTS	
FINANCIAL CHARGES	19
ACTURIAL LOSS	(137)
OTHER	

SECTION 10 – PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 Provisions for risks and charges: breakdown

ITEMS / VALUES	TOTAL (31.12.2018)	TOTAL (31.12.2017)
1. FUNDS FOR CREDIT RISK RELATING TO COMMITMENTS AND FINANCIAL GUARANTEES ISSUED	5,972	2,918
2. FUNDS ON OTHER COMMITMENTS AND OTHER GUARANTEES ISSUED		
3. COMPANY RETIREMENT FUNDS		
4. OTHER PROVISIONS FOR RISKS AND CHARGES	632	2,295
4.1 LEGAL AND TAX DISPUTES		1,688
4.2 PERSONNEL COSTS	632	607
4.3 OTHERS		
TOTAL	6,604	5,213

As of 31 December 2018, the item "Provisions for risks and charges" amounted to Euro 6.6 million and included charges of Euro 0.6 million for personnel, and Euro 6 million for allocations due to IFRS9 devaluations for financial commitments and guarantees issued.

10.2 Provisions for risks and charges: Yearly variations

ITEMS / VALUES	FUNDS FOR OTHER COMMITMENTS AND GUARANTEES ISSUED	PENSION FUNDS	OTHER FUNDS FOR RISKS AND CHARGES	TOTAL
A. OPENING BALANCE	**2,918**		**2,295**	**5,213**
B. INCREASES	**3,161**		**26**	**3,187**
B.1 ALLOCATION FOR THE YEAR	2,354			
B.2 CHANGES DUE TO THE PASSAGE OF TIME				
B.3 VARIATIONS DUE TO CHANGES IN THE DISCOUNT RATE				
B.4 OTHER CHANGES	807		26	833
C. DECREASES	**107**		**1,689**	**1,796**
C.1 USE DURING THE YEAR	107			107
C.2 VARIATIONS DUE TO CHANGES IN THE DISCOUNT RATE				
C.3 OTHER CHANGES			1,689	1,689
D. CLOSING BALANCE	5,972		632	6,604

10.3 Provisions for credit risk relating to commitments and financial guarantees issued

ITEMS / VALUES	PROVISIONS FOR CREDIT RISK RELATING TO COMMITMENTS, AND FINANCIAL GUARANTEES ISSUED			
	FIRST STAGE	SECOND STAGE	THIRD STAGE	TOTAL
COMMITMENTS TO DISBURSE FUNDS	4	16		20
FINANCIAL GUARANTEES ISSUED	1,886	1,859	2,208	5,953
TOTAL	1,890	1,875	2,208	5,973

10.6 Provisions for risks and charges – other provisions

	TOTAL (31.12.2018)	TOTAL (31.12.2017)
PROVISION FOR HOLIDAYS NOT TAKEN	632	607
OTHER		
TOTAL	632	607

SECTION 11 –REDEEMABLE SHARES - ITEM 120

No data to report.

SECTION 12 – SHAREHOLDERS' EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

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

	TOTAL (31.12.2018)	TOTAL (31.12.2017)
1. SHARE CAPITAL	**159,861**	**159,861**
2. SHARE PREMIUM ACCOUNT	**16,702**	**16,702**
3. RESERVES	42,469	42,227
4. CAPITAL INSTRUMENTS		
5. (TREASURY STOCK)		
6. VALUTATION RESERVES	(24,559)	556
7. PROFIT (LOSS) FOR THE YEAR	**(51,457)**	**9,440**
TOTAL	**143,016**	**228,786**

12.2 Share capital: Yearly variations in number of shares

ITEMS/ VALUES	COMMON	OTHER
A. SHARES AT START OF YEAR	**1,453,280**	
- FULLY PAID UP	1,453,280	
- NOT FULLY PAID UP		
A.1 TREASURY STOCK		
A.2 SHARES OUTSTANDING: OPENING BALANCE	**1,453,280**	
B. INCREASES		
B.1 NEW SHARE ISSUES		
RIGHTS ISSUES:		
- COMBINATION OF COMPANIES		
- CONVERSION OF BONDS		
- EXERCISE OF WARRANTS		
- OTHERS		
BONUS ISSUES:		
- FOR EMPLOYEES		
- FOR DIRECTORS		
- OTHER		
B.2 SALE OF TREASURY STOCK		
B.3 OTHER INCREASES		
C. DECREASES		
C.1 CANCELLATIONS		
C.2 PURCHASE OF TREASURY STOCK		
C.3 DISPOSAL OF COMPANIES		
C.4 OTHER DECREASES		
D. SHARES OUTSTANDING: FISCAL CLOSING BALANCE	**1,453,280**	
D.1 TREASURY STOCK (+)		
D.2 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.

12.4 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	**42,469**			
A) LEGAL RESERVE	13,494	B	13,494	
B) EXTRAORDINARY	35,625	A,B,C	35,625	
C) FTA/IFRS RESERVES	(6,955)			
D) RETAINED PROFIT IFRS 2005	305			
E) RETAINED PROFIT		A,B,C		
OTHER RESERVES				
TOTAL	**59,171**			
AMOUNT NOT ALLOCATABLE	6,844			
AMOUNT ALLOCATABLE	**52,327**			

LEGEND:

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

OTHER INFORMATION

1. Commitments and financial guarantees issued (other than those designated at fair value)

	NOMINAL VALUE ON COMMITMENTS AND FINANCIAL GUARANTEES ISSUED			TOTAL (31.12.2018)	TOTAL (31.12.2017)
	(FIRST STAGE)	(SECOND STAGE)	(THIRD STAGE)		
COMMITMENTS TO DISBURSE FUNDS	**10,030,327**	**590,535**	**2,806**	**10,623,668**	**52,974**
A) CENTRAL BANKS	60,000	41,420		101,420	
B) PUBLIC ADMINISTRATIONS					
C) BANKS	9,026,082	420,589		9,446,671	
D) OTHER FINANCIAL COMPANIES	68,086	33,000		101,086	
E) NON-FINANCIAL COMPANIES	876,159	94,053	2,806	973,018	52,974
F) FAMILIES		1,473		1,473	
FINANCIAL GUARANTEES ISSUED	**674,587**	**176,805**	**15,663**	**867,055**	**862,620**
A) CENTRAL BANKS	19,700			19,700	
B) PUBLIC ADMINISTRATIONS					
C) BANKS	466,889	119,600		586,489	561,369
D) OTHER FINANCIAL COMPANIES					
E) NON-FINANCIAL COMPANIES	187,998	57,205	15,663	260,866	301,251
F) FAMILIES					

3. Assets set up as collateral for own liabilities and commitments

PORTFOLIOS	AMOUNT (31.12.2018)	AMOUNT (31.12.2017)
1. FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT		7,000
2. FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY		
3. FINANCIAL ASSETS VALUED AT AMORTISED COST	512	50,718
4. TANGIBLE ASSETS		
OF WHICH: TANGIBLE ASSETS THAT CONSTITUTE INVENTORIES		

Such activities have been used by Banca d'Italia for issuing bank drafts.

5 ASSET MANAGEMENT AND BROKERAGE SERVICES

		SERVICES	TOTAL (31.12.18)
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**		**683,977**
	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	15,399
		1 SECURITIES ISSUED BY BANK THAT DRAWS UP BALANCE SHEET	14,379
		2 OTHER SECURITIES	1,020
	C)	THIRD-PARTY SECURITIES HELD BY THIRD PARTIES	11,583
	D)	OWN SECURITIES HELD BY THIRD PARTIES	656,995
4.	**OTHER OPERATIONS**		

Note that the Bank's memorandum accounts include third-party funds for a countervalue of EUR 3,1 billion (EUR 3 billion as of 31 December 2017) consisting of third-party securities and relative coupons, subject to judicial and international constraints, It should also be pointed out that part of said funds, for a countervalue of Euro 1,7 billion, have been transferred to other intermediaries following a provision issued by foreign judicial authorities, while awaiting definitive assignment,
It is difficult to forecast the outcome of the proceedings pending both in the United States and in Luxemburg 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

	ITEMS / TECHNICAL FORMS	DEBT SECURITIES	LOANS	OTHER OPERATIONS	TOTAL (31.12.2018)	TOTAL (31.12.2017)
1	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT	**620**			**620**	**1,610**
	1.1 FINANCIAL ASSETS HELD FOR TRADING	620			620	1,610
	1.2 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE					
	1.3 OTHER FINANCIAL ASSETS NECESSARILY MEASURED AT FAIR VALUE					
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	**1,453**			**1,453**	**2,863**
3	FINANCIAL ASSETS VALUED AT AMORTISED COST:	**9,338**	**39,984**		**49,322**	**42,951**
	3.1 CREDITS TOWARDS BANKS	1,114	26,599		27,713	20,561
	3.2 CREDITS TOWARDS CUSTOMERS	8,224	13,385		21,609	22,390
4	DERIVATES FOR HEDGING OPERATIONS					
5	OTHER ASSETS			1	1	25
6	FINANCIAL LIABILITIES					
TOTAL		**11,411**	**39,984**		**51,395**	**47,449**
OF WHICH: INTEREST INCOME ON IMPAIRED FINANCIAL ASSETS		178	18		196	

Interest relating to customers' impaired assets amounted to Euro 195,933 (previously Euro 27,866 for the year ended 31/12/2017).

1.2 Interest and similar income: other information

1.2.1 Interest income from financial assets denominated in foreign currency

	ITEMS / TECHNICAL FORMS	DEBT SECURITIES	LOANS	OTHER OPERATIONS	TOTAL (31.12.2018)	TOTAL (31.12.2017)
1	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT:	**460**			**460**	**831**
	1.1 FINANCIAL ASSETS HELD TRADING	460			460	705
	1.2 FINANCIAL ASSETA DESIGNATED AI FAIR VALUE					
	1.3 OTHER FINANCIAL ASSETS NECESSARILY MEASURED AT FAIR VALUE					126
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	**122**			**122**	
3	FINANCIAL ASSETS VALUED AT AMORTISED COST:	**7,265**	**30,691**		**37,956**	**30,074**
	3.1 CREDITS TOWARDS BANKS	1,114	22,628		23,742	17,461
	3.2 CREDITS TOWARD CUSTOMERS	6,151	8,063		14,214	12,613
4	DERIVATES FOR HEDGING OPERATIONS					
5	OTHER ASSETS					
6	FINANCIAL LIABILITIES					
TOTAL		**7,847**	**30,691**		**38,538**	**30,905**
OF WHICH: INTEREST INCOME ON IMPAIRED FINANCIAL ASSETS						

1.3 Interest charges and similar expenses: breakdown

	ITEMS / TECHNICAL FORMS	DEBTS	SECURITIES	OTHER OPERATIONS	TOTAL (31.12.2018)	TOTAL (31.12.2017)
1.	FINANCIAL LIABILITIES VALUED AT AMORTISED COST	**37,803**			**37,803**	**28,788**
	1.1 DEBTS TOWARDS CENTRAL BANKS	1,982			1,982	2,014
	1.2 DEBITS TOWARDS OTHER BANKS	35,331			35,331	26,412
	1.3 DEBITS TOWARD CUSTOMERS	490			490	362
	1.4 SECURITIES ISSUED					
2.	FINANCIAL LIABILITIES FOR TRADING					
3.	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE					
4.	OTHER LIABILITIES AND FUNDS					
5.	HEDGING DERIVATES					
6.	FINANCIAL ASSETS					
TOTAL		37,803			37,803	28,788

1.4 Interest charges and similar expenses: Other information

1.4.1 Interest charges on liabilities denominated in foreign currency

	ITEMS / TECHNICAL FORMS	DEBTS	SECURITIES	OTHER OPERATIONS	TOTAL (31.12.2018)	TOTAL (31.12.2017)
1.	FINANCIAL LIABILITIES VALUED AT AMORTISED COST	29,116			29,116	22,383
	1.1 DEBTS TOWARDS CENTRAL BANKS	419			419	183
	1.2 DEBITS TOWARDS OTHER BANKS	28,207			28,207	21,869
	1.3 DEBITS TOWARD CUSTOMERS	490			490	331
	1.4 SECURITIES ISSUED					
2.	FINANCIAL LIABILITIES FOR TRADING					
3.	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE					
4.	OTHER LIABILITIES AND FUNDS					
5.	HEDGING DERIVATES					
6.	FINANCIAL ASSETS					
TOTAL		29,116			29,116	22,383

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

2.1 Commission income: breakdown

TYPE OF SERVICES / VALUES			TOTAL (31.12.2018)	TOTAL (31.12.2017)
A)	GUARANTEES ISSUED		17,601	17,262
B)	CREDIT DERIVATIVES			
C)	MANAGEMENT, BROKERAGE AND CONSULTANCY SERVICES:		731	1,459
	1	TRADING FINANCIAL INSTRUMENTS		
	2	TRADING FOREIGN CURRENCY	731	1,459
	3	MANAGING INDIVIDUAL PORTFOLIOS		
	4	CUSTODY AND MANAGEMENT OF SECURITIES		
	5	DEPOSITORY BANK		
	6	PLACEMENT OF SECURITIES		
	7	RECEIVING AND TRANSMITTING ORDERS		
	8	CONSULTANCY ACTIVITIES		
		8.1 ON INVESTMENTS		
		8.2 ON FINANCIAL STRUCTURE		
	9	DISTRIBUTION OF THIRD-PARTY SERVICES		
		9.1 MANAGING PORTFOLIOS		
		9.1.1 INDIVIDUAL PORTFOLIOS		
		9.1.2 COLLECTIVE PORTFOLIOS		
		9.2 INSURANCE PRODUCTS		
		9.3 OTHER PRODUCTS		
D)	COLLECTION AND PAYMENT SERVICES		10	3
E)	SERVICING FOR REACTORING OPERATIONS			
F)	SERVICING FOR FACTORING OPERATIONS		185	147
G)	EXERCISE OF TAX COLLECTION AND RECEIVERS			
H)	MANAGING MULTILATERAL TRADING SYSTEMS			
I)	KEEPING AND MANAGING CURRENT ACCOUNTS		15	16
J)	OTHER SERVICES		2,900	2,464
TOTAL			21,442	21,351

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

2.3 Commission expense: breakdown

	SERVICES / VALUES				TOTAL (31.12.2018)	TOTAL (31.12.2017)
A)	**GUARANTEES RECEIVED**				4,642	3,768
B)	**CREDIT DERIVATES**					
C)	**MANAGEMENT AND BROKERAGE SERVICES**					**1**
	1	TRADING IN FINANCIAL INSTEUMENTS				
	2	FOREX				1
	3	ASSET MANAGEMENT				
		3.1	OWN PORTFOLIO			
		3.2	THIRD-PARTY PORTFOLIOS			
	4	CUSTODY AND ADMINISTRATION OF SECURITIES				
	5	PLACEMENT OF SECURITIES				
	6	OFF-PREMISES DISTRIBUTION OF SECURITIES, PRODUCTS AND SERVICES				
D)	**COLLECTION AND PAYMENT SERVICES**				3	6
E)	**OTHER SERVICES**				**345**	**487**
TOTAL					4,990	4,262

The item includes commissions downgraded to banking counterparties on guarantees issued by our Bank, and commissions downgraded to counterparties participating in syndicated pool loans.

SECTION 3 – DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

	SERVICES / VALUES	TOTAL (31.12.18)		TOTAL (31.12.17)	
		DIVIDENDS	INCOME FROM INVESTMENT FUNDS	DIVIDENDS	INCOME FROM INVESTMENT FUNDS
A	FINANCIAL ASSETS HELD FOR TRADING				
B	FINANCIAL ASSETS NECESSARY MEASURED AT FAIR VALUE			3	
C	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY				
D	EQUITY INVESTMENTS				
TOTAL				**3**	

SECTION 4 – NET TRADING INCOME – ITEM 80

4.1 Net result of trading activities: composition

OPERATIONS / INCOME COMPONENTS			CAPITAL GAINS (A)	PROFIT FROM TRADING (B)	LOSSES (C)	LOSSES FROM TRADING (D)	NET RESULTS [(A+B) - (C+D)]
1.	**FINANCIAL ASSETS FOR TRADING**		**7**	**928**	**201**	**954**	**(220)**
	1.1	DEBT SECURITIES	7	679	178	772	(264)
	1.2	CAPITAL SECURITIES		238	23	152	63
	1.3	O.I.C.R. PORTIONS		11		30	(19)
	1.4	FINANCING OPERATIONS					
	1.5	OTHERS					
2.	**FINANCIAL LIABILITIES FOR TRADING**						
	2.1	DEBT SECURITIES					
	2.2	DEBTS					
	2.3	OTHERS					
3.	**FINANCIAL ASSETS AND LIABILITIES: EXCHANGE DIFFERENCES**						4,285
4.	**DERIVATIVE INSTRUMENTS**		**4,057**	**23,164**	**2,905**	**26,145**	**(1,829)**
	4.1	FINANCIAL DERIVATIVES:	4,057	23,164	2,905	26,145	(1,829)
		- ON DEBT SECURITIES AND INTEREST RATES	1,112	3,881	82	3,895	1,016
		- ON CAPITAL SECURITIES AND EQUITY INDICES		311		254	57
		- ON FOREIGN CURRENCIES AND GOLD	2,945	18,972	2,823	21,996	(2,902)
		- OTHERS					
	4.2	CREDIT DERIVATIVES					
OF WHICH: NATURAL HEDGING RELATED TO FAIR VALUE OPTION							
TOTAL			4,064	24,092	3,106	27,099	2,236

(*)The amount reflects the profit deriving from the valuation of items in foreign currency.
(**) Capital gains and losses (Euro 1.1 million) reflect the fair value measurement of financial derivatives on interest rates and foreign currencies and are included respectively in asset item 20 (below Euro 6.2 million) and in item 20 of liabilities (below Euro 3.6 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 Profit (Loss) from sale/repurchase: composition

ITEMS/INCOME COMPONENTS		TOTAL (31.12.18)			TOTAL (31.12.17)		
		PROFIT	LOSS	NET RESULT	NET	LOSS	NET RESULT
FINANCIAL ASSETS							
1. FINANCIAL ASSETS VALUED AT AMORTISED COST:							
1.1	CREDITS TOWARDS BANKS						
1.2	CREDIT TOWARDS CUSTOMERS						
2. FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY							
2.1	DEBT SECURITIES		(252)	(252)	236	(31)	205
2.4	FINANCIAL OPERATIONS		(252)	(252)	236	(31)	205
TOTAL ASSETS			(252)	(252)	236	(31)	205
FINANCIAL LIABILITIES VALUED AT AMORTISED COST							
1.	DEBTS TOWARDS BANKS						
2.	DEBTS TOWARDS CUSTOMERS						
3.	SECURITIES ISSUED						
TOTAL LIABILITIES							

SECTION 7 – NET RESULT OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT – ITEM 110

No data to report.

SECTION 8 – ADJUSTMENTS / NET WRITE-BACKS FOR CREDIT RISK – ITEM 130

8.1 Net value adjustments for credit risk relating to financial assets valued at amortised cost: breakdown

OPERATIONS/INCOME COMPONENTS		VALUE ADJUSTMENTS (1)			VALUE RECOVERY (2)		TOTAL (31.12.2018) (2-1)	TOTAL (31.12.2017)
		FIRST AND SECOND STAGES	THIRD STAGE		FIRST AND SECOND STAGES	THIRD STAGE		
			WRITE - OFFS	OTHERS				
A.	CREDIT TOWARDS BANKS	2,458		231	79		(2,610)	434
	- FINANCING OPERATIONS	2,167		231			(2,398)	434
	- DEBT SECURITIES	291			79		(212)	
	OF WHICH: IMPAIRED CREDITS ACQUIRED OR ORIGINATED							
B.	CREDIT TOWARDS CUSTOMERS	1,688		44,043	1,699	1	(44,031)	(4,220)
	- FINANCING OPERATIONS			44,043	1,699	1	(42,343)	(4,220)
	- DEBT SECURITIES	1,688					(1,688)	
	OF WHICH: IMPAIRED CREDITS ACQUIRED OR ORIGINATED							
C.	TOTAL	4,146		44,274	1,778	1	(46,641)	(3,786)

8.2 Net value adjustments for credit risk relating to financial assets measured at fair value with impact on overall profitability: composition

OPERATIONS/INCOME COMPONENTS		VALUE ADJUSTMENTS (1)			VALUE RECOVERY (2)		TOTAL (31.12.2018) (2-1)	TOTAL (31.12.2017)
		FIRST AND SECOND STAGES	THIRD STAGE		FIRST AND SECOND STAGES	THIRD STAGE		
			WRITE - OFFS	OTHERS				
A.	DEBT SECURITIES	731		1,487	51		(2,167)	(320)
B.	FINANCING OPERATIONS							
	- TOWARDS CUSTOMERS							
	- TOWARDS BANKS							
	OF WHICH: IMPAIRED ASSETS ACQUIRED OR ORIGINATED							
C.	TOTAL	731		1,487	51		(2,167)	(320)

SECTION 9 – PROFITS / LOSSES FROM CONTRACTUAL CHANGES WITHOUT CANCELLATIONS – ITEM 140

No data to report.

SECTION 10 – ADMINISTRATION EXPENSES – ITEM 160

10.1 Personnel expenses: breakdown

		TOTAL (31.12.2018)	TOTAL (31.12.2017)
1)	STAFF	17,882	17,031
A)	WAGES AND SALARIES	12,234	11,416
B)	SOCIAL SECURITY CONTRIBUTIONS	3,499	3,433
C)	SEVERANCE PAYMENTS		
D)	PENSION PAYMENTS		
E)	ALLOCATIONS TO THE STAFF SEVERANCE FUND		
F)	ALLOCATIONS TO THE PROVISION FOR PENSIONS AND SIMILAR LIABILITIES:		763
	- DEFINED CONTRIBUTION		763
	- DEFINED BENEFIT		
G)	PAYMENTS TO EXTERNAL COMPLEMENTARY PENSION FUNDS:	784	
	- DEFINED CONTRIBUTION	784	
	- DEFINED BENEFIT		
H)	COSTS ARISING FROM AGREEMENTS TO MAKE PAYMENTS IN OWN EQUITY INSTRUMENTS		
I)	OTHER BENEFITS TO STAFF	1,365	1,419
2)	NON- SALARIED PERSONNEL	400	415
3)	DIRECTORS	2,155	2,028
4)	RETIRED PERSONNEL		
5)	EXPENSES RECOUPED FOR STAFF SECONDED TO OTHER INSTITUTIONS		
6)	EXPENSES REIMBURSED FOR STAFF SECONDED FROM OTHER INSTITUTIONS		
TOTAL		20,437	19,474

10.2 AVERAGE NUMBER OF EMPLOYEES PER CATEGORY

EMPLOYEES:	
A) EXECUTIVES	8
B) MANAGERS	91
C) REMAINING EMPLOYEES	97
OTHER PERSONNEL	

10.4 Other staff benefits

	TOTAL (31.12.2018)	TOTAL (31.12.2017)
EARLY RETIREMENT PAYMENTS		
OTHER PAYMENTS	1,365	1,419
TOTAL	1,365	1,419

10.5 Other administration expenses: breakdown

		TOTAL (31.12.2018)	TOTAL (31.12.2017)
A)	IT EXPENSES	2,594	2,399
B)	EXPENSES FOR MOVABLE/ IMMOVABLE PROPERTY:	1,058	1,066
	- RENTALS AND OTHER FEES	160	158
	- OTHER	898	908
C)	EXPENSES FOR THE PURCHASE OF GOODS AND NON-PROFESSIONAL SERVICES	2,573	2,579
D)	EXPENSES FOR PROFESSIONAL SERVICES	3,249	2,650
E)	INSURANCE PREMIUMS	185	179
G)	ADVERTISING	216	175
H)	INDIRECT DUTIES AND TAXES	601	515
I)	OTHER	3,109	1,929
	OF WHICH: RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES (DGS)	2,142	1,318
TOTAL		13,585	11,492

Item i) "Other" as of 31 December 2018 includes charges incurred for the Single Resolution Fund (FRU) and the National Resolution Fund (FRN), relating respectively to the ordinary and extraordinary portion, requested by Banca d’Italia and amounting to about Euro 2.1 million.

SECTION 11 – NET PROVISIONING FOR RISKS AND CHARGES – ITEM 170

11.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees issued: composition

	TOTAL (31.12.2018)	TOTAL (31.12.2017)
LEGAL DISPUTES		1,688
COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL QUARANTEES ISSUED	2,247	2
OTHER RISK AND CHARGES	98	61
TOTAL	2,345	1,751

11.3 Net provisions to other funds for risks and charges: composition

	TOTAL (31.12.18)	TOTAL (31.12.17)
OTHER RISKS AND CHARGES	98	61
TOTAL	98	61

SECTION 12 - NET ADJUSTMENTS TO TANGIBLE FIXED ASSETS – ITEM 180

12.1 Net value adjustments on tangible assets: breakdown

ASSETS/ INCOME COMPONENT			AMORTISATION (A)	VALUE ADJUSTMENTS FOR IMPAIRMENT (B)	VALUE RECOVERY (C)	NET RESULT (A+B-C)
A	**TANGIBLE ASSETS**					
	A1	OWNED	840			840
		- FOR FUNCTIONAL USE	840			840
		- FOR INVESTMENT				
		- INVENTORIES				
	A2	ACQUIRED WITH FINANCIAL LEASING				
		- FOR FUNCTIONAL USE				
		- FOR INVESTMENT				
TOTAL			840			840

SECTION 13 - NET ADJUSTMENTS TO INTANGIBLE FIXED ASSETS – ITEM 190

13.1 Net adjustments to intangible fixed assets: breakdown

ASSETS/ INCOME COMPONENT			AMORTISATION (A)	VALUE ADJUSTMENTS FOR IMPAIRMENTS (B)	VALUE RECOVERIES (C)	NET RESULT (A+B-C)
A	INTANGIBLE ASSETS					
	A.1	OWNED	781			781
		- GENERATED INTERNALLY BY THE BANK				
		- OTHERS	781			781
	A.2	ACQUIRED WITH FINANCIAL LEASING				
TOTAL			781			781

SECTION 14 – OTHER OPERATING INCOME / CHARGES – ITEM 200

14.1. Other operating charges: breakdown

	TOTAL (31.12.2018)	TOTAL (31.12.2017)
OTHER OPERATING CHARGES	192	242
TOTAL	192	242

14.2. Other operating income: breakdown

	TOTAL (31.12.18)	TOTAL (31.12.17)
DUTIES AND TAXES RECOUPED	1,940	68
RENTALS AND FEES	8	16
INCOME FROM IT SERVICES RENDERED:		
- TO COMPANIES WITHIN THE BANKING GROUP		
- TO OTHER		
EXPENSES RECOUPED:		
- FOR OWN STAFF SECONDED TO THIRD PARTIES		
- ON DEPOSITS AND CURRENT ACCOUNTS	59	53
- OTHER	1,200	1,336
SSF ATTRIBUTION TO PROFIT AND LOSS		
OTHER INCOME	295	513
TOTAL	3,502	1,986

SECTION 15 – GAINS (LOSSES) FROM EQUITY INVESTMENTS - ITEM 220

No data to report.

SECTION 16 – NET ADJUSTMENTS TO FAIR VALUE OF TANGIBLE AND INTANGIBLE ASSETS – ITEM 230

No data to report.

SECTION 17 – ADJUSTMENTS TO GOODWILL – ITEM 240

No data to report.

SECTION 18 – GAINS (LOSSES) FROM THE DISPOSAL OF INVESTMENTS - ITEM 250

No data to report.

SECTION 19 – INCOME TAX FOR THE YEAR ON CONTINUING OPERATIONS – ITEM 270

19.1 Income tax for the year on continuing operations: breakdown

	INCOME COMPONENT/ VALUES	TOTAL (31.12.2018)	TOTAL (31.12.2017)
1	**CURRENT TAXES (-)**		**(7,448)**
2	CHANGES IN CURRENT TAXES FROM PREVIOUS YEARS (+/-)		
3	REDUCTION OF CURRENT TAXES FOR THE YEAR (+)		
3.BIS	(EXTRA) REDUCTION OF CURRENT TAXES FOR THE YEAR WITH TAX CREDITS PURSUANT TO LAW NO. 214/2011 (+)		
4	CHANGE IN PREPAID TAXES (+/-)		293
5	CHANGE IN DEFERRED TAXES (+/-)		
6	**TAXES FOR YEAR (-) (-1+/-2+-3+ 3BIS/-4+/-5)**		**(7,155)**

19.2 Reconciliation of theoretical tax liability and actual book liability

	TOTAL (31.12.2018)	TOTAL (31.12.2017)
PROFIT BEFORE TAX	**(51,457)**	**16,595**
THEORETICAL IRES AND IRAP DUE (33,07%)		6,767
IRAP ADJUSTMENTS FOR ADMINISTRATION EXPENSES		310
IRAP ADJUSTMENTS FOR WRITE-OFFS		(6)
TAXES ON NON-DEDUCTIBLE COSTS		756
PRE-PAID AND DEFERRED TAXES		(295)
NET WORTH INCREASE BENEFIT		(377)
TOTAL TAXES		7,155
NET PROFIT	(51,457)	9,440

As regards the tax effect relating to the year 2018, please refer to "The year's key results" (pages 28/29).

SECTION 20 – PROFIT (LOSS) FROM DISCONTINUED OPERATIONS NET OF TAX EFFECT - ITEM 290

No data to report.

SECTION 21 – OTHER INFORMATION

No data to report.

SECTION 22 – PROFIT PER SHARE

No data to report.

PART D: COMPREHENSIVE INCOME DETAIL

	ITEMS	TOTAL (31.12.2018)	TOTAL (31.12.2017)
10.	**PROFIT (LOSS) FOR YEAR**	**(51,457)**	**9,440**
70.	**OTHER INCOME COMPONENTS WITHOUT REVERSAL TO INCOME STATEMENT**	**41**	**4**
	DEFINED BENEFIT PLANS	41	**4**
150.	**OTHER INCOME COMPONENTS WITH REVERSAL TO THE INCOME STATEMENT**	**(25,156)**	**40**
	FINANCIAL ASSETS (OTHER THAN EQUITY SECURITIES) MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY:	**(25,156)**	**20**
	A) CHANGE IN FAIR VALUE	(25,156)	20
	B) TRANSFER TO INCOME STATEMENT		
	- ADJUSTMENTS FOR CREDIT RISK		
	- GAINS/LOSSES		
	C) OTHER CHANGES		
190.	**TOTAL OTHER INCOME COMPONENTS**	**(25,115)**	**24**
200.	**OVERALL PROFITABILITY (10+190)**	**(76,572)**	**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 capital with voting rights) and the need to guarantee full functionality and effectiveness of corporate bodies.

Within the traditional model, in addition to the Shareholders' Meeting representing all the shareholders, the following bodies[4] are identified:

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

- The **General Manager**, appointed by the Board of Directors, participates in the management function as Head of the Executive and conducts the preliminary examination of matters submitted to the Board of Directors;

- The **Board of Statutory Auditors** is a control body.

(4) Pursuant to article 22 of the Articles of Association (approved by the Extraordinary General Meeting on 15 june 2016) the Board of Directors has decided - for the time being – to postpone the appointment of the Executive Committee, although it is understood that the latter may be established in the future if the Board deems it necessary.

The Board of Directors of Banca UBAE has resolved to exercise its powers and expertise using proposals and consultancy as a preliminary step, as well as internal committees 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 the following:

- Control & Risk Committee
- Remuneration Committee

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

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 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 (Internal Capital Adeguacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) 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 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 Board's attention;
- ensure that a correct, complete and prompt IT system is designed, adopted and maintained over time;
- decide on the establishment and suppression of branches and representation offices 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.

In line with the policy on credit risk and counterparty risk approved in August 2018, 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 powers to grant credit facilities within prefixed limits to the Credit Committee, the General Manager and the Deputy General Manager.

The resolution 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 responsibility of the Board of Directors alone, based on the specific procedure.

It is generally the task of the Board of Directors, acting on a proposal by 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.

Resolution powers, regarding any agreements for credit restructuring regardless of the duration, are delegated the General Manager and the Deputy General Manager, in compliance with the pre-established limits.

Furthermore, acting on a proposal by 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, Deputy General Manager, Assistant General Managers and other managers, setting their remuneration (article 18 of the by-laws) and the related powers;
- appoints and dismisses, after consulting the Board of Statutory Auditors and in compliance with current legislation and taking into account the principle of proportionality, the anti-money laundering officers, the internal audit function, the compliance control function, the risk control function, granting to each the powers of representation necessary for the performance of their respective duties;
- appoints and dismisses the Head of the Business Continuity Plan, the Data Governance Contact, the Head of the internal whistleblowing reporting system and the Data Protection Officer;

- resolves on any interim positions in the General Management;
- grants powers of representation and social signature, on the General Manager’s proposal, to employees with less than a managerial qualification, by approving a specific service order;
- approves the Corporate Supplementary Contract, upon the General Manager’s proposal and following the Staff Committee’s favourable opinion;
- establishes the remuneration and incentive policies and any plans based on financial instruments, to be submitted for approval by the ordinary shareholders' meeting, in favour of directors, employees and collaborators not linked to the company by subordinate employment relationships;
- approves the results of any exclusion of the most important personnel, and periodically reviews the related criteria;
- hires non-executive staff (employees, managerial staff) on open-ended contracts, subject to the favourable opinion of the Personnel Committee;
- appoints and revokes, upon the General Manager’s proposal, consultants of the Bank's foreign commercial network and the consultants necessary to support the Board itself.

Finally, the Corporate Delegate for reporting suspicious transactions is appointed by the Chairman of the Board of Directors, as the legal representative of the Bank.

GENERAL MANAGER

The General Manager participates in the meetings of the Board of Directors without voting rights but entitled to propose motions, submitting the documents and materials for examination and approval and providing any clarification required. In case of absence or impediment, he is replaced by the Deputy General Manager who will act in his stead.
The General Manager represents the top of the internal structure and participates in the management function, and is the recipient of the information flows arranged for corporate bodies.
He executes all the administrative acts connected to the Bank’s ordinary management and is responsible for implementing the decisions taken by the advisory committees.

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 organisational, administrative and accounting structure. In particular, the Board of Statutory Auditors monitors the completeness, adequacy, functionality and reliability of the internal control system and the Risk Appetite Framework (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 will promptly inform Banca d’Italia of all the actions 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 organisational and management model.

ADVISORY COMMITTEES

Control & Risk Committee

The Control & Risk Committee (CRC) 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, and the fees to be paid to Board members for specific duties assigned to them. It is also responsible for establishing the criteria for the remuneration of the consultants of the foreign commercial network as well as the Head of the Representation Office in Tripoli, Libya.

INTERNAL CONTROL SYSTEM

Banca UBAE’s internal control system consists of a set of rules, procedures and organisational structures aimed at enabling the sound and prudent management of banking activities through a process of identification, measurement, management and monitoring of the main risks.

The internal control system has been designed in accordance with the regulatory and supervisory framework, 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 the proper conduct of operations. They are carried out by the operating structures (e.g. hierarchical, systematic and random checks), also through different units that report to the managers of the operating structures, i.e. performed within the back office;

- **controls on risks and compliance** (known as “second-level controls”): entrusted to structures other than production, which have the objective of ensuring, among other things, the correct implementation of the risk management process, compliance with the operational limits assigned to the various functions and compliance with the rules of corporate operations: these controls are conducted mainly by the *Risk Management Department* and the *Compliance Department.* In particular, the *Risk Management Department* deals with the definition of risk measurement methodologies and the control of compliance with risk limits, while the *Compliance Departent* is responsible for checking compliance with relevant legislation, also carrying out verification activities;

- **internal reviews** (known as "third-level controls"), to identify anomalous trends, violations of procedures and regulations and to periodically assess the completeness, functionality and adequacy, in terms of efficiency and effectiveness, of the Internal Control System, including on the IT system (ICT audit), with fixed frequency 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 structures that pursue:

- compliance with corporate strategies;
- the effectiveness of business processes;
- ensuring operations comply with legislative provisions, supervisory obligations, regulations and internal procedures;
- protecting the business system from losses.

To achieve these objectives, the various units in the control system are involved, each for their own competence. Roles and functions are described below according to the current structure.

As part of the design of the internal control system and of the risk governance system, the Board of Directors has decided to set up some internal management committees, approving the related operating regulations.

Internal managerial committees

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

The Loans Committee is the proposing body for the granting of credit lines to be submitted to the Board of Directors; it exercises the assignment powers within the limits delegated by the Board of Directors, revokes the assignments resolved 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 against related parties) and is competent to discuss any matter concerning the granting of credit and the monitoring of the related risk.

The ***Risk Committee*** is made up of: General Manager, Joint General Manager, Assistant General Manager of the Operations Division and Assistant General Manager of the Business Area.

The Risk Committee proposes to the Board of Directors the guidelines for the management of each single quantifiable and non-quantifiable risk; examines the Risk Appetite Framework (RAF) verifying the consistency of the Bank's risk profile with the limits provided therein; discusses and evaluates the effectiveness of the policies approved for the identification, measurement and management of all risks; periodic reports relating to the absorption of regulatory and economic capital from an ICAAP standpoint; the annual ICAAP and ILAAP reporting; periodic reports regarding the monitoring of regulatory limits, internal operating limits, risk indicators, periodic simulations of *stress testing* and prospective analyses; the operational strategies of the Finance Department and the use of financial derivatives to hedge risks, providing where appropriate specific instructions to the Head of the Finance Department and laying down restrictive provisions of the operating limits in force; proposes to the Board of Directors changes in the operating limits assigned to the various finance portfolios and possible exceptions; submits disinvestment operations to the Board of Directors from the HTC (Held-to-Collect) portfolio.

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

As a preliminary step, the Personnel Committee examines the proposals relating to the recruitment of personnel (with the exception of the members of the General Management) and the transformation of the related contracts, defines the criteria and modalities related to the career advancement of the personnel and the payment of the variable remuneration component in line with the remuneration policies established by the competent body; examines the Corporate Supplementary Contract, as a preliminary step.

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[5].

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 2018 will be sent to the Bank of Italy in April 2019.

With regard to compliance with the obligations of disclosure to the public of data and information

5) 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.*

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.

SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

The monitoring and credit risk management policies in Banca UBAE are defined by a specific internal policy, approved by the Board of Directors during 2018, which regulates:

- the area of governance, the roles and responsibilities of corporate bodies and functions in the credit risk management process;
- during the risk identification and measurement phase, the process of assuming risk in terms of preliminary investigation and delegated powers in relation to credit lines;
- during the risk monitoring phase, the credit performance monitoring process and the internal risk monitoring limits;
- during the risk management phase, the process of identifying impaired credit exposures and their management, classification and assessment process;
- internal information flows between company functions (horizontal flows) and to corporate bodies (vertical flows), as well as to the Oversight Authority.

Banca UBAE's mission is to promote and develop any type of international financial, commercial, industrial and economic relationship. The Bank's activity is aimed primarily, although not exclusively, at supporting relations between the "Mediterranean and Middle Eastern countries" with Europe, as well as between them and the rest of the world.
The respect of this mission, consolidated in over 40 years of activity in favour of its customers, involves the adoption of policies for the selection and provision of credit based on rigorous professionalism criteria.

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

The Board of Directors establishes individual exposure limits for specific countries and for technical forms, based on 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 prudential regulations in force. Furthermore, from a stress testing perspective, scenario analyses are performed by simulating the impact in terms of capital requirement generated by certain information shocks such as the deterioration of the domestic economic situation or the worsening of creditworthiness for counterparties residing in certain countries or operating in certain economic sectors.

2. Policies for managing credit risk

2.1 Organisational aspects

Policies for credit risk assumption in Banca UBAE are approved by the Board of Directors, which establishes:

- the corporate bodies delegated to grant the credit lines and the related powers;
- the process of selecting and evaluating credit lines;
- the risk monitoring and control process, also in relation to the regulation on risk concentration.

The powers of resolution in Banca UBAE are divided into a system based on the type and amount of risk to be taken; the main departments involved in the risk control and mitigation processes are the Credit Analysis and Investigation Unit, the Credit Performance Control Unit and the Risk Management Department.

During 2018, a project was launched to implement the guidelines on impaired loans formulated for less significant banks. As part of this project, the credit performance monitoring process was reviewed and the internal policy governing the credit risk management process was established. In particular, roles and responsibilities have been defined with reference to the process of classification, management and evaluation of impaired loans, the minimum analytical write-down thresholds have been defined differentiated by deterioration class, the forbearance process and the *classification* processes have been formalised, *staging* and *impairment* of the international accounting principle IFRS9. The credit policy was approved by the 247th Board of Directors on 31 August 2018, ratified in some of its variations by the 250th Board of Directors on 10-11 December 2018 and, during 2019, will be subjected to review to take into account the first operational applications and recent developments regarding the incidence of *non-performing* positions in terms of NPL strategy.
Closely related to this subject are the project concerning Large Exposures applied to Shadow Banking Entities (SBE) and the project to adapt to the IFRS9 international accounting standard which introduced a concept of staging counterparties and determining the *impairment* in relation to specific counterparties and the technical form of exposure, moving from an *"incurred-losses"* approach to an "expected-losses" approach based on *forward-looking* risk data (PD and LGD).

In the Pillar I area, the *Risk Managem*ent Department is responsible for monitoring the capital requirement against credit risk and, based on the data communicated quarterly to the Oversight Authority by sending the risk matrix, submits it to the Risk Committee, the Audit & Risks Committee and the Board of Directors a quarterly reporting on the capital adequacy. For ICAAP purposes, it also deals with the formulation of stress testing hypotheses to be submitted to the Risk Committee and to estimate the internal capital situation based on budgeting data.
As part of the Risk Appetite Framework, the *Risk Management Department* monitors compliance

with the macro *risk limit* and the *risk tolerance* for credit risk on a quarterly basis; the results of the analyses carried out are subject to periodic reporting to the Risk Committee, the Advisory Committees and the Board of Directors. The Risk Manager also gives opinions on consistency with the RAF for the most significant transactions.
The Department receives Supervisory Reports in the context of Large Exposures and any reports in the event of non-compliance with the *lending limit*, assesses performance and incidence over time of positions classified as "large risks" and prepares specific reporting for the corporate bodies.

2.2 Systems for managing, measuring and checking

Preliminary investigation for loan applications

Within the credit process, the preliminary phase represents the moment in which the acquisition, processing and control takes place of all the documentation necessary for the assessment of the creditworthiness of the counterparties.

The aims of the investigation are:

- verifying the correctness of the corporate and financial statements presented by the requesting counterparty;
- evaluating the counterparty's credit capacity;
- verifying the consistency of the request to renew or change the credit line or a new credit line, with the Bank's objectives and the needs identified in the analysis;
- verifying the consistency of the technical forms required with what was previously approved for the same counterparty;
- verifying compliance with the regulations in force (Civil Code and Consolidate Banking Law - T.U.B.) regarding the obligations for bank representatives (Directors, Statutory Auditors and General Manager);
- identifying groups of connected customers for the purpose of risk concentration analysis;
- identifying connected parties pursuant to Circular no. 263/2006 - Title V Chapter 5;
- registering approved credit lines in the Bank's IT system, in order to include the credit lines in the Central Credit Register.

IThe preliminary process ends with the formulation of a technical opinion on the reliability of the applicant and with the assessment of the risks associated with the transaction.
The Credit Analysis & Investigation Department, once it has formulated this opinion of reliability to which the considerations signed by the Head of the Audit & Credit Department and the Head of the Credit & Risks Area must be added, and having provided for the drafting of the loan proposal to be submitted for the approval of the delegated bodies, in agreement with the Head of the Credit & Risks Area – which supervises and monitors the process – identifies the

3 A prudential purpose the Bank has set an internal loan limit for companies below the regulatory level.

deliberating body to which the proposal is sent, based on the delegation system established by the BoD.
The Credit Analysis & Investigation Department also informs the Board of Directors on a quarterly basis of the transactions carried out by all the other deliberative bodies.
The flow of all the activities described above is governed by a standard system of internal rules that governs the execution of each phase, from the initial request submitted by the counterparty until approved by the competent delegated body.

Technically, all risk analysis activities are carried out by the Credit Analysis & Investigation Department using a series of IT tools:

- internal models for the reclassification of the economic and financial information of each counterparty that ensure a standard analysis of the data and an absolutely independent technical control;
- internal calculation system for all customers through specific software provided by Moody's (RiskCalc procedure) in order to assign each counterparty to uniform internal risk classes providing the relative PD - *Probability of Default* (quantitative and qualitative);
- verification of prejudicial events, cadastral checks on the assets of the guarantors, and sectorial comparisons by consulting the most widespread national and international (CERVED, DUN & BRADSTREET, etc);
- country risk analysis through collaboration with the ECONOMIST INTELLIGENCE UNIT (EIU) which provides monthly reports and country ratings.

Credit Performance Check

When monitoring credit performance, the Department in charge of this task, with the support of the competent Italian and Foreign Business Sectors, compiles and updates a list of risk positions to be monitored based on information available from external sources (Risk Centre, prejudicial acts, press reports, etc) as well as internal ones (e.g. reports on performance monitoring, reports by the competent Italian and Foreign Business Sectors concerning specific countries and/or economic sectors, etc).
The persons responsible for the Italian and Foreign Commercial Sectors, in case of updated information or upon request, will inform the Credit Performance Control Department regarding the reasons for the anomalies found on the reported positions and possibly on the actions undertaken to mitigate credit risk.

The Credit Performance Control Department reports monthly to the General Management, Department Heads, the Head Office and Commercial Sector for Italy and Abroad. If deemed appropriate, and in any case to coincide with events that may lead to an objective deterioration of the possibility of partial or full recovery of the credit exposure, the Department consults the General Manager about reclassifying the risk position as impaired (probable default or non-performing) accompanied by a write-down proposal.

With regard to the anomalies found, in particular the verification of compliance with the credit limits granted by the deliberating bodies to the counterparties, the Credit Performance Control Department uses the reports produced by the Cedacri IT system in its verifications.
Furthermore, the same procedure, as a support in the credit control activity, has a platform called *Credit Quality Manager* (CQM) which identifies the positions to be monitored and manages those in which the anomalies are already evident, with the final aim of controlling and minimising the Bank's credit risk (the platform subdivides the customers into monitoring sub-portfolios according to the Bank's strategic lines).
Other information flows to which particular attention is paid, in order to process the necessary information for the management and the competent departments, are: the information present in the *black list* of the return flow from the Risk Centre, and the printout of continuous overruns *("past due")* coming from the Cedacri IT system, together with those of the Organisational Development Unit, for the monthly monitoring of the related parties.

2.3 Methods of measuring expected losses

IFRS 9, published by the IASB on 24 July 2014, was definitively approved by the European Commission on 22 November 2016. IFRS 9 fully replaces IAS 39 and therefore applies to all financial instruments that can be classified as assets and in the balance sheet liabilities, changing the classification and measurement criteria and the method of determining the *impairment*, as well as defining new rules for the designation of hedging relationships.

The application of IFRS 9 became mandatory starting from 1 January 2018; in particular from the first date of balance sheet, income statement and financial statement after 1 January 2018 which is represented by the FINREP deadline referring to 31 March 2018.

The impact for banks and companies in the financial sector is particularly significant since – in terms of *impairment* – the standard introduces the definition of provisions based on the *expected loss* (already used in prudential regulations) on the accounting plan instead of the actual loss *(incurred loss)* required by IAS 39, thereby determining, moreover, a greater convergence between accounting and regulatory aspects.

The IFRS9 standard is structured in the following three macro-categories: *classification & measurement* (business model and SPPI test), *hedge accounting* (treatment of derivatives and hedging strategies) and *impairment* (*staging* and accounting provisions in terms of expected loss).

IMPAIRMENT - PERFORMING CREDITS (Stage 1 and Stage 2)

The most complex activity is that relating to the new "impairment" process, essentially for each credit exposure, valued at amortised cost, a specific expected loss is calculated no longer according to the portion of loss traditionally suffered by the Bank, but according to the following formula:

$$\mathbf{ECL = EAD * PD_{FL} * LGD_{FL}}$$

where:

1. **ECL** (Expected Credit Loss): representing accounting provisions for IFRS9 purposes;
2. **EAD** (Exposure at Default): corresponding to the weighted reference date for the credit conversion factor (CCF);
3. **PDFL** (**Probability of Default forward looking**): representing the probability of default oriented towards the future, obtained by applying a macro-economic scenario to the **PDPIT**;
4. **PDPIT** (**Probability of Default point in time**): representing the probability of default for each counterparty and is calculated form the balance sheet data, the country of residence and other considerations of a qualitative nature;
5. **LGDFL** (**Loss Given Default forward looking**): representing the loss in the event of default, obtained by applying a macro-economic scenario to the **LDGPIT**;
6. **LGDPIT** (**Loss Given Default point in time**): representing the loss in the event of default calculated from the nature of the exposure, and is conditioned by the presence of real asset guarantees (e.g. cash collateral) or personal (e.g. SACE).

The Bank has the score and PD_{PIT} data for each counterparty (processed by the Credit Analysis & Investigation Department at the time of assignment or renewal) and LGD_{PIT} data differentiated by debt seniority, by type of counterparty (bank or corporate) and by geographical area (Eurozone, US, MENA, Asia) and supplied by Moody's..

For the purposes of calculating the expected loss (i.e. the accounting provisions) macro-economic scenarios are applied to these risk parameters, allowing them to be recalculated on a forward-looking basis.

The Bank has customised macro-economic models differentiated by the following geographical areas:
- Eurozone
- US
- MENA
- ASIA

IMPAIRMENT – NON-PERFORMING LOANS (Stage 3)

The methodology for assessing *non-performing* loans – all classified as Stage 3 based on IFRS 9 – is differentiated according to the status of impaired exposures.

Consequently, different evaluation methods are required:

- **Evaluation of non-performing loans carried out analytically by the Legal Department for all the positions thus classified.**

The analytical assessment process is based on a judgment assigned to the position by the Legal Department, to be carried out periodically in order to allow the timely adoption in the Financial Statements of all the events that can change the prospects for credit recovery. In any case, the evaluation must be performed in the following situations:

- on the occasion of the classification as non-performing (normally within 30 days of receipt of the complete documentation from the office that was in charge of the relative position);

- subsequently, whenever a new event occurs that could affect recovery prospects (e.g. changes in the value of the assets on which a guarantee was acquired, developments in ongoing disputes, information or data acquired or received, etc) and in any case at least once every six months.

• **Valuation of loans classified as "probable default" or "unlikely to pay" (UTP)** divided as follows:

- analytical valuation on a forfeitary basic (known as "forfeitary"), applicable to positions with amounts lower than an established threshold (EAD < 500,000 euros);

- analytical valuation applicable to positions with amounts higher than an established threshold (EAD > 500,000 euros).

• **Valuation of past-due loan positions,** carried out analytically on a forfeitary basis (known as "forfeitary") by a statistical method;

The principles for determining analytical value adjustments, and the minimum percentages to be applied, differ according to the severity of the classification, as defined by the internal credit risk policy.

The expected credit recovery values must be estimated on the basis of an assessment of the debtor's ability to meet the obligations assumed, measured in consideration of all the most recent information available, on the patrimonial and economic situation of the customers and the value of any existing guarantees safeguarding the loans themselves.

To conduct the analytical assessment of a counterparty, it is necessary to preliminarily define whether to evaluate it in a liquidation perspective, in the event that the recovery is possible through the realisation of the guarantees and/or the liquidation of the company's assets, or from a business continuity perspective, where the assessment focuses on verifying the sustainability of corporate debt over time based on the estimated cash flows.

Staging rules

As regards staging allocation, specific classification criteria are applied and for each stage the legislation requires a specific calculation methodology:

- **Stage 1** – past-due less than 30 days, *performing* exposure, investment grade and *speculative grade* (rated from BB+ to B-), exposures for which there is no significant deterioration in creditworthiness – write-downs calculated in terms of expected loss at 1 year (if exposure is less than 1 year, the expected loss refers to the residual life);

- **Stage 2** – spast-due between 30 and 90 days, performing exposures classified as *forborne*, included on the *watching list* at the time of the credit performance check or for which there is a significant deterioration in creditworthiness (expressed in terms of downgrading of two notches of the class of score or increase in PD above specific thresholds) – write-downs calculated in terms of expected loss calculated over the entire residual life of the exposure (if longer than 1 year, PD and LGD forward-looking lifetime will be applied);

- **Stage 3** – *non-performing* exposures (past-due above 90 days, unlikely to pay and non-performing loans) – write-downs calculated analytically in line with the current approach.

In more detail, the following cases are required for the passage to stage 2:

- **Forborne** – automatic passage

- **Expired between 30 and 90 days** – automatic passage

- **Watching list** – detection of anomalies based on specific indicators (AQR) or presence within observation lists

- **Counterparties without scores and PD -** automatic switching

- **Significant deterioration in credit -** recognised in terms of precentage increase in PD compared to the original value. For each score class, an X parameter corresponding to a 2 notch downgrade is established (based on the average PD per score class).

The UBAE approach is to classify all counterparties as stage 1, *even the speculative grade ones* (rated from BB+ to B-), for which there is no significant deterioration in creditworthiness with respect to the moment the relationship is established, with the exception of counterparties scoring CCC for which there will be a direct classification as stage 2 unless it is demonstrated that the pricing applied is in line with the estimated expected losses. With regard to exposures in the form of securities, the solution adopted by the Bank envisages placement on stage 2 in the event of *speculative grade* issues (rating equal to or less than BB+) for which a significant deterioration of the credit is found.

The concept of significant credit deterioration is intended as a downgrade of two *notches* with respect to the *originating score.* Therefore the "low credit risk assumption" is only envisaged in the field of securities

2.4 Techniques for mitigating credit risk

Credit risk mitigation techniques are currently governed by additional regulatory sources with respect to pre-existing ones; in particular, by EU Regulation no. 575/2013 and EU Directive 2013/36 on prudential supervision, both aimed at implementing in the European Union the rules defined by the Basel Committee for banking supervision (Basel 3).
In line with the objective of ensuring a clear and organic regulatory framework, Banca d'Italia Circular no. 285 of 17 December 2013 included the two aforementioned documents among the regulatory sources governing the subject.
The current regulatory framework has maintained the distinction between real-type credit protection instruments and personal credit protection instruments.
To be eligible, the *real guarantees*, which allow those who have the right to the satisfaction of the credit out of specifically identified assets or sums of money, must be included in the list of assets permitted by the aforementioned Regulation, namely:

- cash deposits at the lending[6] institution that holds the deposit, or similar instruments held by such entity;
- debt securities issued by administrations or central banks for which a credit assessment is available by an ECAI or an export credit agency comparable to the creditworthiness class 4 or higher;
- debt securities issued by other entities for which a credit assessment is available by an ECAI comparable to creditworthiness class 3 or higher;
- debt securities for which a short-term credit assessment of an ECAI comparable to the credit quality class 3 or higher is available;
- equity instruments or convertible bonds;
- gold;
- securitisation positions that have an external assessment of the creditworthiness by an ECAI comparable to class 3 or higher;
- debt securities issued by entities without an assessment of the creditworthiness of an ECAI if these securities present stringent conditions (the other issues of the institution are associated with the class are listed on recognised stock exchanges, classified as first-degree debt) of merit 3 or higher, etc).

Compensation in the financial statements of reciprocal credits is also permitted, limited to the reciprocal cash balances between lender and counterparty.

Other types of real credit protection are:

(6) The entity that holds the exhibition is intended as such.

- cash deposits or similar instruments with a third party;
- life insurance policies held as collateral in favour of the lender;
- instruments issued by third-party entities that will be repurchased by such entities upon request.

The protection of personal credit, constituted by legal commitments, undertaken by third parties, to fulfil the obligation towards the bank in the event of default by the principal, can be granted by subjects who are:

- main administrations and central banks;
- regional administrations or local authorities;
- multilateral development banks;
- international organisations when exposures to them are weighted at 0%;
- certain bodies or organisations or companies having the requirements pursuant to article 201 of EU Regulation no. 575/2013;
- central counterparties.

Regulation 575/2013 does not include eligible personal guarantees, merely introducing a general principle of admissibility of these forms of credit protection. Within the above admissibility principle, only credit derivatives falling within the category of personal guarantees, or credit default swaps, total return swaps, linked credit notes, are strictly listed.
However, Banca UBAE does not purchase protection from credit risk by holding these instruments.
Moreover, the Regulation identifies, for each type of guarantee both real and personal, the requirements needed for the purpose of relative eligibility.

REAL GUARANTEES

A) COMPENSATION OF ITEMS IN THE BUDGET:

Requirements:

- legal effectiveness and applicability in all relevant jurisdictions, including in the event of insolvency or bankruptcy of the counterparty;
- possibility for the lending institution to identify the assets and liabilities that fall under these agreements;
- monitoring and control of risks connected to the cessation of protection;
- monitoring and control of significant exposures on a net basis.

B) COMPENSATION TYPE AGREEMENTS

Requirements:

- legal effectiveness and applicability in all relevant jurisdictions, including in the event of insolvency or bankruptcy of the counterparty;
- possibility for the non-defaulted party to terminate and close all the transactions affected by the agreement in the event of default, even in the event of insolvency or bankruptcy of the counterparty;
- possibility to offset profits and losses, so that only one net amount is owed by one counterparty to the other.

C) FINANCIAL REAL GUARANTEES

Requirements:

- Absence of a significant correlation between the creditworthiness of the debtor and the value of the collateral. For example, securities issued by the debtor or other related entity of the group are not admitted as collateral;
- Applicability of contracts in all relevant jurisdictions;
- Institutions are also required to:
-
- document the contract in the required form and provide a suitable procedure for the
- prompt enforcement of the guarantee.Control the risks deriving from the use of guarantees.To have documented policies and practices regarding the types of guarantees accepted and the relative amount.
- calculate the market value of the guarantees and revalue them at least every six months and whenever they believe that a significant drop in market value has occurred.
- if the guarantee is held by a third party, make sure that the holder separates it from its assets.Dedicate sufficient resources to the control and monitoring of all risks connected to the management of guarantees (e.g. concentration risk towards particular types of assets used as collateral).

D) REAL ESTATE GUARANTEES

Requirements:

- legal certainty and enforceability in all relevant jurisdictions and registration in the prescribed form;
- compliance with the requirements for the completion of the guarantee;
- structure of the contract and the underlying legal documents that allow the prompt enforcement of the guarantee;
- verification – by the entity – of the property value at least once a year for non-residential and once every three years for residential;
- the valuation of the property is reviewed when its value can be significantly decreased in relation to general market prices and this revision is carried out by an expert who possesses the necessary qualifications;

- the institutions clearly document the types of residential and non-residential buildings accepted and the related credit policy;
- institutions have procedures to ascertain that the immovable property received as a guarantee is adequately insured against the risk of damage.

E) TRADE RECEIVABLES

Requirements:

1. the legal mechanism through which the guarantees are provided is solid, clear and effective;
2. institutions have a first degree right of first refusal on the asset pledged under guarantee;
3. applicability of guarantee contracts in all relevant jurisdictions;
4. the internal procedures of the institution ensure that the legal conditions are observed to declare the debtor's default and obtain the prompt enforcement of the guarantee;
5. in the event of the debtor's default, the institution has the right to assign the commercial credits to other parties without the consent of the debtor concerned;
6. the institution has adequate procedures to assess the credit risk inherent in trade receivables;
7. the difference between the exposure and the value of the loans granted as a guarantee is able to ensure coverage of the additional costs borne by the entity;
8. the trade receivables given as a guarantee by the debtor are diversified and not unduly correlated with the debtor's situation;
9. the institutions do not use the commercial credits towards subjects connected to the debtor;
10. institutions have a documented procedure for the direct collection of payments on commercial credits in critical situations.

F) OTHER TYPES OF REAL GUARANTEES

<u>Requirements for deposits with a third party:</u>

1. the debtor's credit (deposit) to the third party is explicitly constituted as a guarantee or pledged in favour of the lender and this act is effective and enforceable in all competent jurisdictions, unconditional and irrevocable;
2. the third-party institution has received notification of the guarantee or pledging;
3. As a result of the notification, the third party is able to make payments only to the lender.

<u>Requirements for life insurance policies:</u>

1. the life insurance policy is explicitly pledged or pledged to the lending institution;
2. the insurance company has received notification of the guarantee or pledging and, consequently, cannot pay amounts without the consent of the lender;
3. the lending institution has the right to terminate the policy and to receive the surrender value in the event of the debtor's *default*;
4. the lender is informed of the possible non-execution of policy payments by the owner;
5. credit protection is provided for the duration of the loan;
6. the guarantee or pledge is legally effective and enforceable in all relevant jurisdictions;
7. the surrender value (i) is declared by the company providing the life insurance and cannot be reduced, (ii) is paid by the company that provides the life insurance promptly on request, (iii) cannot be requested without the prior consent of the institution;

8. the insurance company is subject to Directive 2009/138/EC (regarding access to and exercise of insurance activities) or to the supervision of a competent authority of a third country that applies prudential and regulatory provisions at least equivalent to those in force in the European Union.

Requirements common to personal guarantees and credit derivatives:

1. Credit protection is direct and its entity is clearly defined and incontrovertible;
2. There are no clauses whose fulfilment escapes the direct control of the lender and which can:

- allow the security provider to unilaterally cancel the protection;
- increase the cost of protection following the deterioration of the credit quality of the protected exposure;
- avoid the provider of the protection the obligation to make the payments due in the event of default by the main debtor;
- allow the protection provider to reduce the duration of the protection granted.

3. The guarantee contract must be effective and enforceable in all relevant jurisdictions;
4. The institution is able to demonstrate to the competent authority that it has the appropriate tools to manage the potential concentration of risk, deriving from the use of personal guarantees and credit derivatives;
5. The organisation complies with the contractual and legal provisions concerning personal guarantees.

Additional requirements for personal guarantees only:

1. the lender has the right to promptly take action against the guarantor without the obligation of prior enforcement of the principal debtor;
2. the guarantee is explicitly documented;
3. the guarantee covers the totality of the payments to which the principal debtor is held or, when certain payments are excluded from the personal guarantee, the lender has corrected the value of the guarantee so as to take into account the limitation of the coverage.

GOVERNMENTS AND OTHER PUBLIC SECTOR ORGANISATIONS

Exposures protected by personal guarantee, assisted by a counter-guarantee of one of the following entities, are considered as exposures protected by a personal guarantee provided by the counter-guarantee:

- main administrations or central banks;
- regional administrations or local authorities;
- public sector bodies;
- multilateral development banks.

3. Deteriorated credit exposures

Impaired credit exposures are divided into the following categories:

- *Deteriorated overdue and/or overdrawn exposures*: cash credit exposures, which, at the reporting date, have expired or are past due for more than 90 days;
- *Unlikely to pay ("Unlikely To Pay")*: credit exposures for which the bank deems it unlikely that, without recourse to actions such as enforcement of the guarantees, the debtor will fully (in principal and/or interest) discharge its credit obligations. This assessment is carried out regardless of the presence of any amounts (or instalments) due and unpaid;
- *Non-performing loans*: all the on-balance-sheet and off-balance sheet credit exposures to a subject in a state of insolvency (even if not legally ascertained) or in substantially equivalent situations, regardless of any loss forecasts made by the Bank. Exposures whose anomalous situation is attributable to profiles pertaining to the country risk are excluded.

  For the purposes of the *staging allocation, non-performing* loans (NPLs) fall within Stage 3 and are subject to analytical write-down as described in paragraph 2.3, also taking into account the minimum levels of devaluation envisaged by the credit policy for each class of impairment.

3.1 Management strategies and policies

The units in charge of managing *non-performing* loans put in place the actions defined by the internal policy in the presence of a deterioration of the risk position with regard to: "i) the type of executive procedure activated following the phases already completed; ii) value of ready realisation of the guarantees; iii) criteria for estimating the recovery period and discounting rates of expected flows”.

These interventions include all the activities carried out after the passage of the position to non-performing which can lead, in the event of transfer to non-performing, also to the revocation of the credit lines, the consequent forfeiture of the debtor from the benefit of the term, the resolution (where possible) of the relationships in contractual arrangements with the customer.

These activities are aimed at protecting and recovering the Bank's credit reasons, both through internally out-of-court actions and through the use of judicial procedures activated (through external lawyers) by the Bank.

The different phases of the process are remitted according to the credit classification:

- to the Credit Performance Department (assisted by the Commercial Development Area, the Credit Investigation & Analysis Department and, in the case of legal implications, by the Legal Department);
- to joint management, which includes members of the Commercial Area, one or more members of the Credit & Risk Area (in the case of debt restructuring involving several banks);
- to the Legal Department (in the case of non-performing loans or impaired loans for which legal services are required).

These offices, in compliance with any resolutions adopted by the competent bodies and in line with the operational and reporting requirements required, will issue the appropriate operational provisions aimed at implementing the interventions to be undertaken. If the aforementioned operating provisions are different from the recovery strategy defined at the stage of passing resolutions to non-performing, the relationship manager will again have to request the approval of the new strategic address to the competent deliberative structure or body as appropriate.

Managing impaired past due and/or overdrawn positions

The individual exposures are identified as expired and/or overdrawn:

- other than those classified as non-performing and/or unlikely to pay;
- overdue or overdrawn for more than 90 days and at the reporting date the greater of the two following values is equal to or greater than a threshold of 5%:

  - average of past due and/or overdrawn portions of the entire exposure recorded on a daily basis in the preceding quarter;
  - expired and/or overdrawn portion of the entire exposure referred to the reporting reference date;

- past due or over-run for more than 180 days at the reporting reference date. All positions in this status will be entered in a state of unlikely to pay unless there are adequate formal reasons.

The past due and/or overdrawn impaired exposures are monitored by the Credit Performance Department which defines the classification (also on the indication of the Commercial Area) and the provision based also on the technical analyses provided by the SAIF and taking into consideration the minimum write-down percentages set by the Bank.

The assessments, both relating to the classification and to the provisions, are sent to the decision-making body.

Managing probable defaults (“unlikely to pay”)

As required by law, for the “unlikely to pay” classification, it is not necessary to wait for the explicit symptom of anomaly (failure to repay) where there are elements that imply a situation of risk of default by the debtor. The combination of on-balance-sheet and off-balance sheet exposures to the same debtor who is in the aforementioned situation is called "unlikely to pay", unless the conditions for classifying the debtor among non-performing loans exist.

The condition of "improbability that, without recourse to actions such as the enforcement of the guarantee, the debtor fully discharges his obligations" is deemed to be satisfied upon the occurrence of events specifically provided for by law or events subject to internal valuation by the Bank.

Similarly to that provided for the expired exposures referred to in the previous paragraph, also the UTPs are monitored by the Credit Performance Department, which proposes the classification (also on the indication of the Commercial Area) and the provision to be made based also on the technical analyses provided from the SAIF and taking into account the minimum write-down percentages set by the Bank.

Managing non-performing loans

The category of non-performing loans includes all receivables from customers who are in serious and non-transitory economic and financial difficulties. The need for the transfer may also derive from out-of-court and prejudicial events against the customer and/or guarantors, from the risk of consolidation of mortgages entered by other credit institutions, from legal actions aimed at reducing the guarantee provided by the customer and/or by the guarantors.

Therefore, for the purposes of classification as non-performing, the existence of any real or personal guarantees placed to protect the receivables is disregarded

The identification of the positions that must be "eventually" included in the "non-performing" category, involves the following subjects:

- the Commercial Sector Directorate in charge of the report based on its first-level performance monitoring activity;
- the Credit Performance Department, based on reports of anomalies and as part of the systematic monitoring of credit risk on the Bank's entire portfolio.

Once the situation to be classified as non-performing has been identified, the Credit Performance Department carries out a preliminary assessment of the opportunity and the presence of the minimum requisites foreseen for the eventual passage of status.

The proposed transfer to non-performing, containing the reasons for the change in status of the position as well as the indication of the provision to be made to a minimum extent, is signed by the Head of the Credit Performance Department. This proposal is also signed by the Head of Credit & Risk Area and sent for information to the Head of Commercial Development. Subsequently, the proposal is sent to the General Manager for approval.

Once the status of the "non-performing" position has been resolved, the Sales Department originally the owner of the relationship, the SAIF, the Credit Performance Department and the

General Secretariat transmit the file, together with all the documentation describing the analyses previously carried out, to the Legal Department, which is responsible for the administration and management of positions classified as non-performing.

3.2 Write-Offs

As specified by IFRS 9, *write-offs* constitute a partial or full accounting cancellation of a credit exposure and may or may not involve the legal renunciation of credit recovery.
The Bank proceeds, subject to a resolution by the Board of Directors, to the removal of credit exposures if valid and objective elements are identified to support the valuation or the non-recoverability of the credit and/or the non-economic advantage to carry out the recovery actions. The partial excerpt may be justified if there are elements to prove the debtor's inability to repay the entire amount of the debt.

3.3 Impaired financial assets acquired or originated

Impaired financial assets acquired or originated are exposures that are impaired on the date of initial recognition.
The Bank does not envisage the acquisition of exposures of this kind in its business model, while the provision of “new finance” to non-performing counterparties in the context of restructuring agreements between the debtor and a pool of banks.
In this case, as described in the following paragraph, the internal units with a full range of skills that prepare the restructuring agreements, will draw up a proposal for the provision of "new finance" to be submitted for approval by the Board of Directors. These exposures will be configured as non-performing in accordance with the classification given to the debtor and will be subject to the rules of devaluation specific to the class of impairment assigned.

4. Financial assets subject to renegotiations, and concessionary exposures

The Bank identifies and classifies, pursuant to the provisions of Banca d’Italia, the *forborne* exposures, that is to say the loans (performing or impaired) subject to concessions *(forbearance)* by the Bank. The forbearance measures constitute modifications to the original contractual conditions of the credit line that the Bank grants to the customer company.

These *forbearance* measures may involve performing loans held by customers in financial difficulty *(forborne performing exposures)* or customers classified in a state of impairment *(non-performing exposures with forbearance measures).*

In more detail:

- ***Forbearance non performing***: the exposure must remain at least one year ("cure period") at the end of which it can abandon the status of non-performing;

- ***Forbearance performing***: exposure arising from the previous class, from which the exposure can exit towards performing status after two years ("probation period").

Those agreements do not constitute concessions, reached between the debtor and a pool of creditor banks, thanks to which the existing credit lines become temporarily "frozen" in view of formal restructuring.

The time spent in the forborne state and the exit mechanisms are regulated by norms. Where the situation becomes forborne non-performing before returning to performing status without reservations, 36 months are required (12 months for the "care period" and 24 months for the "probation period"). In the other cases of *forborne performing*, the application of the above can be evaluated or the definition of a permanence in the classification for a shorter period.

From an accounting point of view, the IFRS 9 standard establishes that if a forbearance measure is approved for a performing credit line, this credit line will be allocated to Stage 2.

In the process of managing and classifying problem loans to customers entrusted by several banks in the presence of a request for a moratorium and **restructuring of the credit facility**, the internal disclosure is drawn up with the purpose of giving notice of the same by the competent Commercial Department and sector manager. Subsequently, the Credit Performance Department will propose the reclassification "under observation" and the immediate block of operations (the credit line is rendered non-operational) to the General Manager, pending more detailed analyses.

Until the restructuring agreements are reached, subject to the deliberation of the competent bodies, negotiations for any moratoriums will be conducted both by the Head of the Commercial Development Area and by one or more members of the Credit & Risk Area (within the Credit Analysis & Investigation, and the Legal Department).

Once the relative proposal has been submitted (in the usual manner) and approved by the deliberating bodies, managing the position will be traced back solely to the Commercial Development Area.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Performing and non-performing credit positions: amounts outstanding, write-downs, variations and economic distribution

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

	PORTFOLIOS/QUALITY	IMPAIRED	PROBABLE DEFAULTS	MATURED EXPOSURES DETERIOTED	MATURED EXPOSURES NOT DETERIOTED	OTHER EXPOSURES NOT DETERIORATED	TOTAL
1	FINANCIAL ASSETS VALUED AT AMORTISED COAST	813	27,983	2,532	15,581	1,457,238	1,504,147
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILY		3,202			346,146	349,348
3	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE						
4	OTHER FINANCIAL ASSETS NECESSARILY MEANSURED AT FAIR VALUE						
5	FINANCIAL ASSETS IN THE PROCESS OF BEING SOLD						
TOTAL (31.12.2018)		813	31,185	2,532	15,581	1,803,384	1,853,495
TOTAL (31.12.2017)		827	15,123	10	35,689	1,764,383	1,816,032

At 31 December 2018, past-due unimpaired exposures amounted to a total of Euro 15.6 million relating to positions that were correctly returned in the early days of January 2018.

At 31 December 2018, exposures subject to concessionary measures (known as forbearance exposures) amounted to Euro 18.5 million, entirely attributable to the portfolio of "loans to customers"; more information on these exposures can be found in table A.1.7.

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

	PORTFOLIOS/ QUALITY	IMPAIRED				NOT IMPAIRED			TOTAL (NET EXPOSURE)
		GROSS EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS(*)	GROSS EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	
1	FINANCIAL ASSETS VALUED AT AMORTISED COST	105,565	74,237	31,328	3,344	1,486,660	13,869	1,472,791	1,504,119
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	6,371	3,169	3,202		347,087	941	346,146	349,348
3	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE								
4	OTHER FINANCIAL ASSETS NECESSARILY MEANSURED AT FAIR VALUE								
5	FINANCIAL ASSETS IN THE PROCESS OF BEING SOLD								
TOTAL (31.12.2018)		111,936	77,406	34,530	3,344	1,833,747	14,810	1,818,937	1,853,467
TOTAL (31.12.2017)		49,277	33,317	15,960		1,802,233	2,151	1,800,072	1,816,032

	PORTFOLIOS/ CREDIT QUALITY	ASSETS OF LOW-QUALITY		OTHER ASSETS
		MINUS	NET EXPOSURE	NET EXPOSURE
1	FINANCIAL ASSETS HELD FOR TRADING			15,177
2	HEDGING DERIVATIVES			
TOTAL (31.12.2018)				15,177
TOTAL (31.12.2017)				46,980

* Value to be displayed for information purposes

Among the unimpaired assets, there are no exposures subject to renegotiation under collective agreements.

Impaired assets include exposures to Italian corporate entities in the construction sector.

A.1.3 Distribution of financial assets by range of overdue amounts (book value)

	PORTFOLIOS/RISK STAGES	FIRST STAGE			SECOND STAGE			THIRD STAGE		
		FROM 1 DAY TO 30 DAYS	FROM OVER 30 DAYS TO 90 DAYS	OVER 90 DAYS	UP TO 30 DAYS	FROM OVER 30 DAYS UP TO 90 DAYS	OVER 90 DAYS	UP TO 30 DAYS	FROM OVER 30 DAYS UP TO 90 DAYS	OVER 90 DAYS
1	FINANCIAL ASSETS VALUED AT AMORTISED COST	1,465,282			14,907	675	4,997		7,554	10,732
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	343,085			3,061					3,202
TOTAL (31.12.2018)		1,808,367			17,968	675	4,997		7,554	13,934
TOTAL (31.12.2017)		1,800,072						15,960		

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: changes in total value adjustments and total provisions

REASONS/RISK STAGES	TOTAL VALUE ADJUSTMENTS														TOTAL PROVISIONS ON COMMITENTS TO DISBURSE FUNDS, AND FINANCIAL GUARANTEES ISSUED			TOTAL
	ASSETS INCLUDED IN FIRST STAGE				ASSETS INCLUDED IN SECOND STAGE				ASSETS INCLUDED IN THIRD STAGE									
	FINANCIAL ASSETS VALUED AT AMORTISED COST	FINANCIAL ASSETS MEASURED AT FAIR VALUED WITH IMPACT ON TOTAL PROFITABILITY	OF WHICH: INDIVIDUAL WRITEDOWNS	OF WHICH: COLLECTIVE WRITEDOWNS	FINANCIAL ASSETS VALUED AT AMORTISED COST	FINANCIAL ASSETS MEANSURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	OF WHICH: INDIVIDUAL WRITEDOWNS	OF WHICH: COLLECTIVE WRITEDOWNS	FINANCIAL ASSETS VALUED AT AMORTISED COST	FINANCIAL ASSETS MEANSURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	OF WHICH: INDIVIDUAL WRITEDOWNS	OF WHICH: COLLECTIVE WRITEDOWNS	OF WHICH: IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED	FIRST STAGE	SECOND STAGE	THIRD STAGE	
INITIAL OVERALL ADJUSTMENTS	(9,276)			(9,276)	(2,197)	(261)		(2,458)	(29,980)	(1,681)	(31,661)			(757)	(1,155)	(1,813)	(47,7120)
CHANGES IN INCREASE FROM FINANCIAL ASSETS ACQUIRED OR ORIGINATED																	
CANCELLATIONS OTHER WRITE-OFFS																	
NET VALUE ADJUSTMENTS/ WRITE-BACKS FOR CREDIT RISK (+/-)	(2,788)	(731)		(3,519)	404	51		455	(44,257)	(1,487)	(45,744)			(1,133)	(720)	(394)	(51,055)
CONTRACTUAL CHANGES WHITOUT CANCELLATIONS																	
CHANGES IN THE ESTIMATION METHODOLOGY																	
WRITE-OFFS																	
OTHER CHANGES																	
FINAL OVERALL ADJUSTMENTS	**(12,066)**	**(731)**		(12,795)	(1,789)	(210)		(2,003)	(74,237)	(3,168)	(77,405)			(1,890)	(1,875)	(2,207)	(98,159)
RECUPERATION RECOVERIES ON FINANCIAL ASSETS SUBJECT TO WRITE-OFF																	
WRITE-OFFS RECORDED DIRECTLY IN THE INCOME STATEMENTS																	
WRITE-OFF RILEVATI DIRETTAMENTE A CONTO ECONOMICO																	

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the various stages of credit risk (gross and nominal values)

PORTFOLIOS/ RISK STAGES		GROSS VALUE/ NOMINAL VALUE					
		TRANSFERS BETWEEN FIRST STAGE AND SECOND STAGE		TRANSFERS BETWEEN SECOND STAGE AND THIRD STAGE		TRANSFERS BETWEEN FIRST STAGE AND THIRD STAGE	
		FROM FIRST STAGE TO SECOND STAGE	FROM SECOND STAGE TO FIRST STAGE	FROM SECOND STAGE TO THIRD STAGE	FROM THIRD STAGE TO SECOND STAGE	FROM FIRST STAGE TO THIRD STAGE	FROM THIRD STAGE TO FIRST STAGE
1.	FINANCIAL ASSETS VALUED AT AMORTISED COST	75,638	32,139	38,273	9	6,017	
2.	FINANCIAL ASSETS MEANSURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY						
3.	COMMITMENTS TO DISBURSE FUNDS, AND FINANCIAL QUARANTEES ISSUED	100		301		28	
TOTAL (31.12.2018)		75,738	32,139	38,574	9	6,045	

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

The cash exposures include all the cash financial assets held by customers, whatever their accounting allocation portfolio (trading, financial assets at amortised cost, financial assets measured at fair value with impact on overall profitability, financial assets held for sale).
Off-balance sheet exposures include all financial transactions other than cash transactions that involve the assumption of a credit risk, whatever the purpose of such transactions.

TYPE OF EXPOSURES/ VALUES		GROSS EXPOSURE		TOTAL VALUE ADJUSTMENTS AND TOTAL PREVISIONS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS*
		IMPAIRED	NON-IMPAIRED			
A	**CREDIT EXPOSURES FOR CASH**					
A)	IMPAIRED	4,468		4,128	340	
	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
B)	PROBABLE DEFAULTS					
	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
C)	OVERDUE IMPAIRED EXPOSURES	2,620		90	2,530	
	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
D)	OVERDUE NON-IMPAIRED EXPOSURES		643	8	635	
	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
E)	OTHER NON-IMPAIRED EXPOSURES		1,021,645	9,195	1,012,450	
	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
TOTAL A		7,088	1,022,288	13,421	1,015,955	
B	**OFF-BALANCE SHEET CREDIT EXPOSURES**					
A)	IMPAIRED					
B)	NON-IMPAIRED		10,236,734	3,373	10,233,361	
TOTAL B			10,236,734	3,373	10,233,361	
TOTAL (A+B)		7,088	11,259,022	16,794	11,249,316	

A.1.7 Cash and off-balance sheet exposures to customers: gross and net values

TYPE OF EXPOSURES/ VALUES		GROSS EXPOSURE		TOTAL VALUE ADJUSTMENTS AND TOTAL PREVISIONS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS*
		IMPAIRED	NON-IMPAIRED			
A	**CREDIT EXPOSURES FOR CASH**					
A)	IMPAIRED	19,843		19,370	473	3,344
	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
B)	PROBABLE DEFAULTS	85,003		53,818	31,185	
	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS	23,435		11,552	11,883	
C)	OVERDUE IMPAIRED EXPOSURES	2			2	
	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
D)	OVERDUE NON-IMPAIRED EXPOSURES		14,951	3	14,948	
	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
E)	OTHER NON-IMPAIRED EXPOSURES		796,507	5,577	790,930	
	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
TOTAL A		104,848	811,458	78,768	837,538	3,344
B	**OFF-BALANCE SHEET CREDIT EXPOSURES**					
A)	IMPAIRED	18,469		2,208	16,261	
B)	NON-IMPAIRED		1,317,973	392	1,317,581	
TOTAL B		18,469	1,317,973	2,600	1,333,842	
TOTAL (A+B)		123,317	2,129,431	81,368	2,171,380	3,344

* Value to be displayed for information purposes

A.1.8 Cash credit exposures to banks: movement of gross impaired exposures

		REASONS/CATEGORIES	IMPAIRED	PROBABLE DEFAULTS	OVERDUE IMPAIRED EXPOSURES
A		**GROSS INITIAL EXPOSURE**	**4,266**		
		OF WHICH: SOLD EXPOSURES NOT CANCELLED			
B		**INCREASING CHANGES**	**202**	**1,541**	**2,620**
	B1	RE-ENTRY OF NON-IMPAIRED EXPOSURES		1,541	2,620
	B2	RE-ENTRY OF IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED			
	B3	TRANSFERS FROM OTHER CATEGORIES OF IMPAIRED EXPOSURES			
	B4	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS	202		
C		**DECREASING CHANGES**		**1,541**	
	C1	EXITS TO NON-IMPAIRED EXPOSURES		1,541	
	C2	WRITE-OFFS			
	C3	RECEIPTS			
	C4	INCOME FROM SALES			
	C5	LOSSES FROM SALES			
	C6	TRANSFER TO OTHER CATEGORIES OF IMPAIRED EXPOSURES			
	C7	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS			
	C8	OTHER DECREASING CHANGES			
D		**FINAL GROSS EXPOSURES**	**4,468**		**2,620**
		OF WICH: SOLD EXPOSURES NOT CANCELLED			

The total value adjustments on non-performing exposures subject to concessionary measures concern loans to companies in the probable default category.

A.1.9 Cash credit exposures to customers: movement of gross impaired exposures

REASONS/CATEGORIES			IMPAIRED	PROBABLE DEFAULTS	OVERDUE IMPAIRED EXPOSURES
A	**GROSS INITIAL EXPOSURE**		**21,869**	**23,131**	**12**
	OF WHICH: SOLD EXPOSURES NOT CANCELLED				
B	**INCREASING CHANGES**		**1,318**	**63,225**	**7**
	B1	RE-ENTRY OF NON-IMPAIRED EXPOSURESE		54,426	7
	B2	RE-ENTRY OF IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED			
	B3	TRANSFERS FROM OTHER CATEGORIES OF IMPAIRED EXPOSURES	1,118		
	B4	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS			
	B5	OTHER INCREASING CHANGES	200	8,799	
C	**DECREASING CHANGES**		**3,344**	**1,353**	**17**
	C1	EXITS TOWARD NON-IMPAIRED EXPOSURES			17
	C2	WRITE-OFFS	3,344		
	C3	RECEIPTS		229	
	C4	INCOME FROM SALES			
	C5	LOSSES FROM SALES			
	C6	TRANSFER TO OTHER CATEGORIES OF IMPAIRED EXPOSURES		1,118	
	C7	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS			
	C8	OTHER DECREASING CHANGES		6	
D	**GROSS FINAL EXPOSURES**		**19,843**	**85,003**	**2**
	OF WICH: SOLD EXPOSURES NOT CANCELLED				

A.1.9 (bis) Cash credit exposures to customers: trends in gross exposures subject to separate credit ratings

		REASONS/ QUALITY	EXPOSURES SUBJECT TO IMPAIRED CONCESSIONS	OTHER EXPOSURES SUBJECT TO CONCESSIONS
A		**GROSS INITIAL EXPOSURES**	**4,459**	**27,078**
		OF WICH: SOLD EXPOSURES NOT CANCELLED		
B		**INCREASING CHANGES**	**29,351**	**2,170**
	B.1	RE-ENTRY OF UNIMPAIRED EXPOSURES NOT SUBJECT TO CONCESSIONS		
	B.2	RE-ENTRY OF UNIMPAIRED EXPOSURES SUBJECT TO CONCESSIONS	29,248	
	B.3	RE-ENTRY OF EXPOSURES SUBJECT TO IMPAIRED CONCESSIONS		
	B.4	OTHER INCREASING CHANGES	103	2,170
C		**DECREASING CHANGES**	**10,374**	**29,248**
	C.1	EXIT TOWARD UNIMPAIRED EXPOSURES NOT SUBJECT TO CONCESSIONS		
	C.2	EXIT TOWARD UNIMPAIRED EXPOSURES SUBJECT TO CONCESSIONS		
	C.3	EXIT TOWARD EXPOSURES SUBJECT TO IMPAIRED CONCESSIONS		29,248
	C.4	WRITE-OFFS		
	C.5	RECEIPTS	229	
	C.6	INCOME FROM SALES		
	C.7	LOSSES FROM SALES		
	C.8	OTHER DECREASING CHANGES	10,145	
D		GROSS FINAL EXPOSURES	**23,436**	
		OF WICH: SOLD EXPOSURES NOT CANCELLED		

A.1.10 Non-cash exposures to banks: changes in total value adjustments

REASONS/ CATEGORIES			IMPAIRED		PROBABLE DEFAULTS		OVERDUE IMPAIRED EXPOSURES	
			TOTAL	OF WICH: EXPOSURES SUBJECT TO CONCESSIONSI	TOTAL	OF WICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WICH: EXPOSURES SUBJECT TO CONCESSIONS
A		**OVERALL INITIAL ADJUSTMENTS**	**3,986**					
		OFF WICH: SOLD EXPOSURES NOT CANCELLED						
B		**INCREASING CHANGES**	**186**		**154**		**90**	
	B1	VALUE ADJUSTMENTS ON IMPAIRED ASSETS ACQUIRED OR ORIGINATED						
	B2	OTHER VALUE ADJUSTMENTS			154		90	
	B3	LOSSES ON SALES						
	B4	TRANSFERS FROM OTHER CATEGORIES OF IMPAIRED EXPOSURES						
	B5	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS						
	B6	OTHER INCREASING CHANGES	186					
C		**DECREASING CHANGES**			**154**			
	C1	VALUE GAINS DUE FROM RE-VALUATION						
	C2	VALUE RECOVERIES						
	C3	PROFIT FROM SALES						
	C4	WRITE-OFFS						
	C5	TRANSFERS TO OTHER CATEGORIES OF IMPAIRED EXPOSURES						
	C6	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS						
	C7	OTHER DECREASING CHANGES			154			
D		**OVERALL FINAL ADJUSTMENTS**	**4,172**				**90**	
		OFF WICH: SOLD EXPOSURES NOT CANCELLED						

A.1.11 Credit exposures for non-performing loans to customers: changes in total value adjustments

REASONS/ CATEGORIES			IMPAIRED		PROBABLE DEFAULTS		OVERDUE IMPAIRED EXPOSURES	
			TOTAL	OF WICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WICH: EXPOSURES SUBJECT TO CONCESSIONS
A		**OVERALL INITIAL ADJUSTMENTS**	**21,322**		**8,008**	**2,229**	**1**	
		OFF WICH: SOLD EXPOSURES NOT CANCELLED						
B		**INCREASING CHANGES**	**1,392**		**46,074**	**9,580**	**1**	
	B.1	VALUE ADJUSTMENTS ON IMPAIRED ASSETS ACQUIRED OR ORIGINATED						
	B.2	AOTHER VALUE ADJUSTMENTS	274		34,303	9,580		
	B.3	LOSSES FROM SALES						
	B.4	TRANSFERS FROM OTHER CATEGORIES OF IMPAIRED EXPOSURES	1,118					
	B.5	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS						
	B6	OTHER INCREASING CHANGES			11,771		1	
C		**DECREASING CHANGES**	**3,344**		**264**	**257**	**1**	
	C.1	VALUE RECOOVERY FRO RE-VALUTATION						
	C.2	VALUE RECOVERY FROM RECEIPTS			115	115		
	C.3	PROFIT FROM SALES						
	C.4	WRITE-OFFS	3,344					
	C.5	TRANSFERS TO OTHER CATEGORIES OF IMPAIRES EXPOSURES			7			
	C.6	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS						
	C.7	OTHER DECREASING CHANGES			142	142	1	
D		**OVERALL FINAL ADJUSTMENTS**	**19,370**		**53,818**	**11,552**	**1**	
		OFF WICH: SOLD EXPOSURES NOT CANCELLED						

A.2 Classification of financial assets, of commitments to disburse funds, and financial guarantees issued on the basis of external and internal ratings

A.2.1 Distribution of financial assets, commitments to disburse funds, and financial guarantees issued: for external rating classes (gross values)

	EXPOSURES	CLASSES OF EXTERNAL RATINGS						WITHOUT RATINGS	TOTAL
		CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6		
A.	**FINANCIAL ASSETS MEASURED AT AMORTISED COST**	**180,914**	**157,957**	**111,446**	**126,484**	**280,360**	**25,178**	**709,884**	**1,592,223**
	- FIRST STAGE	180,873	152,577	111,433	123,838	245,581		554,407	1,368,709
	- SECOND STAGE	41	5,380	13	2,646	34,779		75,090	117,949
	- THIIRD STAGE						25,178	80,387	105,565
B.	**FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH AN IMPACT ON TOTAL PROFITABILITY**			**343,085**		**3,061**		**6,370**	**352,516**
	- FIRST STAGE			343,085					343,085
	- SECOND STAGE					3,061			3,061
	- THIIRD STAGE							6,370	6,370
	TOTAL (A+B)	**180,914**	**157,957**	**454,531**	**126,484**	**283,421**	**25,178**	**716,254**	**1,944,739**
C.	OF WHICH: IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED								
	COMMITMENTS TO DISBURSE FUNDS; FINANCIAL GUARANTEES ISSUED	**970,569**	**2,549,591**	**2,110,173**	**956,237**	**625,807**	**169,482**	**4,108,864**	**11,490,723**
	- FIRST STAGE	970,569	2,549,368	2,100,242	949,977	619,322	149,395	3,366,042	10,704,914
	- SECOND STAGE		223	9,931	6,260	6,485	20,087	724,353	767,340
	- THIIRD STAGE							18,469	18,469
D.	**TOTAL C**	**970,569**	**2,549,591**	**2,110,173**	**956,237**	**625,807**	**169,482**	**4,108,864**	**11,490,723**
	TOTAL (A+B+C)	**1,151,483**	**2,707,548**	**2,564,704**	**1,082,721**	**909,228**	**194,660**	**4,825,118**	**13,435,462**

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 Cash and off-balance sheet exposures to guaranteed banks

	EXPOSURES	GROSS EXPOSURES	NET EXPOSURES	REAL GUARANTEES (1)				PERSONAL GUARANTEES (2)										TOTAL (1)+(2)
								CREDIT DERIVATIVES					SIGNATURE CREDITS					
									OTHER DERIVATIVES									
				PROPERTIES, MORTGAGES	PROPERTIES FINANCIAL LEASING	SECURITIES	OTHER REAL GUARANTEES	CLN	CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES	PUBLIC ADMINISTRATION	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTIES	
A.	**1. GUARANTEED CASH CREDIT EXPOSURES:**	**114,490**	**114,462**				**111,658**										**111,658**
	1.1 TOTALLY GUARANTEED	100,768	100,768				100,768										100,768
	- OFF WICH: IMPAIRED																
	1.2 PARTIALLY GUARANTEED	13,722	13,694				10,890										10,890
	- OFF WICH: IMPAIRED																
B.	**2. GUARANTEED OFF-BALANCE SHEET CREDIT**	**201,446**	**201,446**				**201,320**										**201,320**
	2.1 TOTALLY GUARANTEED	200,795	200,795				200,795										200,795
	- OFF WICH: IMPAIRED																
	2.2 PARTIALLY GUARANTEED	651	651				525										525
	- OFF WICH: IMPAIRED																

A.3.2 Cash and off-balance sheet exposures to guaranteed customers

	EXPOSURES	GROSS EXPOSURES	NET EXPOSURES	REAL GUARANTEES (1)				PERSONAL GUARANTEES (2)									TOTAL (1)+(2)
								CREDIT DERIVATIVES					SIGNATURE CREDITS				
									OTHER DERIVATIVES								
				PROPERTIES, MORTGAGES	PROPERTIES FINANCIAL LEASING	SECURITIES	OTHER REAL GUARANTEES	CLN	CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES	PUBLIC ADMINISTRATION	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTIES	
A.	**1. GUARANTEED CASH CREDIT EXPOSURES:**	**29,793**	**28,245**	**9,387**			**494**								**501**	**17,863**	**28,245**
	1.1 TOTALLY GUARANTEED	29,793	28,245	9,387			494								501	17,863	28,245
	- OFF WICH: IMPAIRED	1,936	292	108												184	292
	1.2 PARTIALLY GUARANTEED																
	- OFF WICH: IMPAIRED																
B.	**2. GUARANTEED OFF-BALANCE SHEET CREDIT EXPOSURES**	**64,535**	**64,340**				**3,050**									**60,862**	**63,912**
	2.1 TOTALLY GUARANTEED	64,074	63,879				3,017									60,862	63,879
	- OFF WICH: IMPAIRED	55	54				54										54
	2.2 PARTIALLY GUARANTEED	461	461				33										33
	- OFF WICH: IMPAIRED																

B. Distribution and concentration of loans

B.1 Sectoral distribution of cash and off-balance-sheet exposures to customers

EXPOSURES/ COUNTERPARTIES		PUBLIC ADMINISTRATIONS		FINANCIAL COMPANIES		FINANCIAL COMPANIES (OF WICH: INSURANCE)		NON-FINANCIAL COMPANIES		FAMILIES	
		NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
A	**CASH CREDIT EXPOSURES**							**363**	**19,215**	**109**	**155**
A1	NON-PERFORMING LOANS							31,185	53,817		
	- OF WICH: EXPOSURES SUBJECT TO CONCESSIONS										
A2	PROBABLE DEFAULTS							11,883	11,552	1	
	- OF WICH: EXPOSURES SUBJECT TO CONCESSIONS										
A3	EXPIRED IMPAIRED EXPOSURES										
	- OF WICH: EXPOSURES SUBJECT TO CONCESSIONS										
A4	NON-DETORIORATED EXPOSURES	582,547	5,245	460				217,779	248	13,203	84
	- OF WICH: EXPOSURES SUBJECT TO CONCESSIONS										
TOTAL (A)		582,547	5,245	460				249,327	73,280	13,313	239
B	**OFF-BALANCE-SHEET CREDIT EXPOSURES**										
B1	IMPAIRED EXPOSURES							16,261	2,208		
B2	NON-DETERIORATED EXPOSURES			101,081	4			1,215,027	387	1,473	
TOTAL (B)				101,081	4			1,231,288	2,595	1,473	
TOTAL (A+B) 31.12.2018		582,547	5,245	101,541	4			1,480,615	75,875	14,786	239
TOTAL (A+B) 31.12.2017		254,894	125	10,703	375	10,703	22	732,745	33,682	12,803	208

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 CREDIT EXPOSURES										
A1 BAD DEBTS	472	14,211		4,690				470		
A2 PROBABLE DEFAULTS	30,291	53,594	894	224						
A3 EXPIRED IMPAIRED EXPOSURES									1	
A4 OTHER ASSETS/IN BONIS	462,974	955	92,783	1,012	18,477	12	139,293	3,055	92,351	**541**
TOTAL (A)	493,737	68,760	93,677	5,926	18,477	12	139,293	3,525	92,352	541
B OFF-BALANCE SHEET EXPOSURES										
B1 PAST DUE POSITIONS	16,261	897						1,310		
B2 NO PAST DUE POSITIONS	643,890	369	305,496		268,988	4	52,245		46,964	18
TOTAL (B)	660,151	1,266	305,496		268,988	4	52,245	1,310	46,964	18
TOTAL (A+B) 31.12.2018	1,153,888	70,026	399,173	5,926	287,465	16	191,538	4,835	139,316	559
TOTAL (A+B) 31.12.2017	517,967	27,943	116,160	3,649	35,471	140	146,513	1,934	195,033	386

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

EXPOSURES / GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN CONUTRIES		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 CREDIT EXPOSURES										
A1 BAD DEBTS										
A2 PROBABLE DEFAULTS							340	4,128		
A3 EXPIRED IMPAIRED EXPOSURES									2,530	**90**
A4 OTHER ASSETS/IN BONIS	110,824	1,825	425,094	2,951	54,195	8	283,607	3,637	138,729	**774**
TOTAL (A)	110,824	1,825	425,094	2,951	54,195	8	283,947	7,765	141,259	864
B OFF-BALANCE SHEET EXPOSURES										
B1 PAST DUE POSITIONS										
B2 NO PAST DUE POSITIONS	2,275,112	354	3,533,901	210	726,000		1,727,409	265	1,970,939	2,545
TOTAL (B)	2,275,112	354	3,533,901	210	726,000		1,727,409	265	1,970,939	2,545
TOTAL (A+B) 31,12,2018	2,385,936	2,179	3,958,995	3,161	780,195	8	2,011,356	8,030	2,112,198	3,409
TOTAL (A+B) 31,12,2017	358,750	31	436,633	96	23,341		456,444	4,168	490,044	52

B.4 Large Exposures

AMOUNT (BALANCE SHEET VALUE)	2,081,590
AMOUNT (WEIGHTED VALUE)	1,111,850
NUMBER OF BALANCE POSITIONS	167
NUMBER OF WEIGHTED POSITIONS	23

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 organisation's exposure to an individual customer or group of connected customers resident in non-equivalent countries *(Shadow Banking Entities - SBE)* 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

No data to report.

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

No data to report.

E. Transfer operations

No data to report.

Information in terms of quality and quantity

E.1 Financial assets sold and recognised in full and associated financial liabilities: balance sheet values

	FINANCIAL ASSETS SOLD RECOGNISED IN FULL				ASSOCIATED FINANCIAL LIABILITIES		
	BALANCE SHEET VALUE	OF WHICH: SUBJECT TO SECURITISATION OPERATIONS	OF WHICH: SUBJECT TO REPURCHASE AGREEMENTS	OF WHICH: IMPAIRED	BALANCE SHEET VALUE	OF WHICH: SUBJECT TO SECURITISATION OPERATIONS	OF WHICH: SUBJECT TO REPURCHASE AGREEMENTS
A. FINANCIAL ASSETS HELD FOR TRADING							
1. DEBT SECURITIES							
2 CAPITAL SECURITIES							
3. FINANCING OPERATIONS							
4. DERIVATES							
B. OTHER FINANCIAL ASSETS THAT ARE NECESSARILY MEASURED AT FAIR VALUE							
1 DEBT SECURITIES							
2. CAPITAL SECURITIES							
3. FINANCING OPERATIONS							
C. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE							
1. DEBT SECURITIES							
2. FINANCING OPERATIONS							
D. FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILY							
1. DEBT SECURITIES							
2. CAPITAL SECURITIES							
3. FINANCING OPERATIONS							
E. FINANCIAL ASSETS VALUTED AT AMORTISED COST	**80,070**		**80,070**		**72,778**		**72,778**
1. DEBT SECURITIES	80,070		80,070		72,778		72,778
2. FINANCING OPERATIONS							
TOTAL (A+B) 31.12.2018	80,070		80,070		72,778		72,778
TOTAL (A+B) 31.12.2017							

F. Credit risk measurement models

At the moment the Bank is equipped with an instrument that allows 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 Loan Analysis and 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 the capital 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, loan grant, performance control, risk profile analysis, company activity assessment), strengthening both first and second levels. This project has found its destination in defining the policy governing the credit risk management process approved by the Board of Directors in the second half of 2018.

The project was closely linked to the corporate plan to adapt to the IFRS9 accounting standard, which in 2017 enabled the Bank to define the new system for the write-down and staging of performing positions, as well as the new classification and assessment criteria also through the Business Model.

In 2018 the activities of integration with the corporate IT system continued, activities related to FTA (first time adoption) were finalised and the related internal corporate processes were formalised in the aforementioned policy.

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 assumption of the risk.

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

Compliance with current limits is monitored daily by the Middle Office (first-level control) and the *Risk Management Department* (second-level control) based on the *outputs* provided by the *ObjFin* application.

The transactions of the Finance Department are recorded in the *ObjFin* application integrated into the Bank's IT-accounting system, where the internal operating limits system has been replicated to allow monitoring by the competent units in real time. The *reporting* system has also been implemented within the application which allows automatic reports to be obtained that enable the various company units 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 options traded 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 guided 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 these criteria makes the exercise of delegated powers more transparent and makes control more effective.

B. Management processes and methods for measuring interest rate risk and price risk

The intermediation 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, at the expense of the Treasury and the Financial Markets Department.

The trading positions in derivative instruments of interest and exchange rate, regulated and *OTC*, are recorded on the *front-office* system, which also supports the daily *pricing* of the instruments and the calculation of unrealized gains or losses. The risk of each position open on financial instruments is summarised in terms of *VaR*, with a *holding* period of 10 days and a confidence interval of 99%, and is subject to compliance with quantitative limits set by the Risk Committee, approved by the Board of Directors, and monitored daily by the *Risk Management Department*. The approach of the limits involves the activation of verification procedures and, if necessary, the recovery of the exposure.

1.A Regulatory trading portfolio: distribution by residual duration (re-pricing date) of financial assets and liabilities for cash and financial derivatives 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**			**2,927**			**2,539**			
	1.1	DEBT SECURITIES		2,927			2,539			
		- WITH OPTION OF EARLY REPAYMENT		2,927						
		- OTHERS					2,539			
	1.2	OTHER ASSETS								
2	**LIABILITIES FOR CASH**									
	2.1	P.C.T. LIABILITIES								
	2.2	OTHER LIABILITIES								
3	**FINANCIAL DERIVATES**			**618,230**	**9,910**		**257,546**			
	3.1	**WITH UNDERLYING SECURI**								
		- OPTIONS								
		- LONG POSITIONS								
		- SHORT POSITIONS								
		- OTHER DERIVATES								
		- LONG POSITIONS								
		- SHORT POSITIONS								
	3.2	**WITHOUT UNDERLYING SECURITY**		**618,230**	**9,910**		**257,546**			
		- OPTIONS								
		- LONG POSITIONS								
		- SHORT POSITIONS								
		- OTHER DERIVATES		**618,230**	**9,910**		**257,546**			
		- LONG POSITIONS		376,936	9,355		8,734			
		- SHORT POSITIONS		241,294	555		248,812			

1.B Regulatory trading portfolio: distribution by residual duration (re-pricing date) of financial assets and liabilities for cash and financial derivatives 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**					**866**	**2,648**			
	1.1	DEBT SECURITIES				**866**	2,648			
		- WITH OPTION OF EARLY REPAYMENT								
		- OTHERS				**866**	2,648			
	1.2	OTHER ASSETS								
2	**LIABILITIES FOR CASH**									
	2.1	P.C.T. LIABILITIES								
	2.2	OTHER LIABILITIES								
3	**FINANCIAL DERIVATES**			**207,859**	**10,009**					
	3.1	**WITH UNDERLYING SECURITY**								
		- OPTIONS								
		- LONG POSITIONS								
		- SHORT POSITIONS								
		- OTHER DERIVATES								
		- LONG POSITIONS								
		- SHORT POSITIONS								
	3.2	**WITHOUT UNDERLYING SECURITY**		**207,859**	**10,099**					
		- OPTIONS								
		- LONG POSITIONS								
		- SHORT POSITIONS								
		- OTHER DERIVATES		**207,859**	**10,099**					
		- LONG POSITIONS		161,582	560					
		- SHORT POSITIONS		46,277	9,539					

1.C Regulatory trading portfolio: distribution by residual duration (re-pricing date) of financial assets and liabilities for cash and financial derivatives Currency: Other

		TYPE / RESIDUAL MATURITY	SIGHT	UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS
1	**CASH ASSETS**					
	1.1	DEBT SECURITIES				
		- WITH OPTION OF EARLY REPAYMENT				
		- OTHERS				
	1.2	OTHER ASSETS				
2	**LIABILITIES FOR CASH**					
	2.1	P.C.T. LIABILITIES				
	2.2	OTHER LIABILITIES				
3	**FINANCIAL DERIVATES**			**153,993**		
	3.1	**WITH UNDERLYING SECURITY**				
		- OPTIONS				
		- LONG POSITIONS				
		- SHORT POSITIONS				
		- OTHER DERIVATES				
		- LONG POSITIONS				
		- SHORT POSITIONS				
	3.2	**WITHOUT UNDERLYING SECURITY**		**153,993**		
		- OPTIONS				
		- LONG POSITIONS				
		- SHORT POSITIONS				
		- OTHER DERIVATES		**153,993**		
		- LONG POSITIONS		71,560		
		- SHORT POSITIONS		82,433		

The distribution by residual duration of financial assets and liabilities referring to other currencies is up to three months.

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 analyzing sensitivity

No data to report.

2.2 – Price and Interest rate risk – Banking book

QUALITATIVE INFORMATION

A. General aspects, management procedures, methods of measuring interest rate risk

Prudent legislation (Pillar II) provides for the calculation of an additional capital requirement against the interest rate risk on the *banking* book and provides that banks continuously monitor the size of this risk, through the calculation of a "risk indicator", corresponding to a *shock* that involves 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 time period and the presence of derivative instruments that mitigate the risk.

From the management point of view, the internal regulations provided for an internal limit lower than the regulatory threshold and equal to 6.5%[7] of Own Funds, as more consistent with the Bank's actual exposure to risk.

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

The Department also conducts, on a quarterly basis, stress testing of exposure by postulating parallel *shifts* and not of the rate curve. Furthermore, in compliance with the new regulatory provisions, it assesses the exposure to risk also in terms of potential variation of the interest margin following a parallel shift in the rate curve.
As part of the Risk Appetite Framework, the *Risk Management Department*, on a quarterly basis, monitors compliance with the macro *limit* and *tolerance* for interest rate risk on the *banking book*; the results of the analyses conducted in terms of risk indicator, capital absorption and monitoring of the internal operating limits are subject to periodic reporting to the Risk Committee, the advisory committees and the Board of Directors.

B. Hedging activities at fair value

Banca UBAE does not hold in portfolio derivative instruments for hedging assets and liabilities at fair value.

C. Hedging activities for financial flows

Banca UBAE holds in its portfolio interest rate derivatives (IRS and OIS) aimed at offering a macro-hedging of the net interest income implicit in the financial flows deriving from banking activities (bonds and loans). Hedging and negotiation of derivative instruments is entrusted to the Finance Department's Treasury.

(7) This percentage is employed in the Risk Appetite Framework as a specific 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 DURATION	AT SIGHT	UP TO 3 MONTHS	OVER 3 MONTHS TO 6 MONTHS	OVER 6 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEAR TO 10 YEARS	OVER 10 YEARS	INDETERMINATE DURATION
1	**CASH ASSETS**	**91,810**	**631,993**	**119,723**	**22,653**	**112,271**	**5,826**	**2,891**	
	1.1 DEBT SECURITIES		443,085	13,919		84,916			
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS		443,085	13,919		84,916			
	1.2 FINANCING TO BANKS	18,204	128,133	100,307	21,904	3,881	316		
	1.3 FINANCING TO COSTUMERS	73,606	60,775	5,497	749	23,474	5,510	2,891	
	- CURRENT ACCOUNTS	33,251					1,465		
	- OTHER FINANCINGS	40,355	60,775	5,497	749	23,474	4,045	2,891	
	- WITH EARLY REPAYMENT OPTION	94	191	1,042	749	4,422	3,850	2,891	
	- OTHERS	40,261	60,584	4,455		19,052	195		
2	**CASH LIABILITIES**	**228,604**	**233,491**	**536,243**	287,194				
	2.1 PAYABLES TO COSTUMERS	57,645	199						
	- CURRENT ACCOUNTS	57,645	199						
	- OTHER FINANCINGS								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
	2.2 PAYABLES TO BANKS	170,959	233,292	536,243	287,194				
	- CURRENT ACCOUNTS	162,879							
	- OTHER PAYABLES	8,080	233,292	536,243	287,194				
	2.3 DEBT SECURITIES								
	- WITH EARLY REPAMENT OPTION								
	- OTHERS								
	2.4 OTHER LIABILITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
3	**FINANCIAL DERIVATES**								
	3.1 WITH UNDERLYING SECURITY								
	- OPTIONS								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	- OTHER DERIVATES								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	3.2 WITHOUT UNDERLYING SECURITY								
	- OPTIONS								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	- OTHER DERIVATES								
	- LONG POSITIONS								
	- SHORT POSITIONS								
4	**OTHER OFF-BALANCE-SHEET TRANSACTIONS**								
	- LONG POSITIONS								
	- SHORT POSITIONS								

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

	TYPE / RESIDUAL DURATION	AT SIGHT	OVER 3 MONTHS TO 6 MONTHS	OVER 3 MONTHS TO 6 MONTHS	OVER 6 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEAR TO 10 YEARS	OVER 10 YEARS	INDETERMINATE DURATION
1	**CASH ASSETS**	**241,043**	**468,543**	**34,200**	**29,306**	**188,459**			
	1.1 DEBT SECURITIES		25,989		3,083	132,176			
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS		25,989		3,083	132,176			
	1.2 FINANCING TO BANKS	241,043	355,824	33,708	25,731	54,318			
	1.3 FINANCING TO COSTUMERS		86,730	492	492	1,965			
	- CURRENT ACCOUNTS								
	- OTHER FINANCINGS		86,730	492	492	1,965			
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS		86,730	492	492	1,965			
2	**CASH LIABILITIES**	**524,985**	**520,274**	**22,785**					
	2.1 PAYABLES TO COSTUMERS	19,954	14,158	13,100					
	- CURRENT ACCOUNTS	19,954	14,158	13,100					
	- OTHER FINANCINGS								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
	2.2 PAYABLES TO BANKS	505,031	506,116	9,685					
	- CURRENT ACCOUNTS	231,554							
	- OTHER PAYABLES	273,477	506,116	9,685					
	2.3 DEBT SECURITIES								
	- WITH EARLY REPAMENT OPTION								
	- OTHERS								
	2.4 OTHER LIABILITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
3	**FINANCIAL DERIVATES**								
	3.1 WITH UNDERLYING SECURITY								
	- OPTIONS								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	- OTHER DERIVATES								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	3.2 WITHOUT UNDERLYING SECURITY								
	- OPTIONS								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	- OTHER DERIVATES								
	- LONG POSITIONS								
	- SHORT POSITIONS								
4	**OTHER OFF-BALANCE-SHEET TRANSACTIONS**	**75,932**	**183,406**						
	- LONG POSITIONS	37,966	91,703						
	- SHORT POSITIONS	37,966	91,703						

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

	TYPE / RESIDUAL DURATION	AT SIGHT	UP TO 3 MONTHS	OVER 3 MONTHS TO 6 MONTHS	OVER 6 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEAR TO 10 YEARS	OVER 10 YEARS	INDETERMINATE DURATION
1	**CASH ASSETS**	**8,013**	**4,525**						
	1.1 DEBT SECURITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
	1.2 FINANCING TO BANKS	8,006	650						
	1.3 FINANCING TO COSTUMERS	7	3,875						
	- CURRENT ACCOUNTS								
	- OTHER FINANCINGS	7	3,875						
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS	7	3,875						
2	**CASH LIABILITIES**	**1,679**	**94**						
	2.1 PAYABLES TO COSTUMERS	255	94						
	- CURRENT ACCOUNTS	255	94						
	- OTHER FINANCINGS								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
	2.2 PAYABLES TO BANKS	1,424							
	- CURRENT ACCOUNTS	1,424							
	- OTHER PAYABLES								
	2.3 DEBT SECURITIES								
	- WITH EARLY REPAMENT OPTION								
	- OTHERS								
	2.4 OTHER LIABILITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
3	**FINANCIAL DERIVATES**								
	3.1 WITH UNDERLYING SECURITY								
	- OPTIONS								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	- OTHER DERIVATES								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	3.2 WITHOUT UNDERLYING SECURITY								
	- OPTIONS								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	- OTHER DERIVATES								
	- LONG POSITIONS								
	- SHORT POSITIONS								
4	**OTHER OFF-BALANCE-SHEET TRANSACTIONS**								
	- LONG POSITIONS								
	- SHORT POSITIONS								

The distribution of assets / financial income by cash and financial derivatives by residual maturity with reference to other currencies reaches up to three months.

2.3 Currency risk

QUALITATIVE INFORMATION

Within the *banking book*, Banca UBAE's capital structure 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 overall limits on the exposure to 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 risk

Banca UBAE’s Finance Department carries out macro-hedging of financial flows in foreign currency by holding exchange rate derivatives *(currency swaps)* based on a broad market view.

QUANTITATIVE INFORMATION

1.Distribution by currency of denomination of assets, liabilities and derivatives

ITEMS	CURRENCY					
	US DOLLARS	POUNDS STERLING	YEN	CANADIAN DOLLARS	SWISS FRANCS	OTHER CURRENCIES
A. FINANCIAL ASSETS	**969,501**	**310**	**6,209**	**2,297**	**1,813**	**1,919**
A.1 DEBT SECURITIES	164,715					
A.2 CAPITAL SECURITIES	4					6
A.3 FINANCING FOR BANKS	714,993	310	6,209	56	175	1,906
A.4 FINANCING FOR COSTUMERS	89,789			2,241	1,638	7
A.5 OTHER FINANCING ASSETS						
B. OTHER ASSETS	**70**					**10**
C. FINANCIAL LIABILITIES	**1,068,015**	**294**				**1,478**
C.1 DEBTS TOWARDS BANKS	1,020,802	294				1,130
C.2 DEBTS TOWARDS CUSTOMERS	47,213					348
C.3 DEBT SECURITIES						
C.4 OTHER FINANCIAL LIABILITIES						
D. OTHER LIABILITIES						
E. DERIVATIVES	**217,958**	**143,137**	**6,349**	**2,243**	**1,627**	**636**
- OPTIONS						
- LONG POSITIONS						
- SHORT POSITIONS						
- OTHER DERIVATES	217,958	143,137	6,349	2,243	1,627	636
- LONG POSITIONS	162,142	71,560				
- SHORT POSITIONS	55,816	71,578	6,349	2,243	1,627	636
TOTAL ASSETS	969,571	310	6,209	2,297	1,813	1,929
TOTAL LIABILITIES	1,068,015	294				1,478
IMBALANCE (+/-)	(98,444)	16	6,209	2,297	1,813	451

SECTION 3 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING POLICIES

3.1 Derivative trading instruments

A. Financial derivatives

In the 2018 financial year, Banca UBAE did not carry out trading activities for derivative financial products on behalf of third parties, limiting own-account activities 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 the use of derivative instruments for managing the Bank's loans.
The strategy pursued by the Bank is aimed at limiting the effects deriving from possible fluctuations in the exchange rate, the interest rate and the share price by including the following derivative instruments in the portfolio: *currency swaps, interest rate swaps and equity derivatives (futures and options)*.

Unlike foreign exchange derivatives, which allow sterilisation, by fixing the economic component generated by *forex* operations, the interest rate derivatives are used by the Bank to reduce the effect of possible and adverse fluctuations in yields 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 reported monthly to the Risk Committee, the Audit & Risk Committee and the Board of Directors.

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

A.1 Financial derivatives for trading: notional values at end of period

UNDERLYING ASSETS / TYPES OF DERIVATES		TOTAL (31.12.2018)			TOTAL (31.12.2017)			
		OVER THE COUNTER			OVER THE COUNTER			ORGANISED MARKETS
		CENTRAL COUNTERPARTIES	WITHOUT CENTRAL		ORGANISED MARKETS	WITHOUT CENTRAL		
			WITH CONPENSATION AGREEMENTS	WITHOUT CONPENSATION AGREEMENTS		WITH CONPENSATION AGREEMENTS	WITHOUT CONPENSATION AGREEMENTS	
1	**DEBT SECURITIES AND INTEREST RATES**		**257,546**				**277,598**	
A)	OPTIONS							
B)	SWAP		257,546				277,598	
C)	FORWARD							
D)	FUTURES							
E)	OTHERS							
2	**EQUITIES AND EQUITY INDICES**							
A)	OPTIONS							
B)	SWAP							
C)	FORWARD							
D)	FUTURES							
E)	OTHERS							
3	**CURRENCIES AND GOLD**			**228,741**			**632,254**	
A)	OPTIONS							
B)	SWAP							
C)	FORWARD			228,741			632,254	
D)	FUTURES							
E)	OTHERS							
4	**GOODS**							
5	**OTHERS**							
TOTAL			257,546	228,741			909,852	

A.2 Financial derivatives for trading: positive and negative gross fair value - composition by product

TYPES OF DERIVATES			TOTAL (31.12.2018)			TOTAL (31.12.2017)			
			OVER THE COUNTER			OVER THE COUNTER			WITHOUT CONPENSATION AGREEMENTS
			CENTRAL COUNTERPARTIES	WITHOUT CENTRAL		ORGANISED MARKETS	WITHOUT CENTRAL		
				WITH CONPENSATION AGREEMENTS	WITHOUT CONPENSATION AGREEMENTS		WITH CONPENSATION AGREEMENTS	WITHOUT CONPENSATION AGREEMENTS	
1	**FAIR VALUE POSITIVE**								
	A)	OPTION							
	B)	INTEREST RATE SWAP		3,338				2,252	
	C)	CROSS CURRENCY SWAP							
	D)	EQUITY SWAP							
	E)	FORWARD			2,859			3,427	
	F)	FUTURES							
	G)	OTHERS							
TOTAL				3,338	2,859		5,679		
1	**FAIR NEGATIVE VALUE**								
	A)	OPTIONS							
	B)	INTEREST RATE SWAP		779				445	
	C)	CROSS CURRENCY SWAP							
	D)	EQUITY SWAP							
	E)	FORWARD			2,823			5,939	
	F)	FUTURES							
	G)	OTHERS							
TOTAL				779	2,823			6,384	

A.3 OTC financial derivatives: notional values, positive and negative gross fair value for counterparties

	UNDERLYING SECURITY	GOVERNMENTS, CENTRAL BANKS	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES
CONTRACTS NOT INCLUDED IN COMPENSATION AGREEMENTS					
1)	**DEBT SECURITIES AND INTEREST RATES**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
2)	**EQUITY SECURITIES AND EQUITY INDICES**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
3)	**CURRENCIES AND GOLD**		**234,423**		
	- NOTIONAL VALUE		228,741		
	- FAIR POSITIVE VALUE		2,859		
	- FAIR NEGATIVE VALUE		2,823		
4)	**GOODS**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
5)	**OTHERS**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
CONTRACTS INCLUDED IN COMPENSATION AGREEMENTS					
1)	**DEBT SECURITIES AND INTEREST RATES**		**261,663**		
	- NOTIONAL VALUE		257,546		
	- FAIR POSITIVE VALUE		3,338		
	- FAIR NEGATIVE VALUE		779		
2)	**EQUITY SECURITIES AND EQUITY INDICES**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
3)	**CURRENCIES AND GOLD**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
4)	**GOODS**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
5)	**OTHERS**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				

A.4 Residual life of OTC financial derivatives for trading: notional values

UNDERLYING SECURITIES / RESIDUAL LIFE		UP TO 1 YEAR	OVER 1 YEAR AND UP TO 5 YEARS	OVER 5 YEARS	TOTAL
A1	FINANCIAL DERIVATES ON DEBT SECURITIES AND INTEREST RATES		257,546		257,546
A2	FINANCIAL DERIVATES ON EQUITES AND EQUITIES AND EQUITY INDICES				
A3	FINANCIAL DERIVATES ON CURRENCIES AND GOLD	228,741			228,741
A4	FINANCIAL DERIVATES ON GOODS				
A5	OTHER FINANCIAL DERIVATES				
TOTAL (31.12.2018)		228,741	257,546		486,287
TOTAL (31.12.2017)		682,254	217,598	10,000	909,852

B. Credit derivates

No data to report.

3.2 Accounting coverage

The Bank does not carry out hedging transactions pursuant to current legislation.

SECTION 4 – 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 settling positions on financial instruments, the banks admitted to simplified methods are not required to calculate an additional capital requirement (Pillar II); however, they must set up 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)*. Following the new regulatory provisions, an *Internal Liquidity Assessment Process* (ILAAP) must also be conducted, aimed at assessing the adequacy of the liquidity management system. ILAAP involves analysing and monitoring the liquidity situation, periodic internal and external reporting and adequate stress testing to ensure its integration with the ICAAP report. The description of this process and the management results are included in the ICAAP/ILAAP accountability report, which is sent annually to the Oversight Authority.
Banca UBAE's financial sources are represented by Own Funds, by 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, under normal market conditions, a particularly critical element.
Moreover, 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, as well as the type and quality of its assets, Banca UBAE has found large financial resources for 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 functions in charge of ensuring 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 supporting the activities of the Risks Committee, which has the task of proposing to the Board of Directors the *funding* and liquidity risk management policies and suggesting appropriate actions during the year to ensure that the activity is carried out in full harmony with the approved risk policies.

The Banca UBAE *policy*, in addition to outlining the management guidelines, distributes roles and responsibilities among the internal units involved, while the *contingency funding plan*, connected to a system of *early-warning* indicators highlights any crisis situations, defines the strategies for intervention in the event of liquidity tensions, providing for the extraordinary procedures to be activated to ensure the Bank's survival even under stress conditions. In this context, the escalation procedure included in the Recovery Plan is included, for which, also with reference to the liquidity indicator, alarm thresholds and activation thresholds of the Plan are established with the related *recovery options.*

The *Risk Management Department*, in accordance with the provisions of the liquidity risk management policy, monitors the warning thresholds for *early-warning* indicators and for the LCR and periodically conducts *stress tests.* In addition, it produces weekly reports for liquidity (on a *standard format*) for Banca d'Italia, while for internal purposes it produces reports on monitoring activities for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

In particular, with weekly frequency, the *Risk Management Department* builds the maturity ladder (based on *outflows* and *inflows* distributed by maturity time bands) and monitors the trend of *early-warning* indicators. Then, once a month, the Department calculates the ratios for the concentration of the collection and the monitoring tools in order to evaluate the time trend. As for the *liquidity ratios* (LCR and NSFR), it conducts periodic monitoring and reporting.

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

The monitoring of this ratio shows compliance with the current regulatory limit (100%), with an average of over 250% in 2018.

For ILAAP purposes, the Risk Management Department uses an *Asset Liability Management* product (ALM) to construct the *maturity ladder.*

In the early months of 2018 the liquidity policy will be reviewed in order to incorporate the prevailing role attributed to the LCR in the field of risk management. The new version of the policy will provide for the integration of internal processes also in light of the attention thresholds and actions mentioned in the Bank's recovery plan and the stress testing defined for ILAAP purposes.

QUANTITATIVE INFORMATION

1.A Time distribution for residual contract duration of financial assets and liabilities - EUR

		ITEMS / TIMING	AT SIGHT	FROM OVER 1 DAY TO 7 DAYS	FROM OVER 1 DAY TO 15 DAYS	FROM OVER 15 DAYS TO 1 MONTH	FROM 1 MONTH TO 3 MONTHS	FROM 3 MONTHS TO 6 MONTHS	FROM 6 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	INDETERMINATE DURATION
A		**CASH ACTIVITIES**	**92,250**	**19,964**	**9,700**	**50,956**	**86,368**	**135,046**	**33,497**	**122,980**	**390,243**	**22,142**
	A1	GOVERNMENT BONDS					537	2,780	604	93,500	381,500	
	A2	OTHER DEBT SECURITIES				48	3	114	69	5,500		3,202
	A3	O.I.C.R. PORTIONS										
	A4	FINANCINGS	92,250	19,964	9,700	50,908	85,828	132,152	32,824	23,980	8,743	18,940
		- BANKS	18,625	10,676	2,998	22,876	38,232	126,580	32,030	460	316	18,940
		- CUSTOMERS	73,625	9,288	6,702	28,032	47,596	5,572	794	23,520	8,427	
B		**CASH LIABIITIES**	**228,605**	**80,112**	**24,935**	**7,921**	**120,751**	**537,122**	**187,867**		**100,000**	
	B1	DEPOSITS AND CURRENT ACCOUNTS	228,335	80,112	24,935	7,921	120,751	464,320	187,867			
		- BANKS	170,959	80,112	24,935	7,722	120,751	464,320	187,867			
		- CUSTOMERS	57,376			199						
	B2	DEBT SECURITIES										
	B3	OTHER LIABILITIES	270					72,802			100,000	
C		**"OFF-BALANCE-SHEET" OPERATIONS**	**4,117**	**149,935**	**70,711**	**46,993**	**93,044**	**9,910**				
	C1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE		149,935	70,711	46,993	93,044	9,910				
		- LONG-TERM POSITIONS		42,537	20,861	11,328	53,397	9,355				
		- SHORT-TERM POSITIONS		107,398	49,850	35,665	39,647	555				
	C2	FINANCIAL DERIVATES WITHOUT CAPITAL EXCHANGE	4,117									
		- LONG-TERM POSITIONS	3,338									
		- SHORT-TERM POSITIONS	779									
	C3	RECEIVABLE DEPOSITS AND FINANCINGS										
		- 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 DERIVATES WITHOUT CAPITAL EXCHANGE										
		- LONG POSITIONS										
		- SHORT POSITIONS										

1.B Time distribution for residual contract duration of financial assets and liabilities – USD

		ITEMS / TIMING	AT SIGHT	FROM OVER 1 DAY TO 7 DAYS	FROM OVER 1 DAY TO 15 DAYS	FROM OVER 15 DAYS TO 1 MONTH	FROM 1 MONTH TO 3 MONTHS	FROM 3 MONTHS TO 6 MONTHS	FROM 6 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	INDETERMINATE DURATION
A		**CASH ACTIVITIES**	**242,783**	**178,840**	**48,806**	**128,298**	**109,628**	**36,404**	**34,020**	**193,534**	**5,204**	
	A1	GOVERNMENT BONDS			151		936	2,491	3,578	125,764	5,204	
	A2	OTHER DEBT SECURITIES		22,205	4	48	128	131	4,176	9,607		
	A3	O.I.C.R. PORTIONS										
	A4	FINANCINGS	242,783	156,635	48,651	128,250	108,564	33,782	26,266	58,163		
		- BANKS	242,783	155,691	17,135	107,349	75,089	33,290	25,774	56,196		
		- CUSTOMERS		944	31,516	20,901	33,475	492	492	1,967		
B		**CASH LIABITIES**	**524,955**	**26,043**	**31,585**	**147,858**	**317,560**	**23,011**				
	B1	DEPOSITS AND CURRENT ACCOUNTS	524,955	26,043	31,585	147,858	317,560	23,011				
		- BANKS	505,001	26,043	17,982	147,551	317,296	9,797				
		- CUSTOMERS	19,954		13,603	307	264	13,214				
	B2	DEBT SECURITIES										
	B3	OTHER LIABILITIES										
C		**"OFF-BALANCE-SHEET" OPERATIONS**	**33,158**	**327,066**	**28,912**	**24,994**	**39,494**	**10,099**	**3,957**			
	C1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE		143,660	28,912	24,994	10,293	10,099				
		- LONG-TERM POSITIONS		107,476	28,912	24,994	200	560				
		- SHORT-TERM POSITIONS		36,184			10,093	9,539				
	C2	FINANCIAL DERIVATES WITHOUT CAPITAL EXCHANGE										
		- LONG-TERM POSITIONS										
		- SHORT-TERM POSITIONS										
	C3	RECEIVABLE DEPOSITS AND FINANCINGS		183,406			29,201		3,957			
		- LONG POSITIONS		91,703			29,201		3,957			
		- SHORT POSITIONS		91,703								
	C4	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS	33,158									
		- LONG POSITIONS										
		- SHORT POSITIONS	33,158									
	C5	FINANCIAL GUARANTEES ISSUED										
	C6	FINANCIAL GUARANTEES RECEIVED										
	C7	CREDIT DERIVATIVES WITH CAPITAL EXCHANGE										
		- LONG POSITIONS										
		- SHORT POSITIONS										
	C8	CREDIT DERIVATES WITHOUT CAPITAL EXCHANGE										
		- LONG POSITIONS										
		- SHORT POSITIONS										

1.C Time distribution for residual contract duration of financial assets and liabilities – others

		ITEMS / TIMING	AT SIGHT	FROM OVER 1 DAY TO 7 DAYS	FROM OVER 1 DAY TO 15 DAYS	FROM OVER 15 DAYS TO 1 MONTH	FROM 1 MONTH TO 3 MONTHS	FROM 3 MONTHS TO 6 MONTHS	FROM 6 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	INDETER-MINATE DURATION
A		**CASH ACTIVITIES**	**8,303**			**674**	**3,842**					
	A1	GOVERNMENT BONDS										
	A2	OTHER DEBT SECURITIES										
	A3	O.I.C.R. PORTIONS										
	A4	FINANCINGS	8,303			674	3,842					
		- BANKS	8,296									
		- CUSTOMERS	7			674	3,842					
B		**CASH LIABIITIES**	**1,679**				**93**					
	B1	DEPOSITS AND CURRENT ACCOUNTS	1,679				93					
		- BANKS	1,424									
		- CUSTOMERS	255				93					
	B2	DEBT SECURITIES										
	B3	OTHER LIABILITIES										
C		**"OFF-BALANCE-SHEET" OPERATIONS**		**6,349**	**42,407**	**22,398**	**82,837**					
	C1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE		6,349	42,407	22,398	82,837					
		- LONG-TERM POSITIONS			21,197	10,876	39,487					
		- SHORT-TERM POSITIONS		6,349	21,210	11,522	43,350					
	C2	FINANCIAL DERIVATES WITHOUT CAPITAL EXCHANGE										
		- LONG-TERM POSITIONS										
		- SHORT-TERM POSITIONS										
	C3	RECEIVABLE DEPOSITS AND FINANCINGS										
		- 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 DERIVATES WITHOUT CAPITAL EXCHANGE										
		- LONG POSITIONS										
		- SHORT POSITIONS										

SECTION 5 – 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.

Whenever new products or services are started up, the Finance Department presents a complete analysis of the risks associated with new operations, in collaboration with the following departments: Organisation & Systems, *Compliance, Risk Management* and *Internal Auditing.*

Calculating the capital requirement for operational risk as of 31 December 2018 was determined by referring to the indicator pursuant to article no. 316 CRR.

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

		TOTAL (31.12.2018)	TOTAL (31.12.2017)
OPERATIONAL RISK		**6,558**	**6,750**
1	BASIC METHOD	6,558	6,750
2	STANDARDIZED METHOD		
3	ADVANCED METHOD		

SECTION 6 – OTHER RISKS: COUNTERPARTY AND SETTLEMENT RISK

QUALITATIVE INFORMATION

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

The brokerage activity in OTC derivative instruments based on interest rate and exchange rate, generates the risk that, upon maturity, the counterparty will not meet the payment obligations deriving from the stipulated contracts (counterparty risk); after this contractual expiry date, in case of failure, fulfilling 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 deals with the system of internal operating limits.

Each counterparty, whether bank or corporate, authorised to negotiate *forward* derivative instruments, is entrusted by the Board of Directors, the Credit Committee or other competent body of the Bank, by granting specific ad hoc credit lines. The limits are controlled by the Middle Office through the *front-office* system which performs a daily recalculation of all outstanding positions, based on updated prices. Using the results of internal analyses, the Risk Management Department produces a monthly report for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

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

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

B. General aspects, management processes, methods for measuring regulatory risk

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

SECTION 7 - CONCENTRATION RISK

QUALITATIVE INFORMATION

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

For the purpose of containing the overall concentration level of exposures, the Bank operates in compliance with the regulations governing large exposures, identifying and reporting exposures with a weighted amount of more than 10% of the eligible capital, and monitors compliance with the *lending limit* by reporting possible over-runs to the Oversight Authority.

In order to reduce the risk of overrunning the *lending limit*, the Bank is finalising the implementation of an automatic calculation tool that enables business units to continuously monitor the percentage of 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; substantially the simplified algorithm applied for the purpose of determining the capital absorption is based on the *Herfindal* concentration index and is calculated quarterly for the purposes of *capital adequacy* and RAF.

In addition to conducting analyses of capital adequacy, the Risk Management Department conducts 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-Sector Concentration risk; to this end, quantitative methodology is applied, developed by the trade association for determining 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 limit and *tolerance*, both for *single-name* concentration risk and for the Geo-Sector concentration risk; the results of the analyses are periodically reported to the Risk Committee, the Audit & Risk Committee, and the Board of Directors.

The concentration of exposures to bank counterparties is not included in the calculation of the absorption of assets, although in line with the regulatory provisions; therefore, the Bank has established 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 subject to periodic reporting to the corporate bodies.

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

In 2018 the Bank set up an internal policy for managing concentration risk, large exposures and SBEs (Shadow Banking Entities); this *policy* defines the roles and responsibilities of the various corporate bodies and functions, the process of monitoring internal and external limits also introducing a new system of operating limits related to SBE exposures, as well as the marking and reporting process.

SECTION 8 – 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 the regulations, is substantially attributable to the Bank's peculiar operations in certain geographical areas.

From the management point of view, a credit limit is set by the Board of Directors for each country; this 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 reviewed in 2016 in order to implement the European Commission’s decisions on banks that reside in non-equivalent countries (SBE).

With regard to transfer risk from a quantitative point of view, the Bank has decided to include this risk within the wider area of country risk; from a qualitative point of view, the periodic assessment of the material nature of this risk is conducted 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 limit* and *tolerance* for country risk; the results of the analyses are periodically reported to the Risk Committee, the Audit & Risk Committee, 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

	ITEMS / VALUES	AMOUNT (31.12.2018)	AMOUNT (31.12.2017)
1	CAPITAL	159,861	159,861
2	ISSUE SURCHARGES	16,702	16,702
3	RESERVES	42,470	42,227
	- OF PROFITS	42,470	42,227
	A) LEGAL	13,494	13,019
	B) STATUTORY	35,626	28,903
	C) OWN ACTIONS		
	D) OTHERS	(6,650)	305
	- MISCELLANEOUS		
3.5	ADVANCES ON DIVIDENDS (-)		
4	CAPITAL INSTRUMENTS		
5	(OWN ACTIONS)		
6	VALUTATION RESERVES	(24,560)	556
	- EQUITY SECURITIES DESIGNATED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY		788
	- COVERAGE OF EQUITY SECURITIES DESIGNATED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY		
	- FINANCIAL ASSETS (OTHER THAN EQUITY SECURITIES) MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	(24,368)	
	- TANGIBLE ASSETS		
	- INTANGIBLE ASSETS		
	- HEDGING OF FOREIGN INVESTMENTS		
	- HEDGING OF FINANCIAL FLOWS		
	- HEDGING INSTRUMENTS (NON-DESIGNATED ELEMENTS)		
	- EXCHANGE RATE DIFFERENCES		
	- NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE		
	- FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT (CHANGES IN OWN CREDITWORTHINESS)		
	- ACTUARIAL GAINS (LOSSES) RELATING TO DEFINED BENEFIT PENSION PLANS	(192)	(232)
	- SHARES OF VALUTATION RESERVES RELATING TO SUBSIDIARIES VALUED AT NET EQUITY		
	- SPECIAL REVALUTATION LEGISLATION		
7	PROFIT (LOSS) FOR YEAR	(51,457)	9,440
TOTAL		143,016	228,786

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

ASSET / VALUES		TOTAL (31.12.2018)		TOTAL (31.12.2017)	
		POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1	DEBIT SECURITIES		(24,368)	788	
2	CAPITAL SECURITIES				
3	FINANCINGS				
TOTAL			(24,368)	788	

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

			DEBT SECURITIES	CAPITAL SECURITIES	FINANCINGS
1	**OPENING BALANCE**		**788**		
2	**POSITIVE CHANGES**		**958**		
	2.1	FAIR VALUE INCREASES	958		
	2.2	VALUE ADJUSTMENTS FOR CREDIT RISK			
	2.3	TRANSFER TO INCOME STATEMENT OF NEGATIVE RESERVES FROM REALISATION			
	2.4	TRANSFERS TO OTHER COMPONENTS OF EQUITY (EQUITY SECURITIES)			
	2.5	OTHER VARIATIONS			
3	**NEGATIVE CHANGES**		**26,114**		
	3.1	REDUCTIONS IN FAIR VALUE	26,114		
	3.2	WRITE-BACKS FOR CREDIT RISK			
	3.3	TRANSFER TO INCOME STATEMENT FROM POSITIVE RESERVES: FROM REALISATION			
	3.4	TRANSFERS TO OTHER COMPONENTS OF EQUITY (EQUITY SECURITIES)			
	3.5	OTHER VARIATIONS			
4	**CLOSING BALANCE**		**(24,368)**		

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, negative to the tune of 24.6 million Euro and consisting of:

- 0.2 million Euro in the negative reserve for actuarial losses deriving from defined-benefit plans in accordance with the new IAS19;

- 24.4 million Euro in negative reserves for HTC&S;

D) Items to be deducted from CET1

This item includes the following main aggregates:

- 0.4 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 losses not deriving from the first application (FTA) 1 January 2018 - of the international accounting principle IFRS9 equal to approximately Euro 6.3 million.

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;

B. QUANTITATIVE INFORMATION

		TOTAL (31.12.2018)	TOTAL (31.12.2017)
A	**COMMON EQUITY TIER 1 (CET1) BEFORE APPLICATION OF PRUDENTIAL FILTERS**	**142,774**	**222,832**
	OF WHICH CET1 INSTRUMENT SUBJECT TO TRANSITIONAL PROVISIONS		
B	CET1 PRUDENTIAL FILTERS (+/-)		
C	**CET 1 GROSS OF ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL REGIME (A+/- B)**	**142,774**	**222,832**
D	**ITEMS TO BE DEDUCTED FROM CET1**	(357)	(842)
E	**TRANSITIONAL REGIME - IMPACT ON CET1 (+/-)**	6,277	110
F	**TOTAL COMMON EQUITY TIER 1 (CET1) (C-D+/-E)**	**148,694**	**221,880**
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
P	**TOTAL TIER 2 CAITAL (T2) (N-N+/-O)**	**100,000**	**100,078**
Q	**TOTAL OWN FUNDS (F+L+P)**	**248,694**	**321,958**

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[8] ;

- 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.

(8) 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	
			AMOUNT 31.12.2018	AMOUNT 31.12.2017	AMOUNT 31.12.2018	AMOUNT 31.12.2017
A	**RISK ASSETS**					
A1	**CREDIT AND COUNTERPARTY RISK**					
	1	STANDARD METHODOLOGY	2,913,911	3,122,274	1,281,464	1,625,828
	2	METHODOLOGY BASED ON INTERNAL RATINGS				
		2.1 BASED				
		2.2 ADVANCED				
	3	SECURITIZATION				
B	**REGULATORY CAPITAL REQUIREMENTS**					
B1	CREDIT AND COUNTERPARTY RISK				102,517	130,066
B2	CAPITAL REQUIREMENTS				8	8
B3	CAPITAL REQUIREMENTS					
B4	MARKET RISK				5,662	7,126
	1	STANDARD METHODOLOGY			5,662	7,126
	2	INTERNAL MODELS				
	3	CREDIT CONCENTRATION RISK				
B5	OPERATIONAL RISK				6,553	6,750
	1	BASIC INDICATOR APPROACH			6,553	6,750
	2	STANDARDIZED APPROACH				
	3	ADVANCED METHOD				
B6	OTHER CALCULATION FACTORS					
B7	TOTAL PRUDENTIAL REQUIREMENTS				**114,740**	**143,950**
C	**RISK ASSETS AND CAPITAL REQUIREMENT RATIOS**					
C1	RISK-WEIGHTED ASSETS				1,434,245	1,799,378
C2	COMMON EQUITY TIER 1 CAPITAL/RISK-WEIGHTED ASSETS (CET 1 CAPITAL RATIO)				10,37%	12,33%
C3	CAPITAL/RISK-WEIGHTED ASSETS (TIER 1 CAPITAL RATIO)				10,37%	12,33%
C4	TOTAL OWN FUNDS/RISK-WEIGHTED ASSETS (TOTAL CAPITAL RATIO)				17,34%	17,89%

PART G: MERGERS INVOLVING CORPORATE UNITS OR LINES OF BUSINESS

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 2018.

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		TOTAL
	SHORT-TERM BENEFITS (1)		**3,867**
	- DIRECTORS	1,558	
	- AUDITORS	106	
	- MANAGEMENT	2,203	
	POST-SEVERANCE BENEFITS (2)		**105**
	OTHER BENEFITS (3)		**652**

(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	611		611
FINANCIAL LIABILITIES	687	1	688

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	183	109,588	109,771
FINANCIAL LIABILITIES	1,279,757	451,030	1,730,787
ISSUED COMMITMENTS	8,479	184,216	192,695

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS		5,013	5,013
FINANCIAL LIABILITIES			
ISSUED COMMITMENTS	2,650		2,650

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	15	534	549
COMM. ON LETTERS OF GUARANTEES	1,076	1,814	2,890
INTEREST	26,673	3,434	30,107
SUBORDINATED LOANS	2,535		2,535
TOTAL	30,299	5,781	36,080

REVENUES

DESCRIPTION	LFB	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS	448	3,760	4,208
COMM. ON LETTERS OF GUARANTEES	625	898	1,523
INTEREST	4	2,464	2,468
TOTAL	1,078	7,121	8,199

COSTS

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS			
COMM. ON LETTERS OF GUARANTEES	84		84
INTEREST			
SUBORDINATED LOANS			
TOTAL	84		84

REVENUES

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS			
COMM. ON LETTERS OF GUARANTEES			
INTEREST		24	24
TOTAL		24	24

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

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 art. 2403 of the Civil Code, the Board of Statutory Auditors is required to inform the Shareholders' Meeting of the oversight activities carried out during the year. We thus inform you that all oversight activities were performed in accordance with the provisions of the Civil Code, Legislative Decree 385 of 1 September 1993 (Consolidated Banking Law T.U.B.), Legislative Decree 39 of 27 January 2010, statutory provisions and regulations of the supervisory and control authorities, also taking into account the code of conduct recommended by the National Council of Chartered Accountants and Accounting Experts.

* * *

With reference to Banca UBAE S.p.A.'s financial statements as of and for the year ended 31 December 2018 reporting a loss of €51,547,309, the Board of Statutory Auditors declares that they have been prepared in accordance with Internal Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) currently in force. Specifically, the financial statements as of and for the year ended 31 December 2018 were prepared on the basis of "instructions for the preparation of company financial statements and consolidated financial statements of banks and financial institutions that are the parent companies of banking groups" issued by the Bank of Italy with Circular 262 dated 22 December 2005 and subsequent amendments.

The accompanying explanatory notes, in addition to providing the specific information required by rules, regulations and standards governing the preparation of financial statements, also provide information deemed opportune to represent the Company's financial position and operating results.

The report drawn up by the Board of Directors contains the appropriate information on management, to be considered comprehensive, full and thorough.

* * *

With regard to the ways and means whereby the Board of Statutory Auditors carried out its institutional activities, it is hereby acknowledged that said Board:

- took part in the meetings held by the Board of Directors, the Audit and Risk Committee and the Remuneration and Governance Committee;

- regularly met with the heads of Internal Audit, the Compliance function and the Risk Management function in order to exchange information on the activities carried out and the control programmes;

- performed periodic checks, monitoring compliance with the law and by-laws, ensuring respect of the principles of sound administration, the adequacy of the organisational structure and the internal control system;

- maintained a regular exchange of information with the heads of the independent auditing firm;

- continuously followed events affecting the Bank.

The Board of Statutory Auditors is not aware of any transactions entered into that are against the law, diverge from the corporate purpose or are at odds with the corporate by-laws or with resolutions passed by Shareholders' Meetings or by the Board of Directors.

Transactions within the Group or with related parties.

During the year we neither found nor received any indications from the Board of Directors, the management, the independent auditing firm or the head of Internal Audit concerning the existence of atypical and/or unusual transactions carried out between Group companies or with related parties.

The transactions with related parties are illustrated by directors in the Explanatory Notes.

It is the Board of Statutory Auditors' opinion that the aforementioned transactions, of an ordinary nature, are to be deemed appropriate and in line with the company's interest, connected with and relevant to the achievement of the corporate purpose.

Adequacy of the information provided, in the directors' report on operations, regarding atypical and/or unusual transactions and transactions within the Group or with related parties.

In addition to that stated in point 1, the Board of Statutory Auditors should like to note that, as per transactions concluded with related and/or affiliated parties, under art. 2391 bis of the Civil Code, in accordance with provisions on connected parties, referred to in the Bank of Italy's Circular 285 of 17 December 2013, the Bank has adopted suitable internal regulations and specific procedures that ensure the ongoing management and monitoring of said transactions.

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

The Board of Statutory Auditors has overseen the: (i) financial disclosure process; (ii) effectiveness of internal control, internal auditing and risk management systems; (iii) statutory audit of annual accounts; (iv) independence of the statutory auditor, especially as concerns the provision of services other than auditing.

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

Said report, issued on 15 April 2019 pursuant to art. 14 of Legislative Decree 39/2010 and art. 10 of EU Regulation 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, in effect as of 31 December 2018, and in compliance with the provisions implementing art. 43 of Legislative Decree 136/2015, and were prepared on the basis of the instructions issued by the Bank of Italy with Circular 262/2005 and subsequent amendments and additions.

Thus, the report provides a truthful and correct representation of the financial position, operating results and cash flow for the year ended 31 December 2018. Moreover, in the opinion of the independent auditor, the Report on Operations is consistent with the financial statement documents.

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

Reports pursuant to art. 2408 and complaints

During the 2018 financial year, the Board of Statutory Auditors did not receive any reports pursuant to art. 2408 of the Civil Code, nor were there any complaints.

Observations on compliance with the principles of sound administration.

Also by taking part in meetings of the Board of Directors and the Audit and Risk Committee, based on information obtained or received by the Directors and by the person entrusted with auditing the accounts, the Board of Statutory Auditors oversaw compliance with the principles of sound 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.

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 matters pertaining to it, through direct observation, information gathering and interviews with the representatives of the auditing firm BDO Italia S.p.A.

Information on corporate bodies.

Concerning corporate bodies, the Board of Statutory Auditors notes that with reference to the provisions of art. 36 of Legislative Decree 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 accessed the respective situations and taken decisions in order to comply with to comply with the aforementioned legislation.

Final evaluation of 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.

Proposal by the Board of Statutory Auditors to the Shareholders' Meeting.

In light of the foregoing and considering the content of the statutory auditor's report, 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 and for the year ended 31 December 2018 drawn up by the Board of Directors and the proposed means of covering the losses.
The Board deems it necessary to point out that in January 2019 the Board of Directors approved the Bank's new Business Plan. This Plan envisages, amongst other things, a first-level capital increase, compliance with which could ensure a return to profit starting from the next year. Whilst inviting the shareholders to approve the capital increase called for in the plan, the Board of Statutory Auditors considers pursuit of the Plan's objectives to be a defining element in the Bank's future operability.

Rome, 15 April 2019.

The Board of Statutory Auditors

LEGAL AUDITORS' REPORT

BDO

Tel: +39 066976301
www.bdo.it

Via Ludovisi, 16
00187 Roma

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, 2018, 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.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2018 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.

BDO

Key audit matters	Audit responses
First Time Application of International Accounting Standard Ifrs 9 "Financial Instruments"	
Disclosure on the effects from the first time application of IFRS 9 is reported in Part A of the notes to the financial statements. First time application of IFRS 9 "Financial instruments" in 2018 has modified the classification and measurement of the financial instruments in comparison with previous IAS 39 applicable until December 31, 2017 and has required the reassessment of accounts as at January 1, 2018. As required by IAS 8 and IFRS 9, the Company has accounted a negative reserve for IFRS 9 FTA amounting to approx. Euro 7 million. For purposes of audit activities, first time application of IFRS 9 ha been considered significant with respect to the complexity of the first application.	Our main audit procedures performed in response to the key audit matter regarding the application of IFRS 9, included the following: - we analysed the procedures and processes related to classification and measurement of financial assets, specifically regarding the business model definition for the management; of financial instruments and the policy related to the characteristics of cash flows of financial instruments (SPPI test); - we analysed the procedures and processes related to the impairment model of receivables, specifically regarding the comprehension of the significant increase in credit risk for the movement from stage 1 to stage 2 and understanding the models adopted to measure the expected losses ("Expected Credit Losses", "ECL") and methodologies for the assessment of parameters of the impairment model (PD, LGD, EAD); - we verified the matching procedures and the data included in the schemes of reconciliation between balances as of December 31 ,2017 closing as for the last approved financial statements and the opening balances as of January 1 2018 as for the first financial statements prepared in accordance with IFRS 9; - we analysed the matching procedures between items included in the management systems and the information included in the reconciliation schemes; - we verified the disclosures provided.

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 - paragraph 3 - Financial assets measured at amortised cost)* *Part B - Information on the balance sheet (Section 4 - Financial assets measured at amortised cost - item 40)* *Part C- Information on the income statement- (Section 8 - Net impairment adjustments - item 130)* *Part E - Risks (Section 1 - Credit risk)* Financial assets measured at amortised cost (item 40 of Assets) as at December 31, 2018 amount to Euro 1,504 million, corresponding to 60% 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, evaluation of guarantees and parameters of the ECL impairment model.	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; - 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 - 10 - Provisions for risks and charges)* *Part B - Information on the balance sheet (Section 10 - Provisions for risks and charges - item 100)* *Part C- Information on the income statement- (Section 11 - Net provisioning for risks and charges - item 170)* 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.

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.

BDO

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, 2018, 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, 2018 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, 2018 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 15, 2019

BDO Italia S.p.A.

(signed in the original)

Emmanuele Berselli

Partner

RESOLUTIONS PASSED BY SHAREHOLDERS' ORDINARY GENERAL MEETING HELD ON 15.05.2019

AGENDA

1. Discussion and approval of draft balance as at 31 December 2018 together with the Board of Directors' management report

2. Report by Board of Statutory Auditors

3. Report by Independent Auditing Firm

4. Proposal to cover business losses and relative discussion

5. Request to ratify the over-run of the ceiling set for the remuneration of the directors within the remuneration and incentive policies 2018 approved by the Shareholders' Meeting on 8 June 2018

6. Approval of 2019 remuneration and incentive policies proposed for directors, statutory auditors, employees and collaborators linked to the Bank by non-subordinated employment relationships (see part one, title 40, chapter II of Banca d'Italia circular no. 285 of 17 December 2013) and the policy for identifying significant personnel (see 25th update of the aforementioned circular)

7. Other matters:
Disclosure pursuant to the Board of Directors' self-assessment regulation concerning the maximum number of offices (executive and non-executive) held by corporate officers

THE MEETING

- having taken note of the financial statements as at 31 December 2018, which closed with a loss of 51,457,309.00 euros for the year

- having acknowledged the documentation prepared by the Board of Directors, the Board of Statutory Auditors and the Independent Auditing Firm;

with a unanimous vote,

DECIDED

1. to approve the balance sheet as of 31 December 2018 giving discharge for ratification and approval to the Board of Directors;

2. to cover the loss for the year in the following ways:

- full use of the extraordinary reserve for 35,625,318.00 euros;
- for the residual amount of 15,831,991.00 using the share premium reserve

With this decision, the total equity of the Bank as at 31 December 2018 will amount to 143,016,287.00 divided as follows:

	Euro	159,860,800
-Share Capital	Euro	13,494,100
-Legal Reserve	Euro	870,225
-Share premium account	Euro	(6,955,039)
-IFRS9 FTA reserve from 2018 loss	Euro	305,240
-IAS FTA reserve from 2005 IAS profit	Euro	(24,559,039)
-Revalutation Reserves (1)		
		143,016,287

Furthermore, the meeting acknowledged that with the change in the business model and the consequent reallocation of government securities from the HTC&S portfolio to the HTC portfolio – which determined the exclusion of the losses from the items that can be computed in the equity – the Bank's assets at 1 January 2019 amounted to 168,379,309 euros divided as follows:

-Share Capital	Euro	159,860,800
-Legal Reserve	Euro	13,494,100
-Share premium account	Euro	870,225
-IFRS9 FTA reserve from 2018 loss	Euro	(6,955,039)
-IAS FTA reserve 2005 IAS profit	Euro	305,240
-Revalutation Reserves (1)	Euro	(803,983)
		168,379,303

ANNEX A

COUNTRY-BY-COUNTRY REPORTING AS AT 31 DECEMBER 2018

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 Investment 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 32,029,375.00**

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

d. **Loss (before tax)= EUR 51,457,309**

e. **Income tax on year's loss = -**

f. **Public contributions received = None, not applicable**

(1) "Turnover" is understood as the gross operating income as per item 120 of the income statement.
"Loss before tax" means item 260 on the income statement.
Taxes" means the total amount of taxes as shown in item 270 on 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

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