



ANNUAL REPORT **2020**

Report and Financial Statements 2020

MISSION

Become the preferred advisor and partner for all Italian and International Companies or Financial Institutions willing to create or to enhance commercial, financial, industrial and economic relations with North and Sub-Saharan Africa, the Middle East, the Indian Subcontinent and South Eastern European Countries.

VISION

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

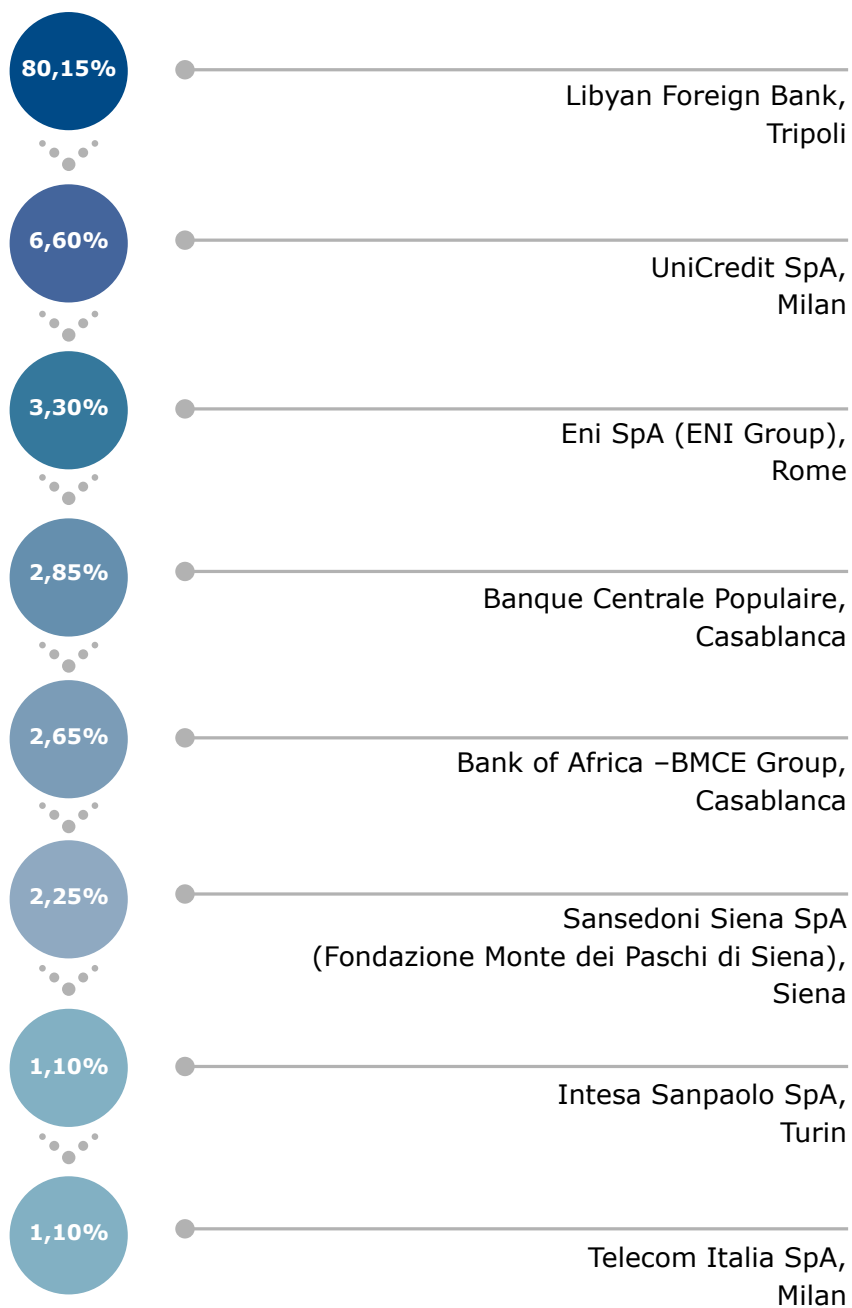
STRATEGY

Purse sustainable growth in the long run, suitable for a stable value creation for our customers, shareholders and associates.

Share Capital

Euro 261,185,850 fully paid up

List by percentage:



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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

Amin A. F. Botlag

Saleh A. M. Edbayaa

Elamari M.A. Mansur

Fekri A.A. Sinan (until 22 July 2020)

Abdelrazak M. Elhoush (since 23 July 2020)

Secretary of the Board of Directors and the Executive Committee

Lavinia Callegari

BOARD OF STATUTORY AUDITORS **

Appointed by Shareholders' Meeting on 27 April 2018

Chairman

Fabio Gallassi

Statutory auditors

Francesco Rocchi

Elenio Bidoggia

Alternate auditors

Gabriele Felici

Sergio Montedoro

GENERAL MANAGEMENT

General Manager

Maurizio Valfrè (1)

Deputy General Manager

Esam Elrayas

EXECUTIVE DIRECTORS

Global Head of Business Development Area

Massimo Castellucci

Head of Tripoli Representative Office

Tariq Mohammed Saed Alajeeli

**** 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.

1) He replaced Mr Mario Sabato 1 July 2020

YOUR BANK FOR INTERNATIONAL BUSINESS



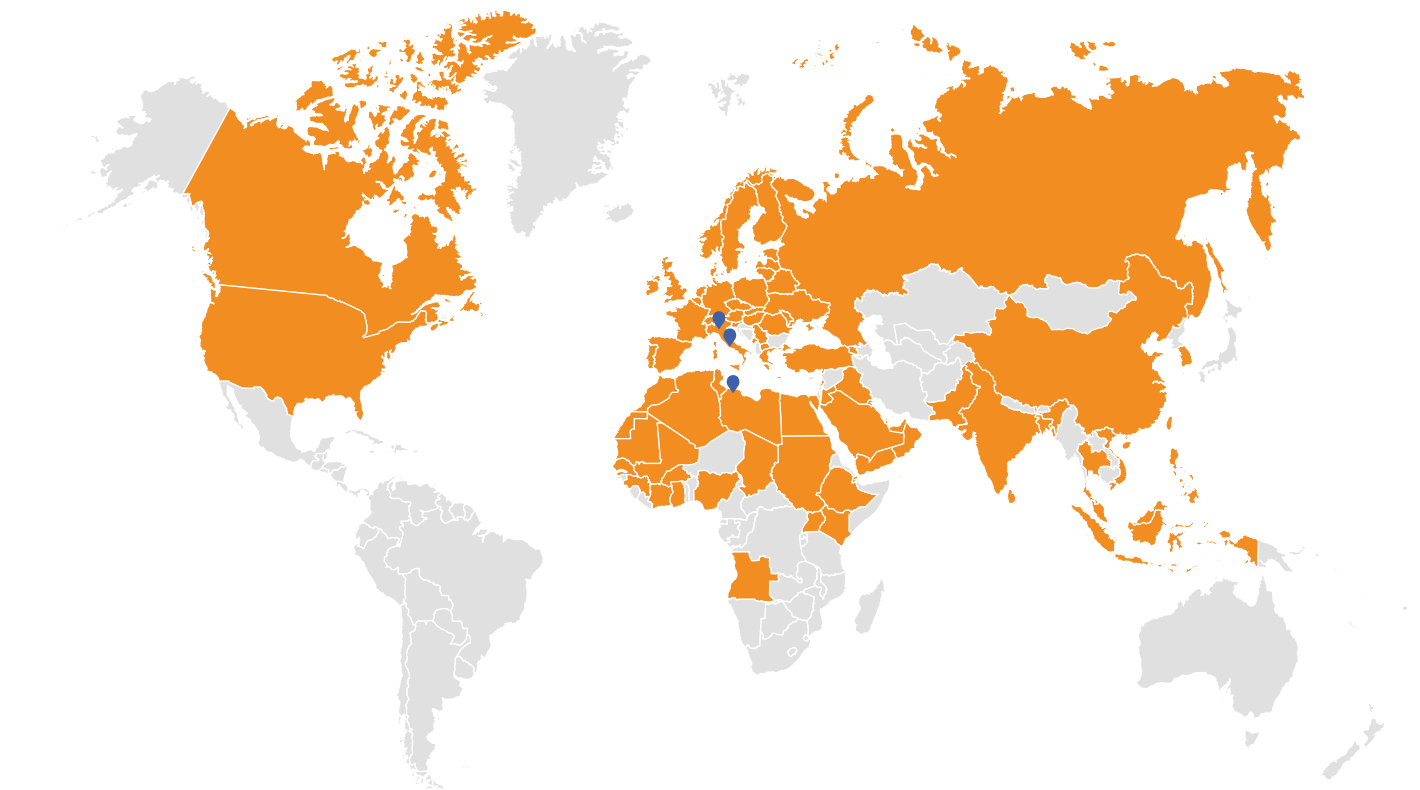
SUMMARY OF DATA, ECONOMIC AND FINANCIAL INDICES, CORPORATE GRAPHS

FINANCIAL DATA	31 DEC 2018	31 DEC 2019	31 DEC 2020
FINANCIAL ASSETS	€ 589,310,877	€ 299,354,638	€ 129,477,506
BANKS FINANCING	€ 463,292,613	€ 405,424,879	€ 200,198,141
DEPOSITS TO BANKS	€ 552,663,202	€ 374,566,546	€ 368,044,895
CUSTOMER FINANCING	€ 840,136,200	€ 964,321,139	€ 925,548,514
EARNING ASSETS	€ 2,445,402,892	€ 2,043,667,202	€ 1,623,269,055
TOTAL ASSETS	€ 2,526,033,035	€ 2,107,238,061	€ 1,688,638,188
DEPOSITS FROM BANKS AND A/C WITH BANKS	€ 2,249,914,394	€ 1,612,793,316	€ 1,299,586,598
SUBORDINATED LOANS	€ 100,000,000	€ 100,000,000	€ 0
CUSTOMER FUNDING	€ 105,404,441	€ 222,381,362	€ 152,189,246
TOTAL FUNDING	€ 2,355,318,835	€ 1,835,174,678	€ 1,451,775,843
RESERVES	€ 34,612,797	€ 109,070,691	€ (18,615,772)
SHARE CAPITAL	€ 159,860,800	€ 159,860,800	€ 261,185,870
NET PROFIT / LOSS	€ (51,457,310)	€ (26,144,425)	€ (57,766,641)
GROSS WORTH	€ 143,016,287	€ 242,787,066	€ 184,803,457
NET INTEREST INCOME	€ 13,592,986	€ 14,704,359	€ 11,919,677
NET COMMISSIONS	€ 16,451,998	€ 14,356,765	€ 10,328,134
NET FINANCIAL INCOME	€ 1,984,392	€ (2,929,824)	€ (4,573,337)
NET TRADING INCOME	€ 32,029,375	€ 26,131,301	€ 17,674,474
OPERATING CHARGES	€ (34,021,612)	€ (31,350,292)	€ (36,312,444)
NET OPERATING PROFIT	€ (1,992,237)	€ (5,218,991)	€ (18,637,970)
NET PROFIT	€ (51,457,310)	€ (26,144,425)	€ (57,766,641)
NO CASH ASSET (L/C)	437,377,159,84	298,369,059,74	216,176,643,02
NO CASH ASSET (L/G)	406,470,629,76	371,682,622,85	314,053,387,00
TURNOVER LETTERS OF CREDIT OIL	€ 360,088,012	€ 406,334,259	€ 75,686,477
TURNOVER LETTERS OF CREDIT NON-OIL	€ 1,630,835,629	€ 1,144,019,218	€ 699,034,321
TURNOVER GUARANTEES	€ 125,257,518	€ 51,656,610	€ 27,367,400
OUTSTANDING GUARANTEES	€ 408,131,132	€ 375,971,302	€ 315,597,234
NPL	139,335,593,95	149,148,723,17	142,764,768,94
GROSS WORTH/TOTAL ASSETS	5.66%	11.52%	10.94%
LOANS/DEPOSITS RATIO	57.93%	84.93%	86.62%
INTERBANK RATIO	45.16%	48.36%	43.72%
NPL/TOTAL CASH & NO CASH ASSETS	3.89%	5.24%	6.27%
ROE NET PROFIT/PAID CAPITAL	-32.19%	-16.35%	-22.12%
ROE NET PROFIT/GROSS WORTH	-35.98%	-10.77%	-31.26%
ROA NET PROFIT/TOTAL ASSETS (*)	-2.04%	-1.24%	-3.42%
OPERATING CHARGES/NET TRADING INCOME	99.15%	109.36%	193.21%
NET PROFIT/NUMBER OF EMPLOYEES	€ (259,885)	€ (140,561)	€ (328,220)
NUMBER OF EMPLOYEES (FIXED AND NOT FIXED TERMS)	198	186	176
TOTAL CAPITAL RATIO (CAPITAL ADEQUACY RATIO)	17.34%	24.43%	19.13%
CET1/TIER I CAPITAL RATIO (EQUITY ASSET RATIO)	10.37%	17.41%	19.13%
BANKING OWN FUNDS	€ 262,848,986	€ 348,265,23	€ 189,155,060

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

CLOSE TO OUR CUSTOMERS WORLDWIDE





● Our Reference Countries

● Offices

Rome Headquarters



ANNUAL REPORT

1 January - 31 December 2020



Mr. Sharef S. Alwan

CHAIRMAN'S STATEMENT

To all shareholders

During 2020 there was a very serious global crisis primarily determined by the spread of the Covid-19 virus, the consequences of which, to date, are still difficult to assess as a whole.

This event, unprecedented in recent history, has produced and is still producing effects of vast impact in terms of human lives, social relations, and business results. The latter in particular have a negative impact on the uncertainty in investment and spending decisions of households and especially businesses, and confidence remains low despite a recent slight improvement.

Globally, the GDP growth rate has decreased significantly and the decline has been common to almost all geographic areas, with a recent estimate of -3.8% by the Monetary Fund. The new wave of Covid infections which started in autumn 2020 also weighs on this estimate, causing another slowdown in global activity, especially in countries with more advanced economies.

The launch of vaccination campaigns – at the beginning of 2021 – reflects favourably on the prospects for the medium term, but the timing and speed of recovery remain uncertain.

In the Euro area, the effects of the impact of the pandemic on economic activity and prices are expected to be more persistent over time than previously assumed.

The Governing Council of the European Central Bank has expanded and extended the monetary stimulus, to ensure favourable financing conditions for all sectors, for as long as is necessary to ensure full support for the economy and inflation; the ECB reiterated

its maximum willingness to support the economy, calibrating the tools at its disposal in an increasingly effective way. The GDP of the Euro area stood at - 6.8% compared to the previous year.

In Italy, after a certain recovery in economic growth during the third quarter, the second pandemic wave occurred which, as in the other countries of the area, caused a new and heavy contraction in commercial volumes, with dramatic effects on GDP, which finally, in 2020 reached - 8.8 year on year.

In this context, the trend in the price of crude oil should not be underestimated – in 2020 it decreased by 23% touching downward values that had not been seen for several years and having a marked impact on the economies of the main countries exporting crude oil.

Despite this dramatic 2020, the economic forecasts for the next year tend almost unanimously to moderate optimism, with forecasts of increasing global growth (about 4%) and gradual strengthening over time as the vaccination programmes begin to produce effects and the pandemic begins to fade. The risks will not definitively disappear, but the impact will be reasonably contained through responsible action by governments aimed at more effective control of the pandemic and profound structural reforms in the economic and financial sphere aimed at increasing productivity and environmental sustainability.

Shareholders, in this context, your Bank has continued to work to ensure, despite the severe limitations resulting from the pandemic, the institutional activity of supporting commercial traffic to its historically core countries as well as providing full assistance for its customers.

The uncertainties due to the emergency caused by the Covid-19 pandemic, the default of the sovereign debt of a country with which the Bank has traditionally operated, the political, social and economic crises that have affected some geographical areas in which the Bank operates, have prompted the revision of the 2020-2024 business plan based on new economic and equity targets, revised investment choices that are always closely related to risks, and an organisational structure that is increasingly efficient and adequate for new operational challenges.

The economic objectives of the new business plan envisage, with the active support of the shareholders and in particular of the majority shareholder Libyan Foreign bank, a return close to break-even as early as 2021, to then continue in the following years towards a more stable return to profitability.

In this context, the measure of capital strengthening of the Bank is emphasised through the increase in share capital, for Euro 101 million, which took place in March 2020 by the sole shareholder Libyan Foreign Bank. This event, which resulted in an increase in the Libyan shareholder's stake, enabled the Bank to strengthen its capital ratios – with the Tier 1 ratio and Total capital ratio which stood at the end of the year at 19.13%, well above the regulatory minimums, confirming a solid capital base.

The Bank's 2020 balance sheet and financial statements show a substantially negative result, mainly as a consequence of further significant increases in the levels of bad debts and the evident reduction in revenues not accompanied by an equally robust reduction in costs.

The substantial adjustments to loans, in particular, reflected the prudential approach adopted by the Board of Directors with the aim of enabling the Bank to return to an economic equilibrium starting from financial year 2021.

On the other hand, in the second half of 2020 a series of measures were launched in order to restore the Bank to medium-long term stability, such as the start of the process aimed at a further increase in regulatory capital through Tier II instruments, the review of credit granting and monitoring procedures, the definition of new commercial development strategies, the sale of some NPL positions with limited recovery expectations.

Shareholders, we are confident that with adequate financial resources, according to the indications of the new Strategic Plan, Banca UBAE will be able to better face the new challenges that await it over the next few years; on the one hand, they will enable the pursuit of new business opportunities; on the other hand, they will represent a robust safeguard against the growing risks that the situation of global uncertainty will inevitably bring about.

In reiterating the hope that all shareholders will continue to confidently support the Bank in what will be the needs in the face of future challenges, I would like to thank all management and employees for their commitment in this year characterised by a very difficult economic and social context.

I trust that in future years the Bank – thanks to the strategic orientations that the governing bodies intend to pursue and thanks to the support offered by its shareholders – will return to play that role of credit institution with an international vocation that undoubtedly belongs to it by virtue of its almost fifty-year history, with the relationships built, and the skills acquired.

Sharef S. Alwan
Chairman of the Board of Directors

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

EUR/mIn

COUNTRIES	2020		2019		2018	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS
LIBYA	1,725	879	4,714	1,243	4,190	1,210
BANGLADESH	1,213	401	1,473	550	1,398	741
FRANCE	31,316	44,660	36,629	49,824	36,535	48,421
SPAIN	19,596	20,429	21,443	24,027	20,627	24,001
U.S.A.	14,785	42,468	16,999	45,584	15,964	42,449
UAE	4,550	3,867	908	4,577	1,144	4,587
TURKEY	7,456	7,727	9,459	8,334	9,047	8,784
SWITZERLAND	9,519	25,231	10,943	26,028	10,954	22,358
ALGERIA	3,142	1,941	4,341	2,921	5,710	3,091
KUWAIT	14	931	55	1,016	371	1,066
QATAR	1,025	1,050	1,343	1,386	1,549	1,093
MAURITANIA	128	22	121	23	95	28
GERMANY	60,317	55,685	69,611	58,113	70,315	58,096
CANADA	1,758	4,273	1,748	4,500	1,510	4,116
EGYPT	1,605	3,080	1,929	2,420	2,107	2,688
NETHERLANDS	21,926	11,256	23,009	11,840	22,912	11,628
UNITED KINGDOM	8,417	22,420	10,653	24,915	11,141	23,451
SLOVENIA	2,853	3,458	3,358	4,410	3,258	4,685
LITHUANIA	548	972	614	968	558	914
LEBANON	52	528	37	1,176	42	1,383
PAKISTAN	625	509	739	685	654	801
BAHRAIN	140	422	122	268	283	268
SAUDI ARABIA	2,959	3,217	3,796	3,279	5,129	3,097
OMAN	51	493	107	487	84	672
BELGIUM	18,162	14,874	19,479	14,062	19,223	13,180
TUNISIA	2,088	2,384	2,445	3,130	2,486	3,469
JORDAN	34	415	49	522	52	516
SYRIA	4	60	4	118	8	104
ANGOLA	248	189	472	208	442	200
TOTAL	216,254	273,842	246,601	296,613	247,786	287,096
UBAE' SHARE	20	754	6	1,508	98	1,831
%	0.01	0.28	0.003	0.51	0.04	0.64

Boardroom



THE BANK'S ACTIVITIES:

Brief Summary

BANKING OPERATIONS IN 2020

Loans and Advances

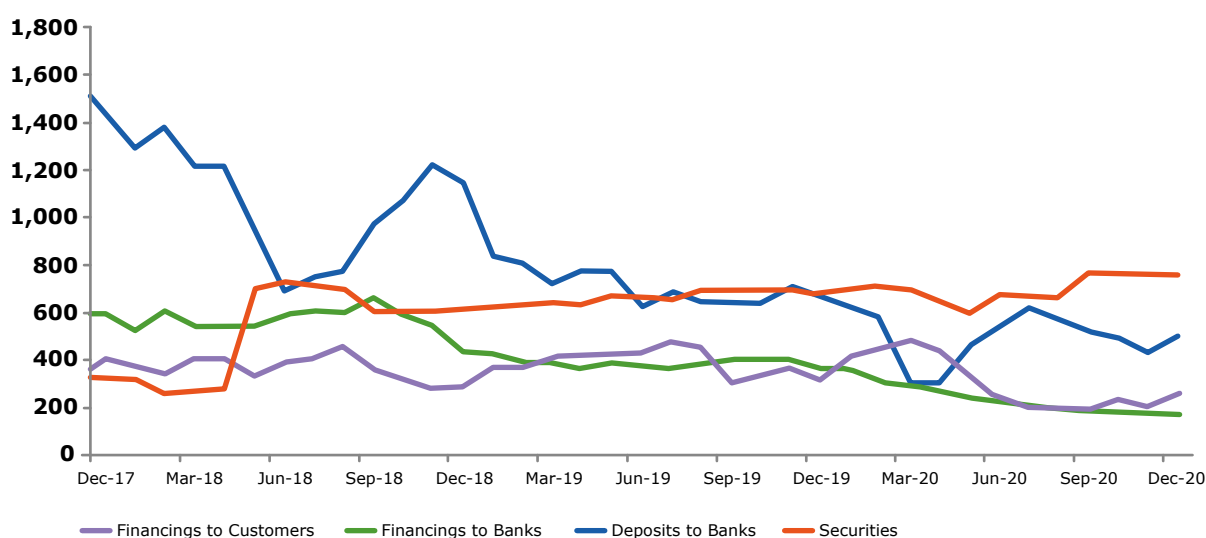
The Bank's activity continues to be mainly oriented towards supporting, with cash and signature interventions, commercial transactions with customers that carry out import/export activities or infrastructural development in the reference countries, and in particular those of the MENA area.

In the year under review, the sharp worsening of the international economic situation due to the repercussions of the pandemic crisis as well as geopolitical tensions have increased uncertainty and risks to financial stability.

In this context, the credit lines in favour of corporate customers and banks marked a sharp contraction, partly due to the drastic reduction of international trade flows and partly due to decisions by the governing body in favour of extremely conservative credit policies to safeguard financial margins.

Conversely, investments in securities classified in the HTC segment increased.

In this sense, the following graph is explicit, showing the trend in terms of loans over the last three financial years:



Short-term loans of a "non-commercial" nature to corporate entities, in consideration of their riskiness and the Bank's precise strategic choice to focus on core activities, are of an insignificant volume and tend to be limited to customers already assisted with products of international trade finance.

Operations on foreign markets

In 2020, the commercial and financial activity towards the countries historically of interest of the Bank was significantly limited by the repercussions of the pandemic crisis and, in some cases, by certain specific socio-political factors.

Another strongly negative element was the trend in the price of crude oil, which reached very low values in the first part of the year, so much so as to affect the financial income of producing countries. It should be borne in mind that too low values of the price of crude oil and its derivatives negatively affect the economies of exporting countries, whose financial stability is strongly conditioned by the flows of liquidity deriving from oil.

The pandemic had a negative impact on all world economies, albeit to varying degrees:

- **In Italy**, the GDP estimate in 2020 stood at -8.8% compared to 2019, also a consequence of the second wave of pandemic which has effectively blocked a recovery which, in correspondence with the summer period, was gaining more and more force. The effects of the virus have also hit the employment market very strongly, with an increase in the unemployment rate (+9.0%) despite a series of government interventions to safeguard jobs. At the start of 2021, there were some timid signs of recovery, with improvements in the economic outlook for both the manufacturing and service sectors. The GDP in 2021 is expected to grow by 4.5%, but the trend will be strongly conditioned by the actual evolution of the pandemic.
- **In Europe**, after a comforting rebound recorded in the third quarter, economic activity has returned to contract; the fall was however lower than expected, although European countries were among those most affected by the second wave of the pandemic and in many cases had to introduce new and severe restrictions starting from the end of October. In 2020, the European GDP fell overall by 6.8% compared to the previous year, with good recovery prospects for 2021 (+4.6% expected, and the statistical data for January and February seem to confirm this trend), albeit conditioned – also in this case – by the movement of the pandemic.
- As regards the **international economy**, economic studies show that the expansion of the global economy is slightly decreasing in the first few months of 2021 due to the constraints of the supply chain, which have created an increase in delivery times and prices. From the first evidence, a discrepancy emerges between a demand that still remains quite lively and an offer limited by the obstacles related to international trade and transport services, put to the test by the pandemic. In this context, it is reasonable to expect a very modest recovery in activity in the first quarter and a subsequent strengthening of the growth rate, in line with the expectations of companies, which remain quite optimistic overall.

- **Emerging countries** will see a short-term recovery in 2021, albeit not uniform nor particularly robust. Expectations are for an overall 5% growth in 2021 and 4.2% in 2022, but both values will be strongly influenced by the data from China. In emerging countries, there has also been a decline in per capita incomes of 90%, causing millions of people to fall below the poverty line. For more than a quarter of these countries, the pandemic is expected to cancel at least 10 years of per capita income gains.
- In the **countries of traditional interest to the Bank**, those of the MENA area, the GDP index reached -3.2% in 2020; the economic prospects for 2021 envisage a recovery of just under 4%, with uncertainty linked to the actual increase in the price of oil, for which an average rise of 21% is expected. Given the historical fragility of the economies of most of these countries, the recovery may also be negatively affected by factors of instability in the world financial market and/or events of a socio-political nature (with the conflicts that, in these geographical areas, impose – as well as huge humanitarian and social costs – also further negative repercussions on economies already hit by the pandemic crisis.

As mentioned, after the steep drop in 2020, the prolonged effects of the pandemic are strongly affecting the recovery in the early months of 2021, and many international research institutes are revising downwards their expectations for the current year. The vaccination campaign launched and the generalised desire to leave behind these months of profound crisis as soon as possible should fuel the climate of confidence of economic operators and individuals, helping to support the recovery. On the other hand, the contribution of governments and institutions will be important to accompany countries in this transition phase and guide them towards the “new normal”.

Within the banking sector, it cannot be excluded that the prolonged economic weakness may also trigger a wave of bankruptcies of economic operators and widespread crisis situations for families; it will be important, in this case, that the banks receive adequate support from the institutions and know how to express adequate resilience, somewhat attenuating the repercussions on the social fabric of the countries.

Based on the internationally considered more realistic expectations, world GDP should return to significant growth starting from spring, with GDP expansion expected to reach 4% in 2021, to 3.8% in 2022 and finally to 2.3% in 2023, when the full effect of the pandemic crisis would be bridged. In this context, investments would resume growing at a rapid pace, benefiting from the stimulus measures, and the recovery of exports would be equally significant; consumption would instead be more gradual, with only a partial re-absorption of the greater propensity to save observed since the onset of the epidemic. Inflationary risks are expected to remain low for 2021, and then rise in the two-year period 2022-23.

In this complex scenario, the Bank has already reviewed its commercial and financial strategy by preparing a new 2020-2024 Strategic Plan, drawn up in July 2020 on the basis of expectations appropriately adapted to the new pandemic context.

This strategy has been illustrated extensively and in detail in the aforesaid plan which provides, in summary, the return to a strong development of trade finance as well as an increase in the volumes of financing in the geographical areas of historical interest to the Bank, according to the logic of appropriate risk diversification.

The Plan is subjected to continuous monitoring by the appropriate bodies in order to acknowledge as quickly as possible any evidence of significant deviations and to define corrective actions just as promptly.

In the 2020 context marked by the pandemic, the Bank continued to work to ensure its range of services and to support its traditional customers, not failing in its historical mission, in particular towards countries such as Libya, Bangladesh, Egypt and Algeria, which represent the most consolidated operating area.

Revenues from commercial activities amounted to Euro 20.1 million (previously Euro 26.2 million), of which 48.2% deriving from commissions on letters of credit and guarantees, 47.7% from interest on financing transactions and commercial discounts, and 4.1% from factoring activities.

With particular reference to geographical origin, it should be noted that 81% of revenues were generated from abroad and 19% from Italy.

At the end of 2020, the number of entrusted counterparties was 404, of which 270 banks (Italian and foreign) and 134 companies with an international vocation.

The main qualitative and quantitative information on the Bank's operations during 2020 are shown below; for more details, please refer to the explanatory notes attached to the financial statements.

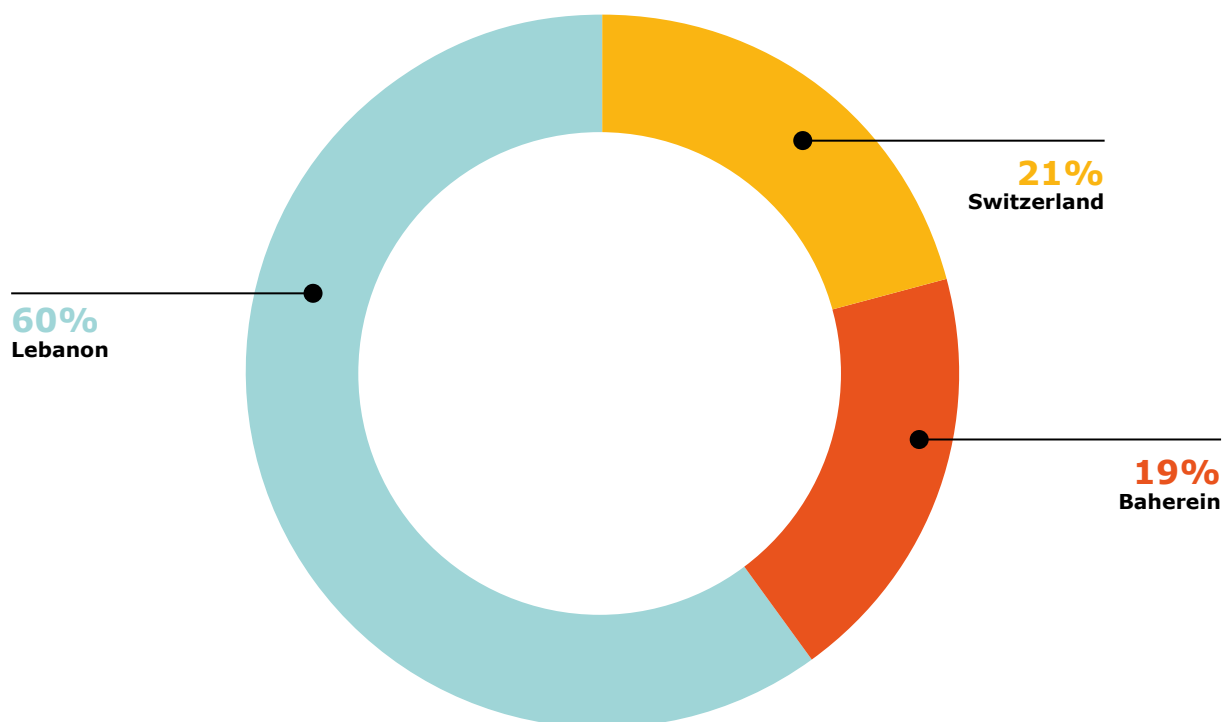
In 2020, the turnover of Letters of Credit (see table) reached the amount of Euro 774.7 million, slightly above what was expected in the Business Plan, albeit with a certain reduction compared to the levels of 2019.

Conversely, the stock at 31 December 2020 of Letters of Guarantee issued by the Bank amounted to Euro 316.8 million, higher than the forecast data but 15% lower than the 2019 levels.

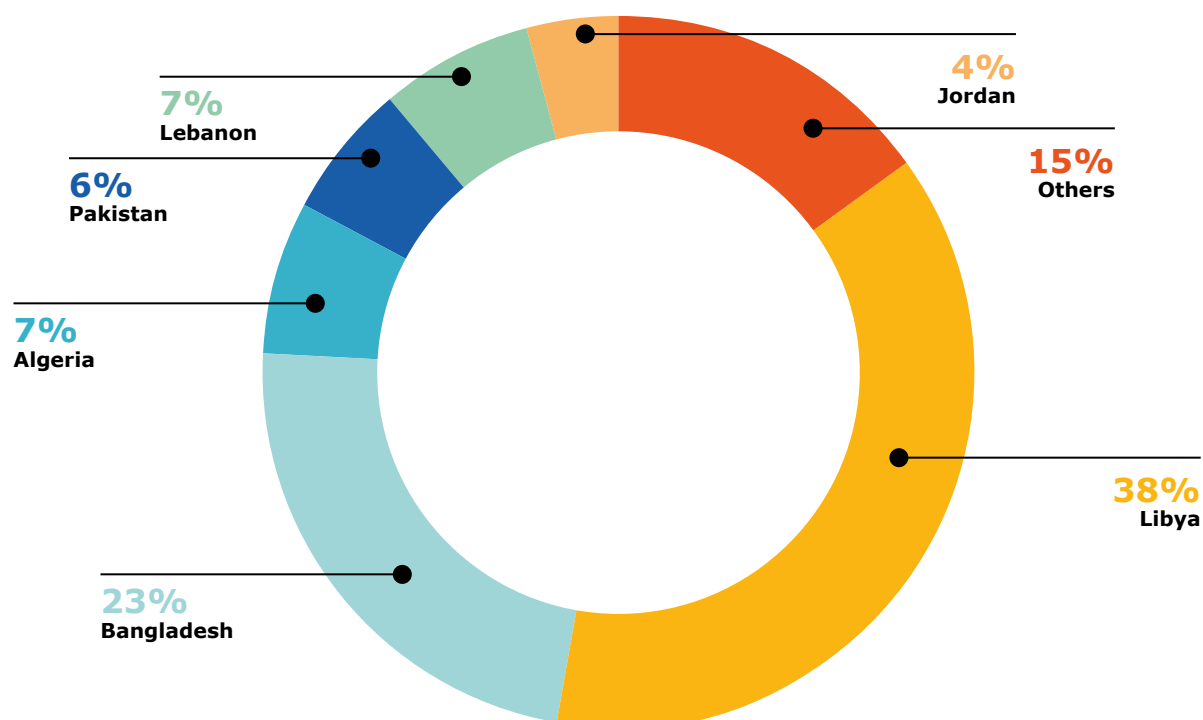
The composition by country of origin of the business from received and intermediated letters of credit can be represented as follows:

Geographic distribution

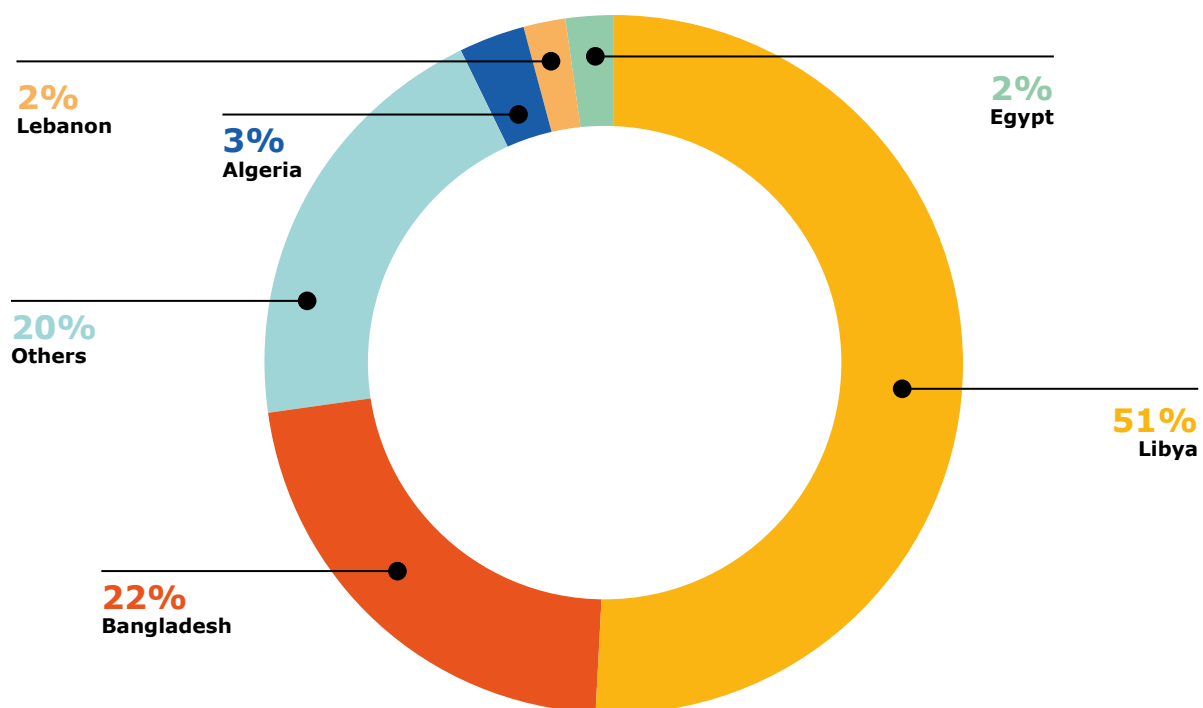
OIL L/Cs - TURNOVER 2020



NON OIL L/Cs - TURNOVER 2020



L/C - COMMISSIONS 2020



Analysis of annual data shows the following evolution:

EUR/000

	2020		2019		2018	
	VALUE/NO.	+/- %	VALUE/NO.	+/- %	VALUE/NO.	+/- %
LETTERS OF CREDIT: NUMBER	1,867	(35.84)	2,910	(2.19)	2,769	111.90
NON OIL LETTERS OF CREDIT: TURNOVER	699,030	(38.90)	1,144,020	(8.26)	1,629,360	33.57
OIL LETTERS OF CREDIT: TURNOVER	75,690	(81.37)	406,330	138.56	361,570	n.a.
COMMISSIONS ACCRUED	6,829	(32.84)	10,169	(0.17)	11,259	44.18

The values recorded in 2020 confirm, as already illustrated above, the negative effects generated by the pandemic, even in markets where Banca UBAE has traditionally supported large trade flows, resulting in a significant reduction, both in terms of stock and new flows, of Letters of Credit channelled through our Bank.

Analysis of the data from the guarantees sector shows the following trend:

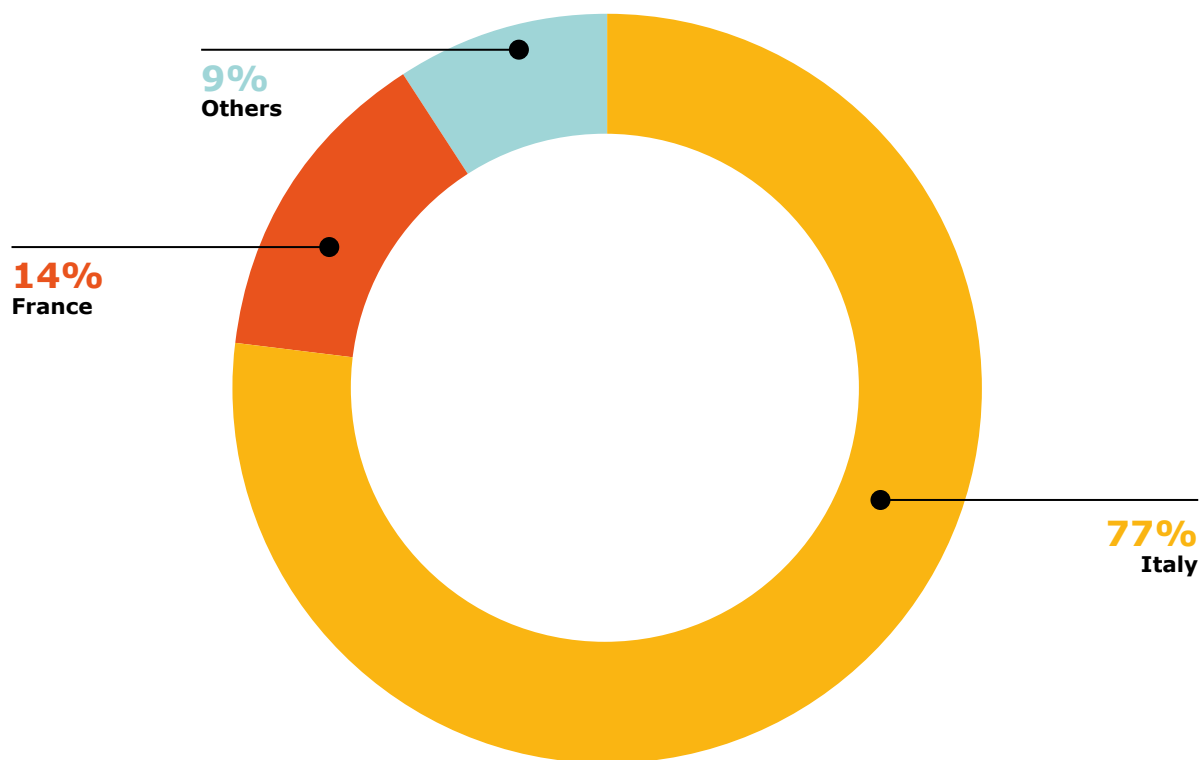
EUR/000

	2020		2019		2018	
	VALUE	+/- %	VALUE	+/- %	VALUE/NO	+/- %
GUARANTEES ISSUED IN YEAR	27,367	(47.02)	51,657	(58.76)	125,258	2.15
GUARANTEES: OUTSTANDING AT EOY	315,597	(16.06)	375,971	(7.88)	408,131	(8.74)
COMMISSIONS RECEIVED	2,855	(10.50)	3,190	(13.20)	3,675	(7.08)

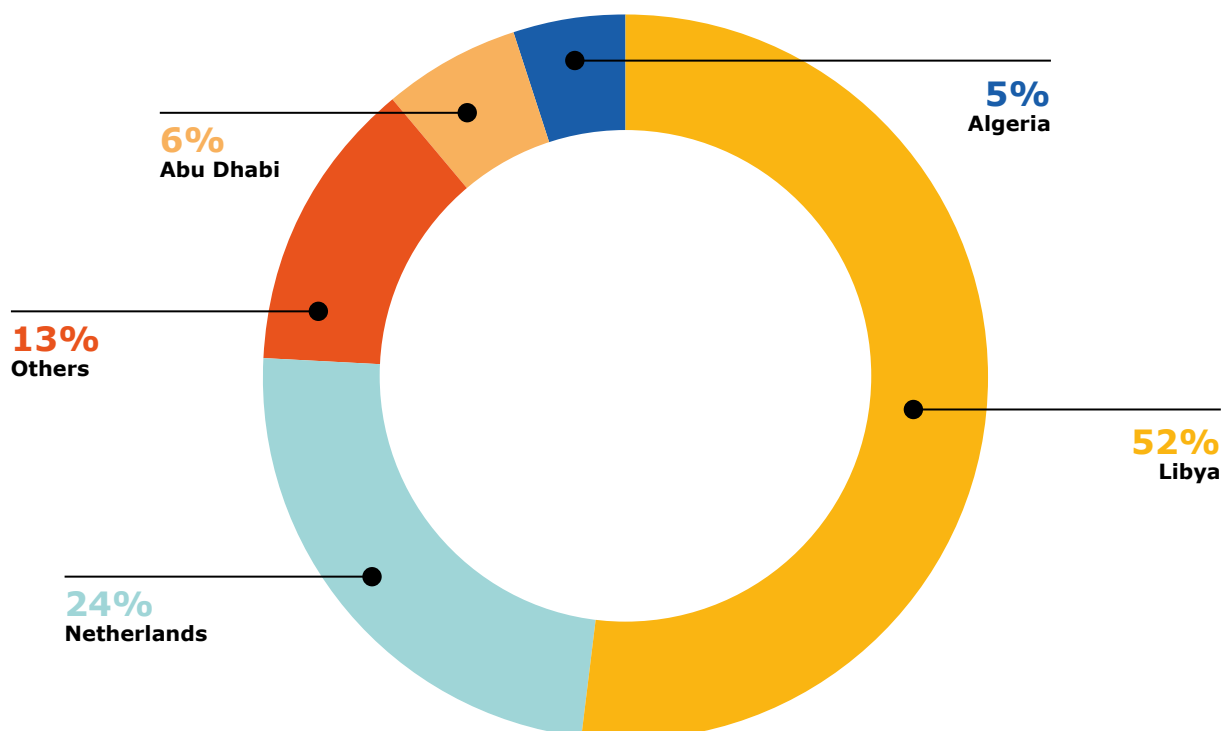
The guarantees – issued mainly on behalf of Italian companies with a high credit standing in the face of exports and/or significant orders in foreign markets of interest – have shown a decreasing turnover for the above reasons. Income, albeit slightly down (approximately -10%) compared to the same previous period, stood at values in line with expectations.

Geographic distribution

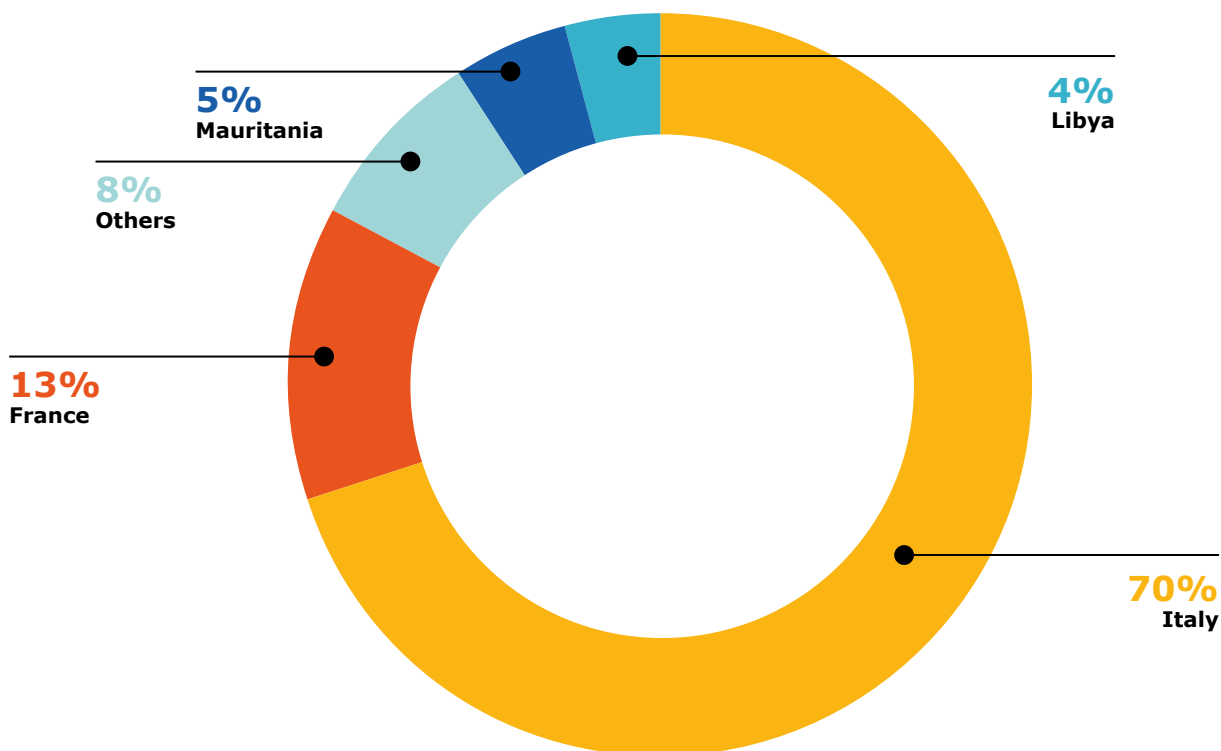
L/Gs APPLICANT 2020



L/Gs BENEFICIARY 2020



L/Gs COMMISSIONS 2020



Activities on financial markets

The year 2020 saw the Bank take action in the search for more profitable forms of investment in the face of the financial resources raised by institutional counterparties as well as by corporate customers.

The average volumes managed in the year showed decreasing values compared to those of the previous period.

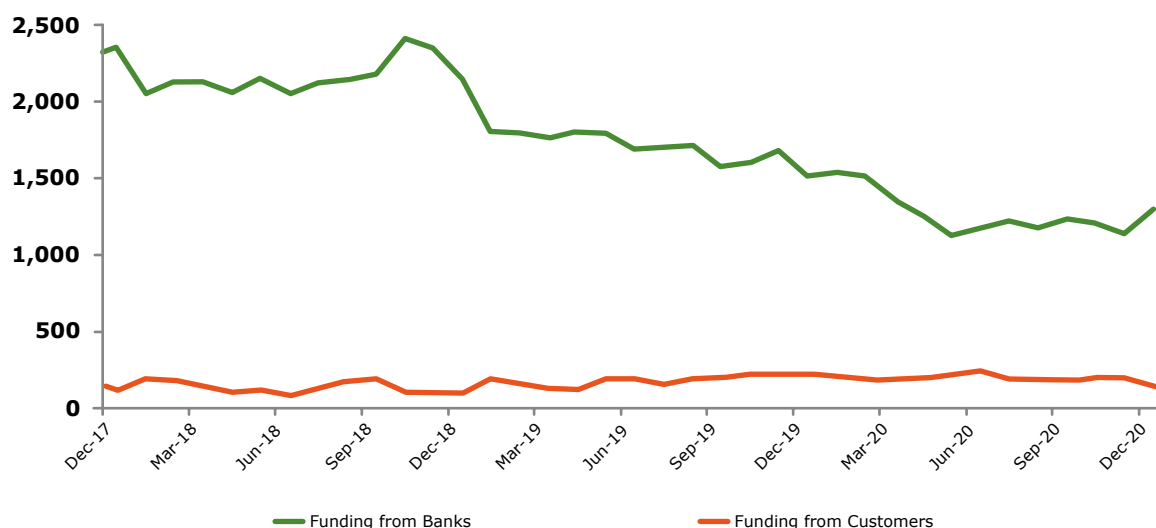
Despite the decreasing trend, the trend of deposits confirmed the confidence of the majority shareholder in the Bank's ability to optimise the yield of managed funds, in compliance with a policy of sound and prudent management.

In this sense, the Security Agreements for which the Libyan Foreign Bank (LFB) renewed two deposits, respectively of USD 300 million and EUR 100 million, with a duration of one year, aimed at stabilising the Bank's deposits and in particular, to support the business with counterparties of common interest in compliance with the legislation on related parties currently in force in Italy.

The average balance of total deposits in the period (payables to banks and customers) and the percentage change compared to the previous quarter 2020 are summarised in the following table:

FUNDING 2020						EUR/000	
FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER	
VALUE	+/- %	VALUE	+/- %	VALUE	+/- %	VALUE	+/- %
1,662,234	(8.61)	1,408,336	(15.27)	1,399,060	(0.66)	1,396,526	(0.18)

The trend of the main collection items over the last three years (2018-2020) is shown below:



Managing financial assets

The securities portfolio owned by the Bank, the main component of which is government securities, in particular those issued by the Italian Republic, supports the management of liquidity commitments. The increase in the securities portfolio has allowed them to be managed always in medium to long periods.

During the 2020 financial year, the Bank favoured more stable loans aimed at optimising medium-term assets to ensure suitable returns and, at the same time, ensuring an asset quality compatible with an adequate level of the LCR - Liquidity Coverage Ratio, which has always remained well above the minimum requirement.

The trend of the financial sector as well as the persistence of the heavy economic crisis have suggested a more careful analysis of the counterparties and of the risk/return profiles, inducing the Bank to reduce operations in the trading sector in order to determine, especially in the fixed assets sector, the more profitable opportunities to consolidate the flow of interest.

The composition of the portfolio at the end of the year reflects investments made mainly in bonds issued by supervised intermediaries, Italian government bonds and bonds issued by foreign governments or central administrations – including non-EU ones – with an average residual maturity of 1.63 years (average duration 1.57 years) for the trading portfolio, and 3.91 years (average duration 1.35 years) for the investment portfolio. The use of synthetic products, aimed at mitigating the interest rate risk from a management point of view, has brought the average duration to 0.58 years for the investment portfolio. Basically, the Bank maintained a securities portfolio with a very low interest rate risk profile.

The Bank's policy, given the reduced propensity to risk, was to limit investments in the stock market, favouring investments in the bond segment, both in floating rate and fixed rate issues, linking the latter to synthetic products suitable for limiting the risks deriving from the volatility of interest rates.

In more detail investment portfolio (i.e. to be held to maturity / available for sale):

- floating-rate issues with profitability above the interbank rate, to be held in the portfolio until maturity or available for sale, mainly issued by the Italian government, in order to ensure compliance with the regulatory threshold set for the LCR (liquidity coverage ratio);
- fixed-rate issues, with maturities mostly attributable to the short term (also as a result of hedging instruments) issued by the Italian government, in order to ensure compliance with the regulatory threshold set for the LCR (liquidity coverage ratio);

To date, the Bank has chosen not to use new and additional technical forms or proprietary portfolio management tools such as harmonised products and collective investment schemes (UCITS - Undertakings for Collective Investment in Transferable Securities).

Interbank activity

Activity in this area continued to be strongly influenced by the expansionary monetary policies that the ECB conducted also in 2020.

The Governing Council of the European Central Bank has broadened and extended the monetary stimulus to ensure favourable financing conditions for all sectors, for as long as necessary to guarantee full support for the economy and inflation.

The main objective of these monetary policies is aimed at expanding the money supply and, therefore, encouraging an increase in credit to businesses and households, at acceptable economic conditions, with the ultimate aim of fuelling the economic recovery.

The main refinancing rate remained at an all-time low of 0%, that on bank deposits from September 2019 stood at -0.50% (previously -0.40%) and finally the marginal lending rate at 0.25%.

The result of the Bank's Finance Area, in addition to being influenced by the general criticality of the financial markets, was affected by the substantial absence of margins in the specific segment of interbank deposits, from which significant revenues arose in the past. In this context, the primary objective is to optimise the management of the important liquidity buffer resulting from compliance with the LCR (liquidity coverage ratio); this is in line with a more general trend that sees the treasury function of banks as a "service centre" and no longer as a "profit centre".

The overall amount administered by the Treasury in the main currencies remained at around Euro 1.5 billion on average value.

Main results of the financial year

As an effect of the global economic situation strongly conditioned by the pandemic as well as further prudential write-downs on credit positions (in particular, for positions in securities issued by the Lebanese state, in default since March 2020), the operating result is negative, substantially in line with the business plan forecasts, for approximately **Euro -57.7 million** (previously Euro -26 million in 2019).

In more detail:

- the “interest margin” amounts to **Euro 12 million** circa, with a reduction of 18% compared to 31.12.2019; this decrease is due to the significant slowdown in commercial activity and, therefore, in loans in the first nine months of 2020, primarily as a consequence of the uncertainty generated by the pandemic.
- the “intermediation income” amounted to **Euro 5.7 million** (previously Euro 11.4 million); the decline is attributable to the drastic reduction in international trade volumes as a result of the pandemic and specific socio-political crisis situations in some traditionally core countries for the Bank.
- the “value adjustments and provisions for risks” reflect a rather prudent approach in assessing the effective repayment expectations on non-performing credit positions, in compliance with the current policy. Net value adjustments for the year amounted to **Euro 30.6 million** circa, as a combined effect of greater analytical write-downs of **Euro 27.6 million¹** circa on positions classified among impaired loans (stage 3), and for **Euro 3 million** circa of higher write-downs deriving from the application of the IFRS9 international standard on loans and securities classified as performing (stages 1 and 2).
- Personnel costs, amounting to **Euro 24.7 million**, include specific and extraordinary provisions for the rationalisation of costs and for future interventions following the start of collective procedures on a voluntary basis, aimed at achieving better operating efficiency.
- Provisions for charges and risks, amounting to **Euro 7.2 million**, include prudent provisions for a lawsuit against the Revenue Agency, which is still awaiting judgment by the Court of Cassation, as well as for potential legal risks that could arise from the existing portfolio of international guarantees.

The Bank has prudently postponed to future years the recognition in the financial statements of “deferred tax assets” from tax losses, potentially amounting to **Euro 35 million** circa.

1) Net of the reclassification of provisions (approximately Euro 15.8 million) relating to Lebanon securities which in 2019 were classified in stage 2.

The result also incorporates the effects of the decision by Banca d'Italia, which took place in the first half of 2020, to request from the entire national credit sector important economic contributions – ordinary and extraordinary – to be paid respectively into the Single Resolution Fund (FRU) and the National Resolution Fund (FNR). The total amount of these contributions, allocated to administrative expenses, was **Euro 1.9 million** circa.

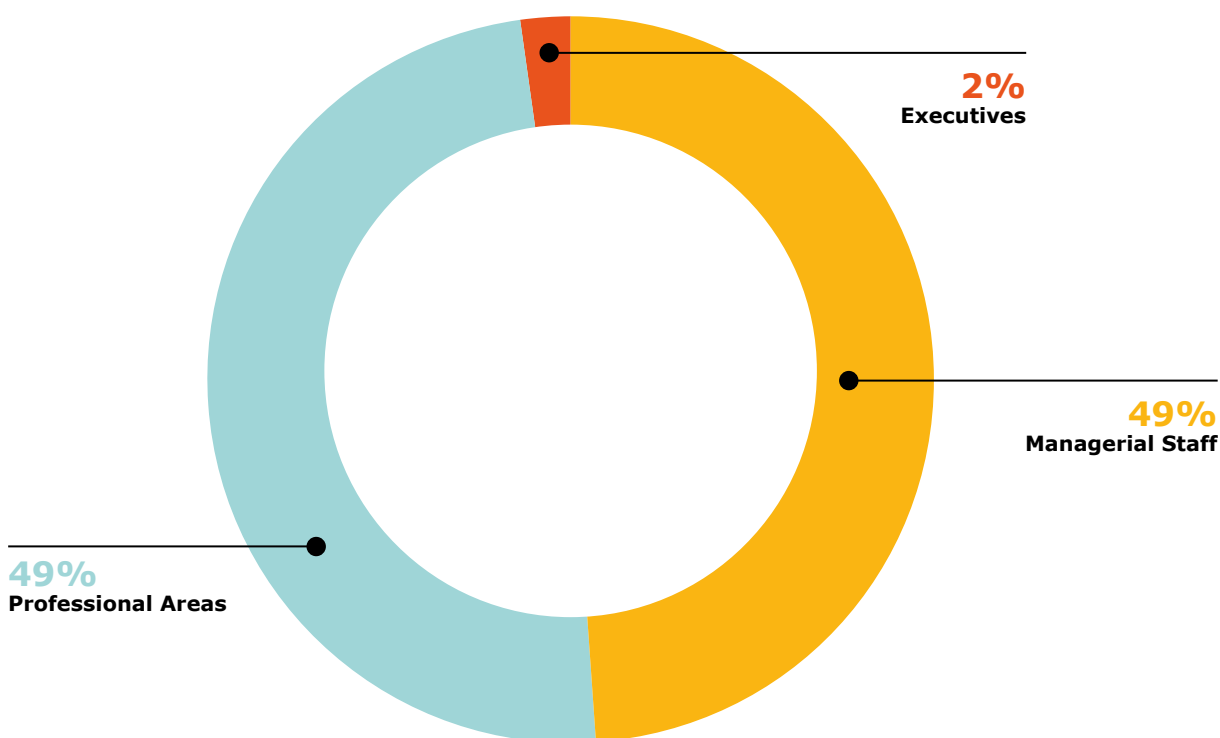
ORGANIZATION AND PERSONNEL

1. PERSONNEL

During 2020, the bank had to combine its long-standing commitment to enhancing the human factor with the objective operational restrictions caused by the pandemic.

On this front, Banca UBAE was able to react promptly to the progressive worsening of the external context, by defining all the measures necessary to guarantee suitable measures to counter the spread of the virus and the unprecedented use of smart working. This situation was managed by paying constant attention not only to the regulations in force at the time, but also to the individual needs of staff.

The staff, which amounted to 176 people at 31 December 2020, is distributed as follows in relation to management.



	31.12.2020		31.12.2019	
	N°	%	N°	%
MANAGERS	3	1.7%	6	3.2%
CADRES	86	48.9%	90	48.4%
PROFESSIONAL AREAS	87	49.4%	90	48.4%
	176		186	

The Bank has shown a commitment to dealing with the following activities:

1. maintaining the project for reviewing the organisational structure and related processes in order to increase the effectiveness and efficiency of the Bank;
2. promoting the culture of safety in the workplace through training and information initiatives, in addition to the activities governed by legislative decree no. 81/2009 (for example, annual meetings, risk assessment, etc). The Bank has therefore implemented all the necessary measures to combat the spread of Covid-19, described in the specific corporate protocol;
3. launching a "Bank Welfare" project, aimed at making goods and services available to employees related to the needs of their working, personal and family life. This initiative sets itself as qualifying objectives: improving the Bank's relational atmosphere, increasing productivity, boosting staff satisfaction and motivation;
4. maintaining an integrated training system. For some years now, Banca UBAE has begun the definition and implementation of training actions aimed at the growth of its internal personnel. These activities were implemented in order to provide the knowledge and skills necessary for an effective bank-staff relationship regarding the bank's core processes and recent regulatory innovations. Specifically, training activities were carried out relating both to so-called "mandatory" training (i.e., inherent to the necessary updating of regulations on personal data management, safety in the workplace, privacy, anti-money laundering) and to specialised topics (financial statements, Anacredit reports, large exposures). These initiatives were carried out using distance learning methods.

2. ORGANIZATION, IT SYSTEMS, SECURITY AND PRIVACY

The Organisation and IT Systems Area is responsible for activities aimed at improving the operational efficiency, organisational structures, ICT security, regulatory compliance and business processes.

With regard to procedural developments on significant management aspects, the impact was strong in the past year relating to the adaptation of systems for new regulations and IT security adjustments.

During 2020, the Bank closely followed the updates issued by the outsourcer Cedacri IT systems and the Arcares Factoring platform, while monitoring the quality of the IT solutions released.

The periodic analyses of the performance indicators showed service levels in line with contractual terms (SLAs). Furthermore, there were no incidents with a critical impact on the IT System nor any accidents that jeopardised its safety and security. The Bank carried out periodic tests on its Internet and Corporate Banking applications from which no critical issues emerged.

In particular, Home and Corporate Banking services are monitored by a leading company in the security sector, while the Bank's institutional site and network traffic are constantly monitored by a Security Operational Centre.

Regarding security, close attention was given to payment systems. In September 2020, pursuant to Banca d'Italia requirements, UBAE carried out specific analyses and tests on the operational risks inherent to the payment system processes; no critical issues emerged from this assessment. Furthermore, the Bank has expanded its institutional website by entering the information requested on anti-fraud issues in a specific section in a transparent and easy-to-use manner.

In terms of network messaging, the activities to adapt the messaging applications were completed by acquiring the outsourcer's RNI message management program. This solution, in addition to making message management more efficient, introduces important security elements similar to those that have already been adopted for the SWIFT component.

Concerning matters of security and controls, particular attention was given to adapting the technological infrastructures and, in particular, the analysis of IT risks which saw the controls on payment systems included in the library of controls.

The Bank has also enhanced the Security Operational Centre which enables events that have a relevance on the Bank's IT infrastructures to be analysed, through the use of sophisticated predictive analysis tools and artificial intelligence.

The Bank continues its collaboration with ABI lab on the various construction sites, particularly in terms of security, participating in the RedFin work table and has successfully performed the Table-Top Tests and the Red Teaming Exercises. The Bank intends to adopt the TIBER framework in the version that will be released in Italy and to proceed with regular tests indicated by the framework.

In terms of Privacy, other projects that closely involved the IT area in 2020 were the application of the control plan based on the requirements indicated in the privacy legislation (regulation no. 679/2016) and also the activities of formalizing the data-processing register in the new IT procedure.

IT architecture and infrastructure: the infrastructure did not undergo significant changes in 2020 due to the pandemic situation which saw the staff mainly concerned with monitoring and controlling the performance and security of the systems made available to smart-working personnel. The Bank consolidated the activities carried out in the previous year which led to greater resilience of the systems in high-reliability architecture.

In 2020, the Bank carried out a careful analysis of the new cloud architectures and began a process of adopting cloud solutions by transferring some projects and other application areas to the cloud following the principle of proportionality and risk containment.

With regard to Disaster Recovery and Business Continuity, the tests indicated in the annual Business Continuity plan were carried out without any critical issues. The Bank has begun to make assessments, together with the outsourcer, on further implementing the virtualization component, in particular, for accessing the IT system directly from laptop workstations without passing through the Bank's infrastructure.

Developing business applications and their maintenance: in 2020, several projects were released aimed at introducing and complying with the regulations and the implementation of the credit control procedure. In more detail, the Bank focused on areas such as the new definition of default, new SWIFT standard release on international guarantees, payment traceability, PSD2 anti-fraud and payment cards, third-party regulations, FATCA and Anti-money laundering.

As for data governance and data quality, a project was launched working with an external consultant to boost the quality of the data governance system. The project led to an assessment of the architecture currently in operation and the definition of an activity plan that will see the release of a new data infrastructure (data lake) on which to implement various programs such as the ICAAP applications of the credit and concentration risk, as well as reporting for SBEs (shadow banking entities) and LCR (liquidity coverage ratio) applications.

Anti-money laundering: new procedures have been implemented for monitoring and controlling suspicious transactions and managing unexpected events, developed using the internal data infrastructure powered by the outsourcer's IT system and subjected to preventive data quality checks. This database is also used for the self- assessment component required by the legislation.

Particular focus was placed on due diligence, where the processes were reviewed and the specifications for the development of an application were released; at the same time, the procedure developed by Brussels-based SWIFT was released for the "Know Your Customer" feature.

Transparency matters: together with the Compliance unit, the document structure of information leaflets and summary documents was reviewed and, in compliance with the PSD2 regulation, information letters were sent to customers with the news regarding the possibility of third parties accessing information regarding accounts and the release of new tokens in accordance with the introduction of "strong customer authentication" systems.

Governance area: the following policies were reviewed - outsourcing, incident and log management, as well as the operational procedure and guidelines for dealing with third parties. We are in the process of introducing the frameworks COBIT (Control Objectives for Information and related Technology) and ITIL (Information Technology Infrastructure Library).

3. EXTERNAL AND INSTITUTIONAL RELATIONS

The main activities of the External and Institutional Relations Development Sector are:

- developing and consolidating institutional relations with Italian and foreign counterparties, such as embassies, consulates and multinational development banks;
- planning of strategic marketing, communication and product development projects.

The objectives underlying the activity of the Sector are aimed at innovation and the quality of the products and services offered to customers, whether represented by correspondent banks or corporate entities, at the preservation of corporate reputation and the correct dissemination of its image, also through the monitoring and constant updating of the corporate website.

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

A. Development of External and Institutional Relations

The projects related to this sector of activity play an important role within the Sector and provide for the development of synergies with bodies and institutions through the establishment of partnerships, with the common goal of offering concrete support to Italian companies with interests in the markets where UBAE operates.

B. Corporate Identity and external communications

Managing the corporate identity, coordinated image and external communication is also an integral part of the Sector's activities. Communicative consistency makes it possible to consolidate and increase the brand awareness of the Bank towards the market, customers and competitors.

To this end, the most significant activities carried out by the sector refer to:

- relations with press agencies;
- preparation of press releases and articles;
- creation and production of brochures and sales materials;
- content and graphics management for the corporate website;
- institutional communication in the online newspaper Siena news;
- revising and updating corporate documentation based on input from the offices concerned;
- coordinating the process of graphic layout, printing and compliance control of the financial statements;

- managing membership fees and relations with Associations and Chambers of Commerce of which UBAE is a member;
- publication updates (Bankers Almanac, ABI Yearbook, etc) based on input from the offices concerned;
- analysis of advertising and sponsorship proposals, only if in line with corporate values, communication strategies and commercial objectives.

C. Business Development

Activities carried out in collaboration with the Commercial Area and the Finance Area, aimed at increasing the strategic opportunities of our Bank and consolidating relations with the main Italian and foreign customers.

D. Strategic analyses

Preparation of reports and analyses aimed at providing a clear and concise framework to the General Management and the Commercial Management on issues of interest to support strategic decisions, such as: preliminary analysis on business potential with new products and with new countries (Country Reports), presentations at conferences, round tables, workshops.

4. RISK MANAGEMENT

The Bank continued to apply the procedures and methods for calculating the overall internal capital, as described in the ICAAP (Internal Capital Adequacy Assessment Process) reports. It has also operated in compliance with national and international regulations, maintaining careful monitoring of the corporate exposure to risks, strengthening, in particular, the liquidity risk management process also in light of the ILAAP prescribed by the regulations (Internal Liquidity Adequacy Assessment Process) and continuing to integrate the analyses in terms of capital adequacy with the measurement of the country risk, the geo-sectoral concentration risk and the strategic risk and with the assessment of the concentration risk, the transfer risk and the risk of excessive financial leverage.

From an organisational point of view, the ICAAP/ILAAP reports, in addition to defining the roles and responsibilities of the various internal structures involved in the process, outline the management phases for each type of risk (measurable or not) and regulates the methods of 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 the integration between ICAAP, ILAAP and RAF .

It should be emphasised that, for the purposes of applying the prudential regulations issued by Banca d'Italia, and in particular of the risk measurement methods envisaged by Pillar II, Banca UBAE falls within class 3 of intermediaries, characterised by the adoption of simplified methodologies for measurable risks and mitigation policies and procedures for non-measurable risks.

For the purposes of the capital adequacy analysis, the three additional prudent requirements are also considered in relation to country risk, geo-sectoral concentration risk and strategic risk. 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 business. In particular, the country risk, estimated according to an internal calculation method, is considered precisely to take into account the Bank's exposure generated by the specific operations carried out in certain geographic areas. It should be emphasized that the regulatory framework on the internal control system also provides for the inclusion of country risk (and transfer risk) among the risks to be analysed in the ICAAP context.

The definition of a risk management process, in a manner consistent with the strategic choices adopted, represents a prerequisite for the pursuit of the risk policies adopted by the competent corporate bodies.

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

This process contributes to the pursuit of the following specific objectives:

- raising the awareness of senior management about issues relating to risk and capital planning;
- making the Bank aware of the exposure to the various types of risk deriving from the conduct of corporate business;
- introducing additional types of risk in the measurement field (such as concentration, interest rate on the banking book, as well as country risk, geo- sectoral and strategic concentration risks);
- strengthening the organisational controls and management tools for other risks (liquidity risk, risk of excessive financial leverage and reputational risk);
- stressing the need for increasingly efficient and adequate risk measurement and monitoring tools;
- broadening the time period of internal analyses (prospective analysis) and the reference scenario (stress testing);

- improving the strategic planning process by introducing capital policies strictly connected to the Bank's risk profile and therefore to the results emerging from the ICAAP and ILAAP reports, as well as to the levels of risk appetite established by the strategic Oversight Body (Risk Appetite Framework - RAF).

As regards the change in the regulatory context, during the period under review, the Bank initiated study activities, impact analyses and internal development projects, sometimes also taking advantage of external specialist support.

In particular, the following issues were addressed:

- **Risk Appetite Framework** – in 2020, the system of risk appetite limits was revised, taking into consideration the strategic guidelines outlined in the 2020- 2024 Business Plan, the historical and prospective trend of the Bank's risk profiles, as well as the asset situation and at the same time ensuring compliance with the current capitalisation limits set by the Oversight Authority in the Supervisory Review and Evaluation Process (SREP).
- **In the area of IT risk**, in renewing the policy with the adoption of the full outsourcing model for the banking IT system, specific projects are underway to lighten the internal infrastructure by adopting cloud solutions. Other important 2021 projects concern the implementation of a new corporate banking policy and the data governance and data quality project. In the area of IT risk, the following documents have been prepared: IT risk methodology, procedure for calculating and defining IT risk, the IT register of data processing (as per EU Regulation no. 679/16), strategy for the IT security governance system. At the same time the following policies were updated in 2020: outsourcing, IT security, managing third parties, change management, dealing with incidents, asset management, access management and backup procedures.

In 2020, periodic checks on the vulnerability of IT infrastructures were carried out, in particular the library of ICT controls was updated, extending the ISO 27001 perimeter with COBIT and specific controls for cyber security and payment systems. Further implementation of ISACA's Cobit framework is also planned. In particular for the security field, the Bank participated in the tests of RED Teaming exercise and table-top exercise organised by the national CERTFin-REDFin of the Italian Banking Association (ABI). Bank UBAE intends to adopt the TIBER framework after adapting it to the banking situation, and periodically carry out the tests defined by it. As for the privacy team, implementing the electronic processing register was completed in 2020, and all the documents required by the legislation were revised and finalised.

- **IFRS9** – quarterly activities continued regarding the determination of impairment based on forward-looking PD and LGD data and, in March, the macroeconomic model was revised. At the management level, the expected credit loss information is processed for each counterparty subject to credit and review in order to complete the information intended for the decision-making bodies. In light of the Covid-19 emergency, during the third quarter, the calculation model of the risk parameters was analysed in order to take into account the

contingent situation. In particular, on the PD forward-looking side, a different calibration of the weightings connected to the scenarios was carried out in order to determine the combined scenario; while on the forward-looking LGD side, the levels recorded at 31 December 2019 were assumed. While the Covid effects are captured by the quantitative models through the level of the macroeconomic variables selected in them which, reflecting the current international situation, are directly influenced by the pandemic crisis.

- **Recovery plan** – in 2020, on the basis of the indications received from the Oversight Body in June, the Restructuring Plan was revised and integrated, in particular by providing for the redefinition of the stress scenarios and a different calibration of the attention thresholds in line with the new Strategic Plan 2020-2024. The updated version of said Plan was approved, in a first version, by the 270th BoD on 14 July 2020 and in a complete version (including the quantitative assessments required) by the 274th BoD on 29 October 2020. Both versions have been submitted to the attention of the Oversight Authority. During 2020, the monitoring and reporting activities of the recovery indicators and the new related attention thresholds were also started.
- **Shadow Banking System** – in 2020 the monitoring tool was made operational to verify compliance with the regulatory limits and internal limits defined for shadow banking entities (SBE). The process of internal reporting to senior management was therefore also started.
- **Credit risk** – in 2020 the policy governing the credit risk management process was revised in order to capture the peculiarities that emerged during the implementation phase and to integrate the regulatory framework with a section devoted to the definition of a strategy and NPL plan. These management phases are completed by a new system of internal operating limits expressed in terms of NPL ratio and Coverage Ratio, appropriately integrated with the structure of the thresholds outlined in the recovery plan. The new version of the policy was approved by the 271st Board of Directors on 23 July 2020 and is currently undergoing operational implementation within the internal regulatory procedures.
- **Strategic Plan 2020-2024** – following the worsening of the Lebanon country risk, the reduction in available funding and the state of general economic uncertainty caused by the Covid-19 pandemic, it was necessary to update the 2020-2024 Strategic Plan prepared in 2019.

The sustainability of the strategic lines outlined was also verified from an ICAAP and RAF perspective in order to ensure the necessary integration between the main corporate strategic processes. The new strategic plan was approved by the 270th and 271st Board of Directors in the July 2020 meetings.

● Managing Credit Risk and Counterparty risk

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

Counterparty risk, on the other hand, represents the risk that a trading counterparty will not fulfil its obligations upon expiry of the contract; once the contractual deadline is exceeded, in the event of non-fulfilment, the counterparty risk is transformed into settlement risk.

The criteria of sound and prudent credit risk management have an impact on the granting, monitoring and review of credit lines.

In particular, with regard to credit risk, the following are envisaged:

- the systematic issue of entry scoring, both for banking and corporate counterparties;
- periodic monitoring of credit trends with evidence of internal anomalies (overdrafts) and external ones (Risk Centre);
- periodic stress testing.

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

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

Furthermore, for ICAAP purposes, the Risk Management Sector carries out scenario analyses from a stress testing perspective by 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 aimed at improving the credit risk monitoring and reporting process with particular regard to non-performing positions.

As regards counterparty risk, the Risk Management Sector, in collaboration with the Finance Department, monitors the re-valued exposures at the 'mark-to-market' on a daily basis in order to verify compliance with the credit lines granted to each individual counterparty.

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

• Managing Market Risks

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

- **exchange rate risk:** this represents the risk of suffering losses due to adverse changes in the prices of foreign currencies on all positions held by the Bank regardless of the allocation portfolio;
- **position risk:** this risk derives from fluctuations in the price of securities due to factors relating to market trends (generic position risk) and the situation of the issuing company (specific position risk). In particular, the interest rate risk (on the trading book) concerns 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, derivative contracts, currencies and commodities, regardless of the portfolio to which they belong, not yet settled after their maturity date, expose the Bank to the risk of loss deriving from the failure to settle the transaction.

The operations of the Finance Department and compliance with the operating limits set 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 reports, produced on a daily basis, are broken down by relevant desk and relate to the composition of positions, performance and the trend of the various risk and sensitivity indicators (VaR, Stop Loss).

Compliance with the internal operating limits is monitored daily and any anomalies are promptly reported to the structures involved to allow for appropriate corrective actions and/or the initiation of the authorisation process governed by internal regulations.

Lastly, the Risk Management Sector prepared a monthly report for the Risk Committee and the Board of Directors regarding 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 provided for by the prudential regulations in force.

The Bank has not requested the recognition of internal models for the purpose of calculating the capital requirement in relation to market risks.

• Managing operational risks

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

Although having opted for the basic calculation method (Basic Indicator Approach) in determining the capital requirement envisaged by prudential regulations, the Bank has started the implementation of an operational risk management system capable of assessing and monitoring exposure to operational risks and the extent of the losses that could derive from them. To this

end, the Bank continued its project activities aimed at implementing a “transversal” tool which, containing a common mapping (processes and standards), can be used in an “integrated” perspective for risk assessment and loss data collection activities. At the end of the project activities, the internal policy regarding the operational risk management process will be defined.

● Managing other risks

- Liquidity risk

Liquidity risk represents the risk of not meeting requests for repayment of liabilities, unexpected in terms of volume and/or time maturity, due to an inability to find funds (funding liquidity risk) or limits on the disposal of assets (market liquidity risk).

The exposure to liquidity risk is constantly monitored by the Treasury desk, while the Risk Management Sector is entrusted with the second-level monitoring of the operating limits provided for by internal and external regulations, as well as the processing of the report to Banca d'Italia on a weekly basis.

The process of managing this risk is governed by the internal policy and provides for a contingency funding plan. The system of internal operating limits currently involves various internal thresholds of attention for the Liquidity Coverage Ratio (LCR) in line with the current Recovery Plan. Performance monitoring for early- warning indicators, concentration funding ratios, and liquidity monitoring tools is also provided.

The internal policy has been updated to ensure its integration with the Recovery Plan, the escalation process governed therein and the ILAAP process.

From the point of view of tools, the Bank uses the JCompass tool connected to the system of the IT provider Cedacri and an automatic handling tool for the daily processing of the LCR.

Lastly, while waiting for EU legislation to provide for a minimum regulatory limit, the Bank reports on a quarterly basis the components of the Net Stable Funding Ratio (NSFR) structural liquidity indicator, consisting of the ratio between the amount of stable funding available and the amount of stable funding needed. It aims to ensure that long-term assets are financed with an adequate stable funding level.

- Concentration risk

Concentration risk arises from exposures to counterparties, groups of related counterparties and counterparties belonging to the same economic sector or carrying out the same activity 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 prudential regulations in force (Pillar II) provide for a specific capital requirement to take into account the concentration by counterparty or by groups of connected counterparties (for the corporate portfolio). For the quantification of internal capital (according to the simplified methodology envisaged by the regulations), the Bank made use of a calculation tool fed with data from the Oversight Body reports. With a view to stress testing, the Risk Management Sector conducted internal simulations on a quarterly basis to assess the impact of any strategic-operational changes.

The Bank also integrated internal measurements, providing for an additional capital requirement for the Geo-Sectoral Concentration risk determined according to the quantitative methodology developed by the trade association applied to the portfolio of Italian corporate entities.

As regards the "single name" concentration risk vis-à-vis banking counterparties, the Bank has in place a system of internal operating limits subject to quarterly monitoring and reporting and designed to contain this risk exposure.

With regard to concentration risk by economic sector and by geographical area, for which the legislation does not require any quantification, at the moment, the Bank has opted for the qualitative assessment of the credit portfolio as a whole.

In 2020, the tool dedicated to the automatic monitoring of internal and external limits was made operational with reference to both the legislation on large exposures and the legislation on SBEs, simultaneously launching the related internal reporting process.

Lastly, with the aim of limiting the concentration risk towards corporate counterparties, in 2020 the Bank introduced an internal operating limit that is prudentially lower than the regulatory lending limit (25% of Eligible Capital) and equal to the identification threshold of Major Risks (10% of Eligible Capital).

- Interest rate risk on the banking book

The interest rate risk on the banking book represents the risk of suffering impairment of assets due to adverse movements in market interest rates.

Compliance with the internal operating limit prudentially set below the regulatory threshold is monitored by the Risk Management Sector, through the integrated treasury product (JCompass).

For ICAAP purposes, for the quantification of internal capital (according to the calculation algorithm required by law), the Bank uses an ALM IT product (ERMAS) fed directly by the accounting ledgers and able to provide the maturity ladder. Stress tests were also conducted using this product, assuming parallel and non-parallel shifts in the interest rate curve. In compliance with the relevant regulatory obligations, 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, the internal policy that governs the process of managing the interest rate risk on the banking book, provides, in addition to the regulatory limit (risk indicator) and the limits established from an RAF perspective (risk appetite framework) for operating limits on cumulative amounts, the related warning thresholds and any internal authorisation thresholds to be activated if the limit is exceeded.

The development of IT tools is currently underway in order to internally implement the regulatory changes made to the capital requirement quantification system. The first processing will be carried out on the situation as at 31 December 2020 and will be illustrated in the annual ICAAP / ILAAP Report.

- Country Risk and Transfer Risk

Country risk represents the risk of losses caused by events that occur 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 the counterparties, be they individuals, companies, banks or public administrations.

Transfer risk represents the risk that a bank, exposed to a party that finances itself in a currency other than that in which it receives its main sources of income, will realize losses due to the debtor's difficulty in converting its currency into the currency in which it is called to show. For the purposes of internal analysis, this regulatory description is expanded to include the risk associated with restrictions, issued by the Authorities, on capital movements and the repatriation of dividends and profits.

In light of the prevailing international character of the operations carried out by Banca UBAE, the political risk associated with some countries on which the business is concentrated deserved growing attention also in 2020.

From the management point of view, the granting of a ceiling or plafond of use for each country is envisaged, which is the responsibility of the Board of Directors, and which regulates loans to those countries that have a rating lower than BBB or that do not have any rating.

From the point of view of quantifying the exposure to risk, the Risk Management Sector has already introduced an internal estimation methodology for several years aimed at determining an additional capital absorption against country risk and which integrates internal analyses in terms of capital adequacy. Although this capital requirement is not prescribed by law, it is calculated according to an internal estimation method based on exposure data for the purposes of reporting by the Oversight Body and on the probability of a banking or currency crisis differentiated by country.

In order to understand the supervisory guidelines on stress testing, starting from the ICAAP/ILAAP Report at 31 December 2019, the Bank has decided to include in the category of risks subjected to stress tests (credit risk, concentration risk and interest rate on the banking book) also the country risk. Therefore, on the basis of the internal methodology already in use for the quantification of internal capital in ordinary conditions, adverse hypotheses are assumed consistent with credit risk stress testing. The introduction of country risk during stress testing was also reflected in the RAF area with the provision of a risk tolerance appropriately calibrated to the new calculation method.

With regard to transfer risk, the Bank has decided to include, from a quantitative point of view, this risk in the overall context of the country risk; while from a qualitative point of view, the material nature of this risk was assessed by analysing the composition of the loan portfolio and determining the relevance of the 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 the endowment of its own means makes the Bank vulnerable, making it necessary to adopt corrective measures to its business plan, including the sale of assets with recognition of losses that could lead to value adjustments even on the remaining assets.

The risk of excessive leverage is included among the risks to be subjected to assessment in the ICAAP and, although the minimum thresholds to be respected have not yet been established by the Oversight Authority, a specific leverage ratio has been introduced.

The internal policy governs the methods for identifying, assessing, measuring and monitoring the risk itself. In particular, the Bank has decided to monitor the level of the leverage ratio by providing for compliance with an internal limit and defining an early-warning threshold, as well as providing for its inclusion among the recovery indicators defined in the new version of the recovery plan.

- Strategic risk

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

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 institutionalizing a process for the formulation of scenarios necessary for the construction of the annual budget and the three-year strategic plan and for the measurement of the variability of the intermediation margin intended as an approximation of the risk and as a measure of an additional capital requirement that integrates and completes analyses in terms of capital adequacy.

- Reputational risk

Reputational risk represents the current or future risk of a decline in profits or capital resulting from a negative perception of the bank's image by the various stakeholders (customers, counterparties, shareholders, investors, supervisory authorities, the market in general).

This risk requires, due to the complexity inherent in its treatment, qualitative assessments and mitigation policies especially preventive with respect to the manifestation of the injurious event.

Although the quantification of capital absorption is not envisaged, the Bank has defined its own 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 prejudicial events, identifies the policies for mitigation measures necessary to contain the negative effects

and/or prevent the occurrence of the harmful event and establish intervention strategies in the event that a “reputational crisis” occurs.

5. MANAGEMENT REPORTING

During the 2020 financial year, the Bank continued to refine the internal management reporting and information systems with a view to developing a prompt IT system capable of ensuring an ever-greater usability of analytical and reconciled data.

Performance Control Dept., also thanks to the IT projects in progress, has aimed to speed up the time-to-user of management data, supporting not only the communication needs of the corporate bodies and the Bank as a whole, but also addressing the evolving needs of planning and control of results.

In order to standardise and improve the business processes of data production and analysis as well as expanding the internal reporting systems, the Sector was involved in developing the current management tools and integrating them with the new sectors of IT architecture.

This constant improvement and enhancement of the Bank’s IT systems, conducted in collaboration with the SSO Sector, has made it possible not only to improve the effectiveness and efficiency of the system in use but also to obtain greater availability of daily and monthly data, aimed at assessing the financial situation of the Bank, its earning capacity and the stability of information flows also in terms of performance.

During 2020, following the effects of the Covid pandemic, a new 2020-2024 Business Plan was prepared, taking into account requests from the Board of Directors and the Bank’s operating structures and articulating them in an organic framework in order to provide a reference point on the Bank’s path to recovering profitability and efficiency.

Lastly, during 2020, on the initiative of the new General Manager, a single reporting tool was prepared – with the support of other structures – aimed at providing the Board of Directors with a complete information framework on the Bank’s commercial and financial performance and the economic and financial conditions, as well as on compliance with the main regulatory and internal limits.

6. LOGISTICS

Banca UBAE continued to carry out improvements regarding the Rome and Milan offices for optimal usability of the premises in addition to normal maintenance activities. Significant works were carried out for regulatory purposes and technical efficiency.

In addition to the usual routine maintenance activities on the buildings in Rome, Morena (archive) and Milan (branch), activities were concentrated on modernising the technical equipment, paying particular attention to increased safety and energy-saving and the environment, with the installation of systems using separate containers for waste collection.

RECLASSIFIED BALANCE SHEET

EUR/000

	BALANCE AS AT :		CHANGE	
	31.12.2020	31.12.2019	AMOUNT	%
ASSETS				
CASH AND CASH EQUIVALENTS	129,478	299,355	(169,877)	(56.75)
LOANS AND ADVANCES				
- TO CUSTOMERS	246,961	266,063	(19,102)	(7.18)
- TO BANKS	533,710	984,263	(450,553)	(45.78)
FINANCIAL ASSETS HELD FOR	9,583	15,177	(5,594)	(36.86)
FIXED ASSETS				
- FINANCIAL (1)	713,120	605,766	107,354	17.72
- TANGIBLE	21,818	22,797	(979)	(4.29)
- INTANGIBLE	264	357	(93)	(26.05)
OTHER ASSETS (2)	33,704	42,299	(8,595)	(20.32)
TOTAL ASSETS	1,688,638	2,236,077	(547,439)	(24.48)
LIABILITIES				
ACCOUNTS PAYABLE				
- TO CUSTOMERS	152,190	222,382	(70,192)	(31.56)
- TO BANKS	1,299,587	1,612,793	(313,206)	(19.42)
FINANCIAL LIABILITIES HELD FOR	4,079	2,435	1,644	67.52
EARMARKED PROVISIONS (3)	20,708	7,503	13,205	176.00
OTHER LIABILITIES (4)	27,271	19,338	7,933	41.02
SHAREHOLDERS' EQUITY				
- CAPITAL AND RESERVES	242,570	268,931	(26,361)	(9.80)
- NET PROFIT (LOSS) FOR THE YEAR	(57,767)	(26,144)	(31,623)	120.96
TOTAL LIABILITIES	1,688,638	2,107,238	(418,600)	(19.86)

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 and charges
- (4) of tax liabilities and other liabilities

RECLASSIFIED INCOME STATEMENT

EUR/000

	BALANCE AS AT :		CHANGE	
	31.12.2020	31.12.2019	AMOUNT	%
NET INTEREST INCOME	11,920	14,704	(2,784)	(18.93)
NET NON-INTEREST INCOME (1)	5,755	11,427	(5,672)	(49.64)
GROSS OPERATING INCOME	17,675	26,131	(8,456)	(32.36)
PERSONNEL EXPENSES	(24,755)	(19,247)	(5,508)	28.62
ADMINISTRATION EXPENSES AND OTHER OPERATING EXPENSES/INCOME	(11,850)	(10,679)	(1,171)	10.97
GROSS OPERATING RESULT	(18,930)	(3,795)	(15,135)	398.81
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS	(1,134)	(1,373)	239	120.96
PROVISIONING, WRITE-DOWNS AND WRITE-UPS (2)	(37,703)	(20,976)	(16,727)	0.00
PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS	(57,767)	(26,144)	(31,623)	120.96
INCOME TAX FOR THE YEAR				
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	(57,767)	(26,144)	(31,623)	120.96
NET PROFIT (LOSS) FOR THE YEAR	(57,767)	(26,144)	(31,623)	120.96

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 net provisioning for risk and charges.

COMMENTS ON BALANCE SHEET ITEMS¹

Credits

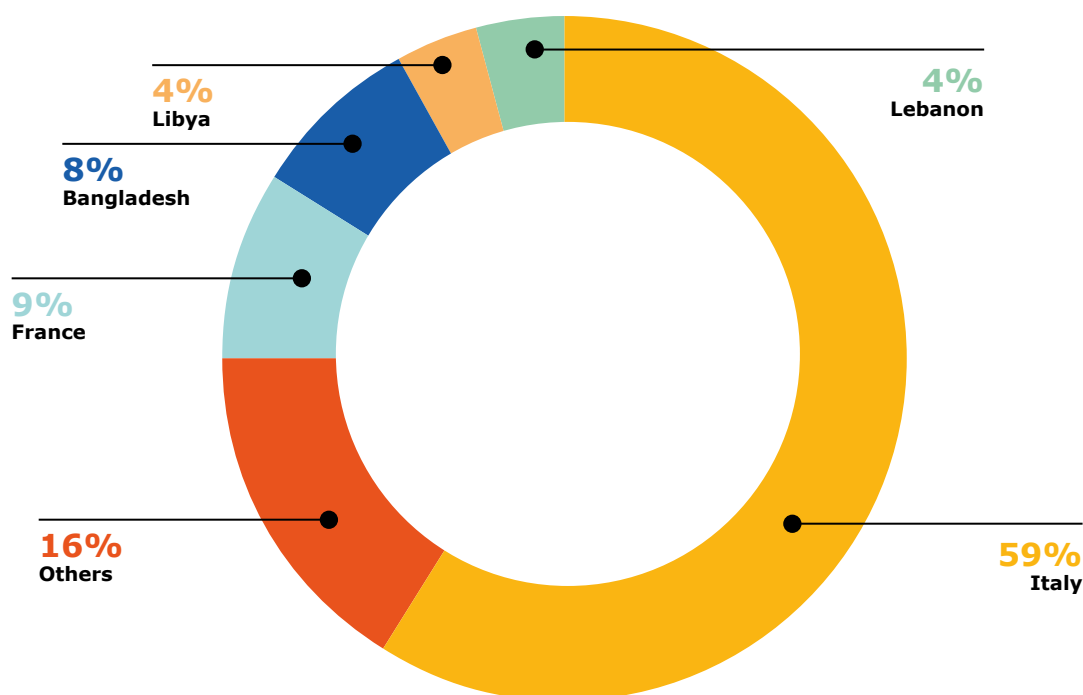
The credit disbursement process is based on the involvement of the structure at various levels, in order to ensure the prompt processing of requests from the counterparties involved. In all the management phases that characterise the fiduciary relationship with the customer, the credit risk process aims to implement an effective surveillance and monitoring action suitable for formulating prompt assessments in the event of any anomalies.

EUR/000

	BALANCE AS AT :		VARIATION	
	31.12.2020	31.12.2019	AMOUNT	%
LOANS AND ADVANCES TO CUSTOMERS:				
IN EUROS	182,651	222,166	(39,515)	(17.79)
IN OTHER CURRENCIES	64,310	105,898	(41,588)	(39.27)
LOANS AND ADVANCES TO BANKS:				
IN EUROS	150,279	233,161	(82,881)	(35.55)
IN OTHER CURRENCIES	383,431	508,896	(125,465)	(24.65)
TOTAL	780,671	1,070,121	(289,450)	(27.05)

Shown below is the Country representation of the loans granted by the Bank at 31 December 2020:

Percentage distribution loans by country in 2020



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

In addition to the effects of the pandemic, the significant reduction in loans was also caused by the reduction in available funding (in turn the effect of the difficult socio-political situation in Libya and the cause of critical issues on the liquidity front) as well as by the limitations that reduced funding caused in applying the regulations on "Shadow Banking Entities".

Credit lines towards customers

At 31 December 2020, loans to customers amounted to approximately Euro 247 million, a decrease of over 24% on the same 2019 figure mainly due to the decrease in corporate financing transactions, both in euros and in currency.

During the 2020 financial year, the Bank continued to provide support to the commercial activities of its customers, in particular those from/to countries of traditional interest, while slowing down the granting of loans, due to the pandemic crisis, especially during the first nine months of the year, with a hint of recovery in recent months.

However, the Bank maintained its commercial focus on trade finance (letters of credit and letters of guarantee), on credit lines (loans and discounts) as well as on factoring activities. The Bank continued its credit risk control and mitigation policy, within the concentration limits set by Banca d'Italia regarding legislation on large exposures.

Credit lines towards banks

Loans to banks at the end of the year recorded an overall decrease of 28%, albeit more evident on exposures in Euro rather than those in foreign currency.

The flows of oil activities, linked to exports of crude oil from producing countries to Italy, underwent a significant decline in 2020 due in particular to extraction difficulties suffered by some crude oil producing countries, affected by the low oil prices, as well as objective situations of socio-political instability.

Activities in securities and derivatives

The consistency of financial assets including securities, minority stakes in equity investments and other financial instruments amounted to Euro 719 million circa and represents, compared to the previous year, a timely increase of Euro 37 million.

The proprietary securities portfolio is mainly made up of securities issued by the Italian Republic (Government Bonds) and also in non-eligible securities denominated in USD, thereby supporting the management of the Bank's liquidity commitments.

The fair value trend of the securities portfolio was characterised by significant volatility throughout 2020, following the political and economic uncertainties of the world economy.

At 31 December 2020, the nominal value of the securities in the HTC&S portfolio amounted to approximately Euro 5 million (compared to Euro 8 million at 31 December 2019), the securities

portfolio at amortized cost (HTC) was equal to Euro 709 million (formerly Euro 666 million) and was made up almost entirely of government bonds issued by countries of interest to Banca UBAE, together with Italian government bonds.

During the year, taking into account the low levels of spread that affected the money market, in particular the interbank market, as well as the reduction in commercial loans, the Bank gradually increased its investments of a financial nature, concentrated in low-risk bonds issued by government agencies and central administrations.

The Bank's policy in this sector was geared, on the one hand, to maintaining the share of securities in the Held-to-Collect (HTC) portfolio and the volume of High Quality Liquid Assets (HQLA) at optimal levels and, on the other hand, to maintain a good level of eligible securities in the portfolio for any open market operations, in the event of investment opportunities of particular interest.

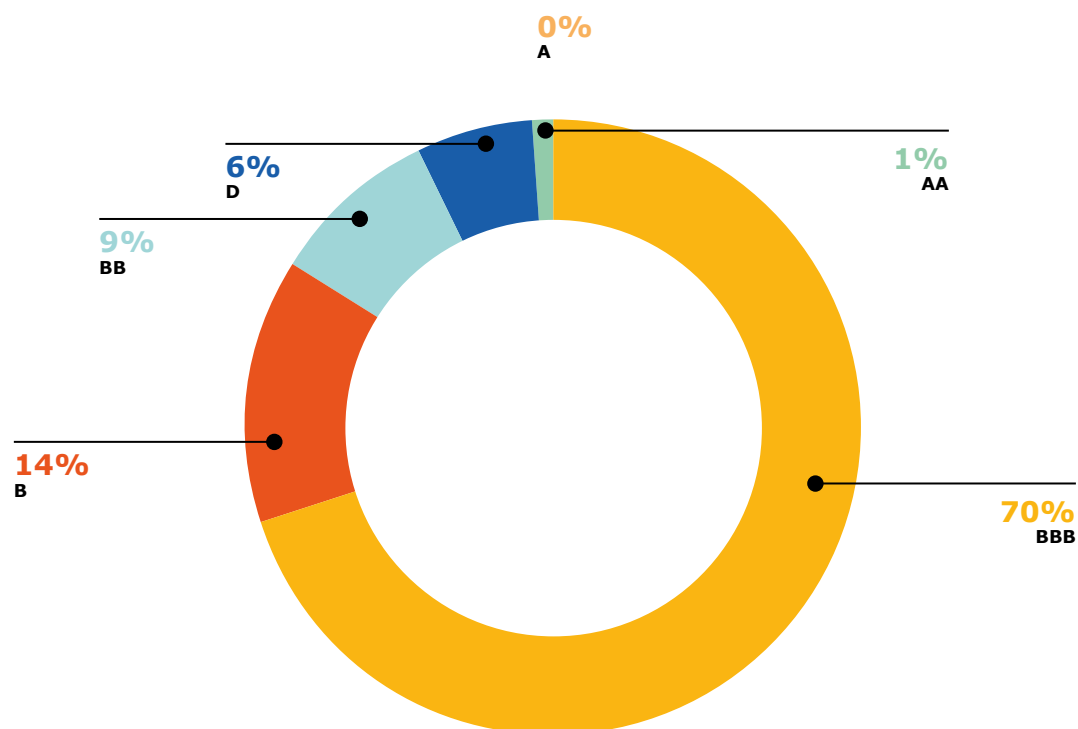
Overall, in the financial assets segment, the Bank reported the following results:

	BALANCE AS AT :		VARIATION	
	31.12.2020	31.12.2019	AMOUNT	%
FINANCIAL ASSETS				
ASSETS HELD FOR TRADING	9,583	10,268	(685)	(6.67)
LIABILITIES HELD FOR TRADING	(4,079)	(2,435)	(1,644)	67.52
ASSETS HTC&S	3,809	8,266	(4,457)	(53.92)
ASSETS HTC	709,311	665,926	43,385	6.51
TOTAL	718,624	682,025	36,599	5.37

EUR/000

Below is a graphic representation of the assets to be held to maturity and HTC&S divided by rating and date.

HTC - HTC&S per rating 2020



For the criteria followed in the valuation of the securities, as well as for those adopted for the purpose of distinguishing between trading and investment securities, please refer to what is described in the explanatory notes to the accounts, Part A - Accounting Policies.

Impaired financial assets (cash, signature and securities)

EUR/000				
31.12.2020				
	GROSS EXPOSURE	WRITE-DOWNS	NET EXPOSURE	COVERAGE %
IMPAIRED ASSETS	142,765	(101,243)	41,521	70.9%
BAD DEBTS	35,457	(33,041)	2,416	93.2%
PROBABLE IMPAIRMENTS	107,307	(68,202)	39,105	63.6%
NON IMPAIRED ASSETS	2,163,483	(11,677)	2,151,806	0.5%
CASH AND NON CASH ASSETS	2,306,248	(112,920)	2,193,327	4.9%

EUR/000

	31.12.2019			
	GROSS EXPOSURE	WRITE-DOWNS	NET EXPOSURE	COVERAGE %
IMPAIRED ASSETS	149,149	(96,098)	53,051	64.4%
BAD DEBTS	48,967	(44,484)	4,482	90.8%
PROBABLE IMPAIRMENTS	100,182	(51,614)	48,568	51.5%
NON IMPAIRED ASSETS	2,724,242	(27,869)	2,696,373	1.0%
CASH AND NON CASH ASSETS	2,873,391	(123,967)	2,749,424	4.3%

Managing impaired loans involves taking steps that are consistent with the severity of each exposure, in order to bring the individual positions back to performing status or, where impossible due to the subjective situation of the counterparty, activating adequate recovery or sale processes to maximize the return flows.

The overall level of impaired loans, gross of loan loss provisions, amounts to Euro 142 million, a decrease of Euro 7 million compared to the previous year's value. This decrease represents the effect of the disposals of impaired loans which took place at the end of December 2020, net of new entries (in particular, the securities issued by the Lebanese Republic, which defaulted in March 2020).

The aforesaid sales, the settlement of which has already been fully collected, resulted in overall favourable effects for the Bank, in terms of capital gains, release of current write-downs, reduction of administrative and legal management costs and reduction of risk indicators, as well as a substantial tax benefit (in the form of tax credits).

During the year, new value adjustments were made for a total of Euro 27.6 million to cover potential losses on loans to customers and on securities classified as non-performing, gross of the effects deriving from the write-backs on previous devaluations, from the exposures written off due to the absence of recovery expectations, as well as from sales.

As part of the prudential write-downs on the performing portfolio (stages 1 and 2: towards customers and banks, for cash and signature, as well as against securities classified in the HTC and HTC&S portfolios), accounted for in compliance with the provisions of the international accounting standard IFRS9, recorded write-downs amounting to Euro 3 million circa.

The ratio between loans (cash and signature) and gross non-performing loans is equal to 1.53% (previously 1.91%) while that between loans and non-performing loans net of write-downs is equal to 0.16% (formerly 0.18%).

The ratio of gross impaired loans to gross loans (NPL ratio) to customers went from 5.24% to 6.27% while the overall coverage percentage of impaired loans went from 64.43% to 70.92%. Both indices are at excellent levels with respect to the national banking situation. In particular, the NPL ratio at the end of the year is well below the threshold for activation of the recovery plan, as approved by the Board of Directors before being sent to Banca d'Italia.

A summary picture of the Bank's non-performing loan indices, both for cash and for signature, is contained in the table below:

HEDGING OF CREDITS BY STATUS	31.12.2020	31.12.2019
BAD DEBTS	93.19%	90.85%
PROBABLE IMPAIRMENTS	63.56%	51.52%
OVERALL IMPAIRMENTS	70.92%	64.43%
"IN BONIS"	0.54%	1.02%
OVERALL OF CREDITS	4.96%	4.35%

PERCENTAGE COMPOSITION OF CREDITS TOWARDS CUSTOMERS (CASH AND SIGNATURE)	31.12.2020	31.12.2019
CREDITS "IN BONIS"	99.46%	97.83%
IMPAIRED CREDITS:	1.92%	2.17%
- BAD DEBTS	0.11%	0.18%
- PROBABLE IMPAIRMENTS	1.81%	1.99%

RISK RATIOS	31.12.2020	31.12.2019
GROSS IMPAIRED CREDITS/GROSS CREDITS	6.27%	5.24%
GROSS BAD DEBTS/GROSS CREDITS	1.56%	1.72%
NET IMPAIRED CREDITS/NET CREDITS	1.92%	2.17%
NET BAD DEBTS/NET CREDITS	0.11%	0.18%

TEXAS RATIO	31.12.2020	31.12.2019
IMPAIRED CREDITS/ SHAREHOLDERS' EQUITY	22.47%	21.85%

Debts

EUR/000

	BALANCE AS AT :		VARIATION	
	31.12.2020	31.12.2019	AMOUNT	%
PAYABLE TO CUSTOMERS				
IN EUROS	64,608	71,346	(6,738)	(9.44)
IN OTHER CURRENCIES	87,582	151,035	(63,454)	(42.01)
PAYABLE TO BANKS				
IN EUROS	639,192	972,857	(333,665)	(34.30)
IN OTHER CURRENCIES	660,395	639,936	20,458	3.20
TOTAL	1,451,777	1,835,175	(383,398)	(20.89)

Debts to banks and customers are shown in the financial statements, in accordance with current legislation, at amortized cost.

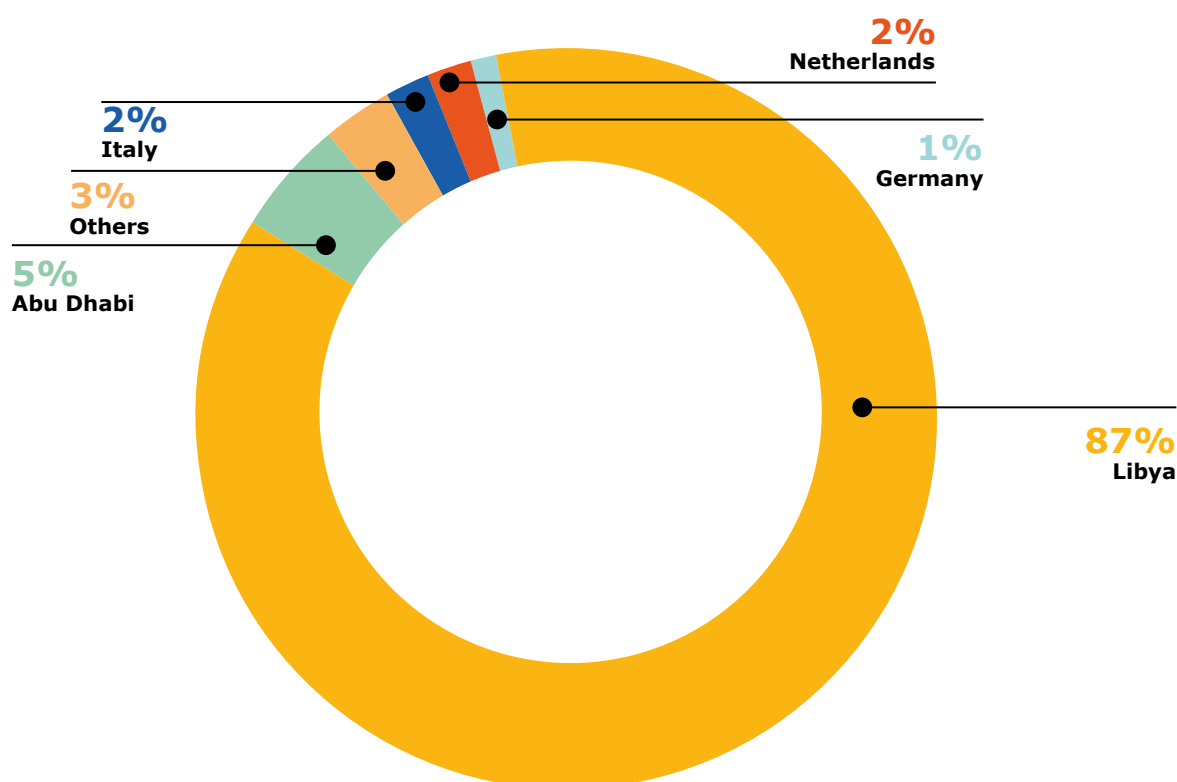
The table above shows the data and changes in deposits in euros and foreign currencies from customers and correspondent banks.

As indicated in the report on operations, funding from banking counterparties recorded a significant reduction in 2020, especially as regards the Euro component (-34.3%).

The volumes of deposits from corporate customers – especially counterparties resident in the countries of interest of the bank – were also affected by a decrease in terms of deposits in foreign currency.

Overall, deposits decreased by 20.89% from Euro 1,835.2 million to Euro 1,451.8 million. The following graph shows the breakdown of the collection by country.

Funding by country 2020



Assets

Equity represents one of the main points of reference in assessing the stability of a Bank, and the most important prudential control tools are based on it, such as the requirements for dealing with risks and the rules on their concentration.

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

	EUR/000				
	CAPITAL	SHARE PREMIUM	RESERVES	NET PROFIT	TOTAL
31.12.2019	159,861	870	108,200	(26,144)	242,787
CHANGE IN OPENING BALANCE					
APPROPRIATION OF PROFIT:					
- RESERVES					
- DIVIDENDS					
- OTHER RESERVES	101,325		(127,686)	26,144	(217)
VALUATION RESERVE					
NET PROFIT				(57,767)	(57,767)
31.12.2020	261,186	870	(19,486)	(57,767)	184,803

The shareholders' equity of Banca UBAE, including valuation reserves and the result for the period as at 31 December 2020, amounts to Euro 184.8 million circa and shows a decrease compared to the previous year (Euro 242.7 million) due to the heavy operating loss.

The Shareholders' Ordinary Meeting, for approval of the 2019 financial statements, resolved to postpone coverage of the 2019 losses to a future date.

On 31 March 2020, the increase in the Bank's share capital was completed with the subscription, by the majority shareholder Libyan Foreign Bank alone, of 921,137 shares for a total value of Euro 101.3 million with the decrease of the reserves by the same amount of capital which had accepted, at the end of 2019, the capital payment made by the same shareholder.

At the end of the year, Banca UBAE showed a Cet1/Tier1 capital ratio of 19.13% compared to 17.41% as of 31 December 2019, as an effect of the capital increase and the loss for the year. The total capital ratio went from 24.43% to 19.13%, as an effect of the loss for the year (since the effects of the capital increase were absorbed by those of the repayment of the Tier II subordinated loan).

Furthermore, as a result of the supervisory review and evaluation process carried out by Banca d'Italia (SREP), the oversight authority determined, in 2020, the new additional capital requirements that the Bank will have to hold in addition to the minimum required by current legislation; as of 31 December 2020, the Bank is fully in line with the new requirements set by the Oversight Body (see table).

COEFFICIENT OF	31.12.2020	LIMIT EXPECTED BY BANCA D'ITALIA
CET 1	19.13%	8.82%
CLASS 1	19.13%	10.93%
TOTAL CAPITAL	19.13%	13.74%

Shares

The share capital of the Bank at 31 December 2020 amounted to Euro 261,185,870 and is divided into 2,374,417 ordinary shares with a value of Euro 110 each.

Subordinated loan

On 31 March 2020, concurrently with the increase in the share capital, the Bank proceeded, as planned and following authorisation received from Banca d'Italia, to repay in full the subordinated loan of Euro 100 million previously subscribed by the shareholder Libyan Foreign Bank.

COMMENTS ON BALANCE SHEET DATA

Interest margin

	BALANCE AS AT :		VARIATION	
	31.12.2020	31.12.2019	AMOUNT	%
10. INTEREST INCOME AND RELATED REVENUE	25,804	43,268	(17,464)	(40.36)
20. INTEREST CHARGES	(13,884)	(28,564)	14,680	(51.39)
NET INTEREST INCOME	11,920	14,704	(2,784)	(18.93)

EUR/000

The further reduction, even to negative levels, in market rates as well as the contraction in loans led to a 40% reduction in interest income which, not having been fully offset by the reduction in interest expense, resulted in a reduction of 18.9 % of net interest, from Euro 14.7 to Euro 11.9 million.

As already commented elsewhere, the interest margin for the year was affected by a series of external and internal factors, including the performance of the world economy and the financial structure of the Bank, which, being able to rely on mainly short-term funding, was only able to in part to carry out medium/long-term loans and investments, with higher margins on average.

The negative rate of deposits with the ECB also had a serious impact on this result, which the Bank had to continually use for a long period of 2020 due to the drastic reduction in commercial loans and, partially, the needs in terms of LCR.

BROKERAGE AND OTHER INCOMES

The revenues from brokerage and financial intermediation are shown below:

	EUR/000			
	BALANCE AS AT :		VARIATION	
	31.12.2020	31.12.2019	AMOUNT	%
30. DIVIDENDS AND OTHER PROCEEDS				
40. COMMISSIONS RECEIVED	13,639	22,581	(8,942)	(39.60)
50. COMMISSIONS PAID	(3,311)	(8,224)	4,913	(59.74)
NET COMMISSIONS	10,328	14,357	(4,029)	(28.06)
80. PROFITS (LOSSES) ON TRADING	(5,603)	(2,925)	(2,678)	91.56
100. PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE HTC&S	1,030	(5)	1.035	n.a.
NET NON-INTEREST INCOME	5,755	11,427	(5,672)	(49.64)

Brokerage, intermediation and other income decreased by 49.6% compared to the previous year, with a reduction from Euro 11.4 to Euro 5.8 million.

More specifically, net commissions amounted to Euro 10 million, with a reduction of 28.1% compared to Euro 14.4 million in the previous year, also caused in this case by the generalised reduction in business flows.

The result for the Finance Area, confirmed as negative (Euro 5.6 million) also in 2020, and on higher levels than the previous year, must be seen in light of the national and international financial situation as well as of some strategic choices (in particular with regard to exposure to interest rate risk, investments and trading operations) operated according to a logic of maximum prudence.

The year-end figure for brokerage and intermediation activities amounted to Euro - 5.6 million circa compared to Euro -2.9 million in 2019.

ADMINISTRATIVE EXPENSES AND OTHER OPERATING INCOME AND CHARGES

EUR/000

	BALANCE AS AT :		VARIATION	
	31.12.2020	31.12.2019	AMOUNT	%
A) PERSONNEL EXPENSES:				
WAGES AND SALARIES	(10,277)	(11,182)	905	(8.09)
SOCIAL SECURITY CONTRIBUTIONS	(3,251)	(3,396)	145	(4.28)
STAFF SEVERANCE PAYMENTS	(693)	(754)	60	(7.97)
OTHER EXPENSES	(9,205)	(1,985)	(7,220)	363.69
TOTAL EMPLOYEE EXPENSES	(23,426)	(17,317)	(6,109)	35.28
ADMINISTRATORS	(1,160)	(1,647)	487	(29.57)
STATUTORY AUDITORS	(91)	(102)	11	(10.53)
NON-STAFF ASSOCIATES	(77)	(182)	104	(57.34)
TOTAL PERSONNEL EXPENSES	(24,755)	(19,247)	(5,507)	28.61
B) OTHER ADMINISTRATION EXPENSES	(11,558)	(12,103)	545	(4.51)
C) OTHER OPERATING EXPENSES/ INCOME	(293)	1,424	(1,717)	(120.58)
TOTAL	(36,605)	(29,926)	(6,679)	22.32

Administrative expenses and other operating income and charges increased by 22% compared to the previous year, going from Euro 29.9 to Euro 36.6 million, albeit due to some extraordinary components.

Personnel expenses, amounting to about Euro 23.4 million compared to Euro 17.3 million in the previous year (+35%), also include the provisions set aside to cover future costs expected following the procedures for facilitated access to the extraordinary provision (pre-retirement) and voluntary redundancy incentives planned for 2021. Net of these extraordinary items, the item stands at decreasing values compared to previous financial years, also following a specific policy to reduce the staff defined and initiated by the Bank.

Significant savings were achieved in relation to the costs of the Board of Directors (-29%, from Euro 1.65 to Euro 1.16 million) and other administrative expenses, which amounted to Euro 11.5 million (previously Euro 12.1 million). This result includes the cost of the contribution (ordinary and extraordinary) of Euro 1.9 million in favour of the Single Resolution Fund and the National Resolution Fund.

The overall decrease in administrative expenses (net of extraordinary items) compared to those of 2019 reflects the Bank's extreme attention to cost containment, an objective that has become essential in light of the generalised reduction in volumes and margins.

FORMATION OF OPERATING PROFIT

EUR/000

	BALANCE AS AT :				VARIATION	
	31.12.2020		31.12.2019		AMOUNT	%
GROSS OPERATING PROFIT		(18,930)		(3,795)	(15,135)	n.a.
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS		(1,134)		(1,373)	239	(17.41)
NET IMPAIRMENT ADJUSTMENTS:						
- TO LOANS	(32,678)		(21,942)			
- TO FINANCIAL ASSETS AVAILABLE FOR SALE	2,001		943			
- TO FINANCIAL ASSETS HELD TO MATURITY						
- TO OTHER FINANCIAL OPERATIONS	94		865			
- NET PROVISIONING FOR RISKS AND CHARGES	(7,120)		(842)			
TOTAL		(37,703)		(20,976)	(16,727)	79.74
PROFIT (LOSS) BEFORE TAX		(57,767)		(26,144)	(31,623)	120.96
INCOME TAX FOR THE YEAR						
NET PROFIT (LOSS)		(57,767)		(26,144)	(31,623)	120.96

Comparison with the respective closing dates shows a result of **Euro -26.1 million** at 31.12.2019 and **Euro -57.7 million** at 31.12.2020, where the result of the year just ended was also strongly influenced by the depreciation policies of the credit exposures, for which a prudent approach was followed.

Write-downs and provisions, as a whole, contributed Euro 37.7 million (+79.4% compared to Euro 21 million in 2019) to the formation of the operating result.

In this context, in the face of the unfavourable outcome of the dispute with the Tax Agency regarding the 2005-2006 VAT calculations, it was prudently chosen to make a full provision (Euro 3.7 million) relating to a similar dispute for the 2007-2006 VAT calculations and 2008 for which the Bank is still awaiting the sentence by the Supreme Court.

Please note that the bank was subject to a standard verification by the Tax Agency in January 2020. This activity, in consideration of the measures to contrast the diffusion of the Coronavirus (Covid-19), has been suspended and will resume as soon as the state of health emergency is over.

For further information on the above data, refer to the explanatory notes Part c) Information on the Income Statement.

SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

Lebanon

Faced with the worsening of the severe economic, financial and social crisis in Lebanon, the Bank immediately began to closely monitor all exposures to that country, gradually reducing the total amount.

At the end of the financial year, there was only one commercial transaction still outstanding, for the amount of USD 64 million circa, expiring on 21 June 2021, which involved Société Générale de Banque au Liban as the obliged party.

The counterparty promptly took steps to inform Banca UBAE that the restrictions imposed by the Lebanese Central Bank the restrictions imposed by the Central Bank on the transfer abroad of amounts denominated in hard currency prevent full and timely repayment. A reimbursement plan was therefore agreed between the parties, which does not include any reduction in the principal exposure and will be completed by the end of the 2022 financial year. This plan will be formalised in early April 2021.

The Bank's balance sheet prudentially reflects a write-down of 10% of the nominal exposure on this position, taking into account country risk, counterparty risk and the duration and economic conditions of the agreed repayment plan. This write-down has been allocated to credit adjustments under item 130 of the profit and loss account, as required by current regulations.

Inspection by Banca d'Italia

On 18 January 2021, Banca d'Italia began an inspection on Banca UBAE (as per article 54 of legislative decree no. 385 dated 1 September 1993), ending early April 2021; at the date of approval of these financial statements, the inspection report has not yet been received.

- **Banca UBAE does not conduct R&D activities.**
- **Banca UBAE's portfolio does not hold its own shares.**
- **Information regarding rapports with related parties are contained in section "H" of the Explanatory Notes.**

BUSINESS OUTLOOK

The 2020 financial year was marked by a peculiar and unexpected event, the Covid-19 pandemic, which resulted in an absolute discontinuity with the past.

The world economy was strongly affected by this event, both for the direct effects of lockdowns, extensively used as tools to combat the circulation of the virus, and for the indirect effects on investment logic and the propensity to buy by businesses and individuals. The timid signs of recovery that were being seen in the second half of 2020 were soon extinguished by a new wave of the pandemic.

It is expected that from late spring, once the massive vaccination campaign started and reached a reasonable containment of the circulation of the virus, in 2021 a generalised growth of world economies will re-establish itself, without significant effects on inflation and interest rates, thanks also to the continuation of expansive monetary policies and enlargement of the public debt for support purposes.

In this context, it is expected that the stabilisation and relaunch measures of Banca UBAE included in the 2020-2024 business plan approved in July 2020 and already launched, will enable the full benefits deriving from the global recovery to be taken, bringing the Bank back to its role of strong institutional support for commercial activities between Italy and, in particular, the MENA countries, a geographical area of historical interest.

On the other hand, it is expected that Libya's newfound political, social and institutional stability will have positive effects in terms of support – which has never ceased even in periods of objective difficulty – by the majority shareholder Libyan Foreign Bank.

PROPOSAL TO THE SHAREHOLDERS

Approval of the financial statements for the year ended 31 December 2020 and covering the loss for the year

To all Shareholders,

- having examined the Bank's draft financial statements closed on 31 December 2020;
- having regard to the Board's Report on Operations;
- taking into account the capital resources available at 31 December 2020;
- 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 2020, accompanied by the Board's Report on Operations, which shows a loss for the year of **Euro 57,766,641**;
- ***approving the proposal to postpone settlement of the 2020 loss and to cover it with profits from future years.***

If the following scheme is approved, Shareholders' Equity will amount to EUR 184,803,458 and will be composed as follows:

	EURO
SHARE CAPITAL	261,185,870
LEGAL RESERVE	13,494,100
SHARE PREMIUM ACCOUNT	870,226
IFRS9 FTA RESERVE FROM 2018 LOSS	(7,757,798)
IAS FTA RESERVE FROM 2005 IAS PROFIT	305,239
REVALUATION RESERVES	616,887
NET LOSS 2019	(26,144,425)
NET LOSS 2020	(57,766,641)
	184,803,458

Rome, 30 March 2021

THE CHAIRMAN



Rome branch

FINANCIAL STATEMENTS 2020

(Amounts in Euros)

BALANCE SHEET: ASSETS

ITEMS	31.12.2020	31.12.2019
10 CASH AND CASH EQUIVALENTS	129,477,506	299,354,638
20 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	9,582,821	10,268,140
A) FINANCIAL ASSETS HELD FOR TRADING	9,582,821	10,268,140
30 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	3,809,399	8,265,562
40 FINANCIAL ASSETS MEASURED AT AMORTISED COST	1,489,982,150	1,736,047,002
A) DUE FROM BANKS	568,243,035	799,991,425
B) LOANS TO CUSTOMERS	921,739,115	956,055,577
80 PROPERTY AND EQUIPMENT	21,818,400	22,769,902
90 INTANGIBLE ASSETS	264,287	126,843
100 TAX ASSETS	17,477,376	19,635,221
A) CURRENT	9,458,245	11,616,090
B) DEFERRED	8,019,131	8,019,131
120 OTHER ASSETS	16,226,249	10,770,754
TOTAL ASSETS	1,688,638,188	2,107,238,062

BALANCE SHEET: LIABILITIES AND SHAREHOLDERS' EQUITY

ITEMS	31.12.2020	31.12.2019
10 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	1,451,775,843	1,835,174,677
A) DUE TO BANKS	1,299,586,597	1,612,793,316
B) DUE TO CUSTOMERS	152,189,246	222,381,361
20 FINANCIAL LIABILITIES HELD FOR TRADING	4,078,443	2,435,093
60 TAX LIABILITIES	1,709,276	1,818,282
A) CURRENT	1,296,897	1,296,898
B) DEFERRED	412,379	521,384
80 OTHER LIABILITIES	25,562,214	17,520,109
90 EMPLOYEE TERMINATION INDEMNITIES	851,428	1,086,941
100 ALLOWANCES FOR RISKS AND CHARGES	19,857,526	6,415,894
A) COMMITMENTS AND GUARANTEES GIVEN	5,013,371	5,107,502
C) OTHER ALLOWANCES FOR RISKS AND CHARGES	14,844,155	1,308,392
110 VALUATION RESERVES	616,887	833,854
140 RESERVES	(20,102,884)	107,366,611
150 SHARE PREMIUM RESERVE	870,226	870,226
160 SHARE CAPITAL	261,185,870	159,860,800
180 NET INCOME (LOSS) (+/-)	(57,766,641)	(26,144,425)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,688,638,188	2,107,238,062

INCOME STATEMENT

ITEMS		31.12.2020	31.12.2019
10	INTEREST AND SIMILAR INCOME	25,803,509	43,268,060
	OF WHICH: INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST RATE METHOD	25,351,403	42,844,739
20	INTEREST AND SIMILAR EXPENSE	(13,883,832)	(28,563,701)
30	INTEREST MARGIN	11,919,677	14,704,359
40	FEE AND COMMISSION INCOME	13,639,524	22,580,924
50	FEE AND COMMISSION EXPENSE	(3,311,390)	(8,224,158)
60	NET FEE AND COMMISSION INCOME	10,328,134	14,356,766
70	DIVIDEND AND SIMILAR INCOME		1,199
80	PROFITS (LOSSES) ON TRADING	(5,602,975)	(2,925,172)
100	PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF:	1,029,638	(5,851)
	B) FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH	1,029,638	(5,851)
120	NET INTEREST AND OTHER BANKING INCOME	17,674,474	26,131,301
130	NET LOSSES/RECOVERIES FOR CREDIT RISKS ASSOCIATED WITH:	(30,676,861)	(20,999,453)
	A) FINANCIAL ASSETS MEASURED AT AMORTISED COST	(32,677,608)	(21,941,992)
	B) FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH	2,000,747	942,539
150	OTHER COMPREHENSIVE INCOME NET INCOME FROM BANKING ACTIVITIES	(13,002,387)	5,131,848
160	ADMINISTRATIVE EXPENSES:	(36,312,444)	(31,350,292)
	A) PERSONNEL EXPENSES	(24,754,894)	(19,247,421)
	B) OTHER ADMINISTRATIVE EXPENSES	(11,557,550)	(12,102,871)
170	NET PROVISIONS FOR RISKS AND CHARGES	(7,025,735)	23,132
	A) COMMITMENTS AND GUARANTEES GIVEN	94,131	864,979
	B) OTHER NET PROVISIONS	(7,119,866)	(841,847)
180	NET ADJUSTMENTS TO / RECOVERIES ON PROPERTY AND EQUIPMENT	(1,058,673)	(1,056,883)
190	NET ADJUSTMENTS TO / RECOVERIES ON INTANGIBLE ASSETS	(74,603)	(316,247)
200	OTHER OPERATING EXPENSES (INCOME)	(292,799)	1,424,017
210	OPERATING EXPENSES	(44,764,254)	(31,276,273)
260	INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	(57,766,641)	(26,144,425)
270	TAXES ON INCOME FROM CONTINUING OPERATIONS		
280	INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	(57,766,641)	(26,144,425)
300	NET INCOME (LOSS)	(57,766,641)	(26,144,425)

STATEMENT OF COMPREHENSIVE INCOME

ITEMS		31.12.2020	31.12.2019
10	NET INCOME (LOSS)	(57,766,641)	(26,144,425)
	OTHER COMPREHENSIVE INCOME (NET OF TAX) THAT MAY NOT BE RECLASSIFIED TO THE INCOME STATEMENT		
70	DEFINED BENEFIT PLANS	3,648	(30,552)
	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	(220,615)	25,423,446
170	TOTAL OTHER COMPREHENSIVE INCOME (NET OF TAX)	(216,967)	25,392,894
180	TOTAL COMPREHENSIVE INCOME (CAPTIONS 10 + 170)	(57,983,608)	(751,531)

STATEMENT OF CHANGES IN EQUITY - 01.01.2020 - 31.12.2020

	BALANCE AS AT 31.12.2019	CHANGE IN OPENING BALANCE	BALANCES AS AT 01.01.2020	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		INTERVENING VARIATIONS								SHAREHOLDERS' EQUITY AS AT 2020	
				RESERVES	DIVIDENDS AND OTHERS	CHANGES TO RESERVES	NEW SHARES ISSUED	TREASURY STOCK BOUGHT	EXTRAORDINARY DIVIDENDS PAID	CHANGES TO CAPITAL INSTRUMENTS	DERIVATIVES ON TREASURY STOCK	STOCK OPTIONS	COMPREHENSIVE NET INCOME 2020		
SHARE CAPITAL															
A) ORDINARY SHARES	159,860,800		159,860,800				101,325,070								261,185,870
B) OTHER SHARES															
SHARE PREMIUM ACCOUNT	870,226		870,226												
RESERVES															870,226
A) FROM PROFITS	6,041,541		6,041,541												
B) OTHER	101,325,070		101,325,070	(26,144,425)		(101,325,070)									6,041,541
REVALUATION RESERVES (1)	833,854		833,854											(216,967)	(26,144,425)
CAPITAL INSTRUMENT															616,887
TREASURY STOCK															
NET PROFIT FOR THE YEAR (1)	(26,144,425)		(26,144,425)	26,144,425										(57,766,641)	(57,766,641)
SHAREHOLDERS' EQUITY	242,787,066		242,787,066											(57,983,608)	184,803,458

STATEMENT OF CHANGES IN EQUITY - 01.01.2019 - 31.12.2019

	BALANCE AS AT 31.12.2018	CHANGE IN OPENING BALANCE	BALANCES AS AT 01.01.2019	ALLOCATION OF PROFIT/LOSS FROM PREVIOUS YEAR		INTERVENING VARIATIONS							SHAREHOLDERS' EQUITY AS AT 2019		
				RESERVES	DIVIDENDS AND OTHERS	CHANGES TO RESERVES	NEW SHARES ISSUED	TREASURY STOCK BOUGHT	EXTRAORDINARY DIVIDENDS PAID	CHANGES TO CAPITAL INSTRUMENTS	DERIVATIVES ON TREASURY STOCK	STOCK OPTIONS		COMPREHENSIVE NET INCOME 2019	
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	(15,831,990)											
RESERVES															870,226
A) FROM PROFITS	42,469,619	(802,759)	41,666,860	(35,625,319)											
B) OTHER						101,325,070									6,041,541
REVALUATION RESERVES	(24,559,039)		(24,559,039)											25,392,893	101,325,070
CAPITAL INSTRUMENT															833,854
TREASURY STOCK															
NET PROFIT FOR THE YEAR	(51,457,309)		(51,457,309)	51,457,309										(26,144,425)	(26,144,425)
SHAREHOLDERS' EQUITY	143,016,287		142,213,528											(751,532)	242,787,066

CASH FLOW STATEMENT

INDIRECT METHOD		31.12.2020	31.12.2019
A	OPERATING ACTIVITIES		
1	OPERATIONS	(10,683,000)	34,334,071
	PROFIT (LOSS) FOR THE PERIOD (+/-)	(57,766,641)	(26,144,425)
	NET IMPAIRMENT ADJUSTMENTS	30,676,861	20,999,453
	NET IMPAIRMENT LOSSES/REVERSALS ON PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (+/-)	1,133,276	1,373,130
	NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES AND OTHER EXPENSES/INCOME (+/-)	13,441,632	(188,287)
	UNPAID TAXES, DUTIES AND TAX CREDITS (+/-)	2,048,839	12,901,307
	OTHER ASSETS	(216,967)	25,392,893
2	LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL ASSETS	215,073,978	95,443,872
	FINANCIAL ASSETS HELD FOR TRADING	685,319	4,908,637
	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	4,456,163	343,680,282
	FINANCIAL ASSETS MEASURED AT AMORTISED COST	215,387,991	(252,900,284)
	OTHER LIABILITIES	(5,455,495)	(244,763)
3	LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL LIABILITIES	(373,948,892)	(519,140,503)
	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	(383,398,834)	(520,144,158)
	FINANCIAL LIABILITIES HELD FOR TRADING	1,643,350	(1,165,977)
	OTHER LIABILITIES	7,806,592	2,169,631
	NET LIQUIDITY GENERATED (ABSORBED) BY OPERATING ACTIVITIES	(169,557,914)	(389,362,560)
B	INVESTMENT/DIVESTMENT ACTIVITIES		
2	LIQUIDITY ABSORBED BY:	(319,218)	(1,115,989)
	PURCHASE OF TANGIBLE FIXED ASSETS	(107,171)	(1,029,524)
	PURCHASE OF INTANGIBLE FIXED ASSETS	(212,047)	(86,465)
	NET LIQUIDITY GENERATED (ABSORBED) BY INVESTMENT/DIVESTMENT ACTIVITIES	(319,218)	(1,115,989)
C	FUNDING		
	ISSUE (PURCHASES) OF CAPITAL INSTRUMENTS		100,522,311
	DISTRIBUTION OF DIVIDENDS AND OTHER	0	0
	NET LIQUIDITY GENERATED (ABSORBED) BY FUNDING ACTIVITIES		100,522,311
	NET LIQUIDITY GENERATED (ABSORBED) DURING THE YEAR	(169,877,132)	(289,956,238)
RECONCILIATION		31.12.2020	31.12.2019
	CASH AND CASH EQUIVALENTS AT START OF YEAR	299.354.638	589.310.877
	NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	(169,877,132)	(289,956,239)
	CASH AND CASH EQUIVALENTS: EFFECT OF EXCHANGE RATE VARIATIONS		
	CASH AND CASH EQUIVALENTS AT THE YEAR END	129,477,506	299,354,638

Meeting room - Milan branch



NOTES TO THE FINANCIAL STATEMENTS

1 January - 31 December 2020

PART A: ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

The financial statements for the year ended 31 December 2020 of Banca UBAE S.p.A., in application of legislative decree no. 38 of 28 February 2005, have been prepared in accordance with international accounting standards – International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) – issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) approved by the European Commission, pursuant to EU Regulation no. 1606 of 19 July 2002. The application of IFRS was also carried out with reference to the “systematic framework for the preparation and presentation of financial statements” (Framework).

In addition to the instructions contained in the Banca d'Italia circular no. 262 of 22 December 2005 “bank balance sheet: layout and compilation rules” (6th update of 30 November 2018), on an interpretative level, both the documents on the application of IFRSs in Italy prepared by the Organismo Italiano di Contabilità (O.I.C.), and the Banca d'Italia Communication of 15 December 2020 - Integrations to the provisions of Circular no. 262 “Bank financial statements: formats and compilation rules” concerning the impact of COVID-19 and the measures to support the economy and amendments to IAS/IFRS on this subject.

On 30 March 2021, the Directors approved the financial statements and their availability to the shareholders under the terms provided for by article 2429 of the Civil Code. These financial statements will be submitted for approval to the Shareholders' Meeting on 30/04/2021 (first call) and 18/05/2021 (second call) and will be filed within the terms set by article 2435 of the Civil Code. The Shareholders' Meeting has the power to make changes to these financial statements. For the purposes of the provisions of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 30 March 2021, the date of approval by the Board of Directors.

Section 1 - Declaration of Conformity with International Accounting Standards

In accordance with the provisions of IAS 1 to §14, we certify that the balance and financial statements for the year ended 31 December 2020 of Banca UBAE comply with all the IAS/IFRS international accounting standards, including the Standing Interpretations Committee (SIC) and International Financial Reporting interpretative documents Interpretations Committee (IFRIC), in force on the date of approval of the balance sheet and endorsed by the European Commission.

For the interpretation and application of the new international accounting standards, reference was also made to the Framework for the Preparation and Presentation of Balance Sheets, i.e. the “Systematic framework for the preparation and presentation of balance sheets”, issued by the IASB.

On an interpretative level, the documents on the application in Italy of the IAS/IFRS accounting standards prepared by the Italian Accounting Body (OIC) and by the Italian Banking Association (ABI) were also taken into consideration.

Section 2 - General drafting principles

The financial statements are made up of the balance sheet, the income statement, the statement of overall profitability, the statement of changes in equity, the cash flow statement and these explanatory notes and is accompanied by the directors' report on management performance and the situation of Banca UBAE. The accounts in the financial statements are matched in the Bank's accounting books.

The financial statements have been drawn up with a view to business continuity and referring to the general drafting principles listed below:

- principle of truth and correctness and completeness in the presentation of the equity, economic and financial situation;
- principle of economic competence;
- principle of consistency of presentation and classification from one year to another;
- principle of the prevalence of the substance over the form;
- principle of prudence in the exercise of the judgments necessary for making the estimates requested in conditions of uncertainty, so that the assets or revenues are not overestimated and the liabilities or costs are not underestimated, without this leading to the creation of hidden reserves or excessive provisions;
- principle of information neutrality;
- principle of relevance/significance of information.

In preparing the financial statements, the layouts and compilation rules set out in Banca d'Italia's circular no. 262 of 22/12/2005, updated on 30 November 2018, as well as further requests for information indicated in the subsequent clarifications of Banca d'Italia. In addition, complementary information deemed appropriate to supplement the representation of the financial statement data was provided, although not specifically required by law.

The balance sheet and profit and loss account schedules, the statement of comprehensive income, the statement of changes in shareholders' equity and the cash flow statement are drawn up in euro units, while the explanatory notes, when not otherwise indicated, are expressed in thousands of euros. For comparative purposes, the financial statement schedules and, where required, the tables in the explanatory notes also show the data relating to the previous year. The assets and liabilities, costs and revenues are not compensated for each other, unless this is permitted or required by international accounting standards or by the provisions contained in the latest update of Circular no. 262.

In the balance sheet, in the income statement and in the statement of comprehensive income, the accounts that do not present amounts for the year to which the financial statements refer,

or for the previous one, are not indicated. If an element of the assets or liabilities falls under several items of the balance sheet, its explanatory note also highlights its traceability to items other than the one in which it is entered, if this is necessary for the purposes of understanding the financial statements.

In the income statement and in the relative section of the explanatory notes, revenues are indicated without a sign, while costs are indicated in parentheses. In the statement of comprehensive income, negative amounts are indicated in parentheses.

The explanatory note does not expose the items and tables given by Banca d'Italia's provision no. 262/2005 relating to items not applicable to Banca UBAE.

The criteria adopted for the preparation of the financial statements have remained unchanged with respect to those used for the financial statements of the previous year.

Following consultations at international level between Regulators, Governments and Bodies responsible for preparing and interpreting the accounting rules, in March 2009 the IASB approved an amendment to IFRS 7 in order to improve the disclosure of fair value measurement and reinforce previous disclosure requirements regarding liquidity risk associated with financial instruments.

Very briefly, with reference to:

- the criteria for determining the fair value of financial instruments, the changes introduce disclosure obligations, on the basis of what is already provided in SFAS 157, in terms of hierarchy of fair values on three levels determined on the basis of the significance of the inputs to the valuations;
- liquidity risk; a new definition is introduced (such as "risk that an entity may find it difficult to fulfil the obligations associated with financial liabilities that are settled through the delivery of cash or other financial assets") as well as more quantitative information on the methods of managing the liquidity of derivative instruments.

The main innovation referred to in the amendment to IFRS7 is the introduction of the concept of fair value hierarchy (Fair Value Hierarchy, hereinafter also "FVH") divided into three different levels (Level 1, Level 2 and Level 3) in descending order of observability of the inputs used to estimate fair value. For the criteria for determining fair value, reference is made to what is indicated in the specific notes in relation to section 4 below.

Section 3 - Events subsequent to the balance sheet date

With reference to events subsequent to the balance sheet date, please refer to the paragraph "Significant events after the end of the financial year".

Information on business continuity

As regards the “going concern” assumption, it should be noted that, in compliance with the indications provided in document no. 4 of 3 March 2010 issued jointly by Banca d’Italia, Consob and Isvap, concerning “Information to be provided in the financial reports on the verifications for the impairment of assets (impairment test)”, on the contractual clauses of the financial debts, on the restructuring of payables, and on the “fair-value hierarchy” which refers to the corresponding document no. 2 again issued jointly by the three Authorities on 6 February 2009, the Bank has the reasonable expectation of continuing with its operational existence in the foreseeable future and has therefore prepared the financial statements on the assumption of business continuity as a “going concern”.

More detailed information on the main problems and variables existing on the market is published in the Directors’ Management Report.

Section 4 - Other aspects

The financial statements are subject to the statutory audit of the firm BDO Italia S.p.A., pursuant to articles 14 and 16 of legislative decree no. 39 of 27 January 2010, to which the assignment for the period 2012-2020 was conferred by the shareholders’ meeting of 10/09/2012. The annual remuneration set upon the assignment amounts to 56 thousand euros plus VAT.

4.1 Amendment of the Accounting Standards approved by the European Commission

4.1.1 Information to the public in line with the communication of Banca d’Italia of 30 June 2020

“Guidelines of the European Banking Authority relating to the reporting and disclosure obligations to the public on exposures subject to measures applied in the light of the Covid-19 crisis”, implementing the guidelines of the European Banking Authority (EBA) relating to the reporting and disclosure obligations to the public on exposures subject to measures applied in the light of the Covid-19 crisis (EBA/GL/2020/07) information is provided on:

- loans subject to moratoriums that fall within the scope of the EBA guidelines on legislative and non-legislative moratoriums regarding loan payments applied in the light of the Covid-19 crisis (EBA/GL/2020/02);
- loans subject to forbearance measures applied following the Covid-19 crisis, defined internally and assessed on a case-by-case basis, intended for customer companies not coming within the scope of the decree “Cura Italia” and/or the ABI agreement.

4.1.2 Impact of regulatory changes

As of 1 January 2020, the following changes have taken place in terms of banking and accounting regulations, and in terms of taxation, more in detail:

- decree 17/03/2020, no. 18 (decree on "Cura Italia"), promulgated by the Council of Ministers as an emergency measure following the spread of the Covid-19 pandemic and then converted into Law no. 27/2020, introduced the following:
 - article 49 provides, with reference to the "SME guarantee fund" which grants free state guarantees to professionals or micro, small and medium-sized enterprises in cases of difficulty in accessing credit, the extension of this fund to loans disbursed by banks to pay off previous debt positions of the company;
 - article 54 established the right for customers to request the suspension of the mortgage payments for the purchase of the first home without any negative consequences for the customer, through the support of the so-called "Gasparrini" fund which will compensate the banks for the greater extension granted to the customer;
 - at the tax level, article 55 provides for the possibility of converting "DTA (Deferred Tax Assets)" into tax credits, even if not recorded in the financial statements, referable to certain predetermined tax assets for an amount proportional to the nominal value of the impaired loans (NPLs) that are transferred to third parties;
 - article 56 introduced a series of concessions for micro, small and medium-sized enterprises that self-declare that they have undergone a partial or total reduction in activity due to Covid-19, provided that the debt exposure is not already considered impaired, including the impossibility for banks to revoke credit lines or advance invoices on the amounts granted up to 30 September 2020, the extension of the deadlines of the non-installment loans as well as the suspension of instalments and loan fees until 30 September 2020;
 - article 58 provided, in favour of companies that have obtained loans for internationalization projects, the possibility of requesting the suspension for up to twelve months of the payment of the principal amount and the interest of the instalments due during the year 2020, with consequent translation of the amortisation plan for a corresponding period.
- **the liquidity decree (legislative decree no. 23 dated 8 April 2020)**, converted into Law no. 40 dated 5 June 2020, enhanced the Guarantee Fund to meet the immediate liquidity needs of companies and professionals who are facing the consequences of the Covid-19 epidemic, as summarised below:
 - the coverage of the guarantee has been increased: on small loans up to 30 thousand euros, the intervention of the Fund covers 100% of the loans with a maximum duration of 10 years without the evaluation of creditworthiness for the purpose of granting the guarantee of credit. The guarantee covers all loans at 90% up to a maximum amount of 5 million euros per single beneficiary. For amounts up to 800,000 euros, the guarantee of a overdraft can be added, up to covering 100% of the loan.

- the range of beneficiaries has been expanded: to small and medium-sized enterprises (SMEs) and individuals carrying out business activities, arts or professions, brokers, insurance agents and sub-agents, as well as third sector entities have been added;
- the access procedures have been simplified: the guarantee is granted automatically and the loan can be disbursed by banks without waiting for a response from the Fund.

4.1.3 Entry into force of new accounting principles

Below is an indication of the new accounting standards and changes made to existing accounting standards approved by the EU, underlining that they had no material impact on the data reported in the financial statements as at 31 December 2020:

- Regulation no. 2075/2019: with the regulation of 29 November 2019, some amendments to the IFRS relating to the references to the Conceptual Framework were implemented. The amendments aim to update references to the previous Framework in various accounting standards and interpretations, replacing them with references to the conceptual framework revised in March 2018.
- Regulation no. 2104/2019: with the regulation of November 29, 2019, certain amendments were adopted to IAS 1 Presentation of Financial Statements and to IAS 8 Accounting standards, changes in accounting estimates and errors with the aim of clarifying the definition of material information and to improve the understanding.
- Regulation no. 34/2020 of 15 January 2020: this regulation adopted the document issued by the IASB in September 2019 on the reform of the reference indices for the determination of interest rates (amendments to IFRS 9 "Financial instruments", to IAS 39 "Financial instruments: recognition and measurement" and IFRS 7 "Financial instruments: disclosures"). With the regulation in question, some changes were introduced in terms of hedge accounting with the aim of avoiding that the uncertainties on the amount and timing of the cash flows deriving from the rate reform could lead to the interruption of current hedging, and difficulty in designating new hedging relationships.
- Regulation no. 551/2020 of 21 April 2020: this regulation adopted the amendments to IFRS 3 "Definition of a Business", which clarify that, to be considered a business, an integrated set of activities must include at least one input and a process that together contribute significantly to the ability to create outputs. Furthermore, these changes make it clear that a business can exist without including all the inputs and processes needed to create outputs.

There were no further aspects that require the disclosure referred to in IAS 8 paragraphs 28, 29, 30, 31, 39, 40 and 49.

4.1.4 Amendments issued to the accounting standards but not yet in force

New international accounting standards or amendments not yet approved by the European Commission are shown below, the mandatory application of which starts after 31 December 2020 (with the exception of the amendments to IFRS 16). Banca UBAE considers the impact deriving from the adoption of the following interpretations and amendments to the existing international accounting standards to be of little consequence:

- amendment to IFRS 16: Leases Covid 19-Related Rent Concessions (application from 1 June 2020, early application allowed);
- amendments to IFRS 4 Insurance Contracts - deferral of IFRS19 (application from 1 January 2021, early application is permitted).
- amendments to IAS 1: Classification of Liabilities as Current or Non-current IFRS19 (application from 1 January 2022, early application allowed);
- amendments to - IFRS 3 Business Combinations; - IAS 16 Property, Plant and Equipment; - IAS 37 Provisions, Contingent Liabilities and Contingent Assets - Annual Improvements 2018-2020 (application from 1 January 2022, early application allowed).

New European rules for the definition of default

Starting from 1 January 2021, the new European rules on the classification of defaulting counterparties came into force, which provide for more stringent criteria and methods than those adopted so far in order to standardise the existing regulations between the various countries of the European Union. The main changes introduced require the banks to define as defaulting (in a state of default) the customer who has a backlog of more than 90 days, the amount of which is, at the same time:

- for individuals and small and medium-sized enterprises: above 100 euros (absolute component) and above 1% of total exposures to the bank-related component);
- for companies: higher than 500 euros (absolute component) and higher than 1% of the total exposures to the bank (relative component). It is also noted that:
- overdue amounts cannot be offset with open and unused credit lines (known as available margins);
- the default status will remain for at least 90 days starting from the moment in which the customer settles the payment arrears with the bank or returns from the current account overrun.

- in the case of joint credit obligations (e.g. joint headings), the default of a debtor does not automatically extend to joint headings. In the event that all debtors exposed jointly are classified in default, the joint obligation is also automatically considered in default. In the event that the joint obligation is classified in a state of default, the obligations of all individual debtors are also considered in default. Therefore, it is necessary to punctually meet the payment deadlines provided for in the contract and to respect the repayment plan of one's debts, not neglecting even modest amounts, in order to avoid classification as default. For any request for clarification and to have all the necessary support, contact the manager of your relationship.

The relevant legislation is as follows: - EBA/GL/2016/07 "Guidelines on the application of the definition of default pursuant to art. 178 of EU Regulation no. 575/2013.

- EBA/RTS/2016/06 "New regulatory techniques relating to the relevance threshold of overdue credit obligations" which supplement the EU Delegated Regulation no. 171/2018 of the European Commission dated 19 October 2017.

4.2 Statement of overall profitability

The statement of comprehensive income, introduced in 2009 and prepared in light of the amendments to IAS 1, includes revenue and cost items which, in accordance with international accounting standards, are not recognised in the income statement but recognised in equity.

Comprehensive profitability therefore expresses the change that equity has had in a year deriving from both business transactions that currently form the result for the year and from other transactions net of the tax effect, such as changes in the value of securities classified in the FVOCI portfolio, tangible and intangible assets, hedges of foreign investments and cash flows, exchange differences and actuarial gains or losses on defined benefit plans for employees, charged to shareholders' equity on the basis of a specific accounting principle.

4.3 Use of estimates and assumptions in the preparation of the financial statements (with specific reference to the provisions of IAS 1 paragraph 125 and document no.2 of 6 February 2009 issued jointly by Banca d'Italia/ Consob/Ivass)

The preparation of the financial statements also requires the use of estimates and assumptions that can have significant effects on the values recorded in the balance sheet and in the income statement, as well as on the information relating to potential assets and liabilities shown in the financial statements.

The preparation of these estimates implies the use of available information and the adoption of subjective assessments, also based on historical experience, used for the purpose of formulating reasonable assumptions for the recording of management facts.

By their nature, the estimates and assumptions used may vary from period to period; it cannot therefore be ruled out that in subsequent years the current values recorded in the financial statements may also differ significantly following changes in the subjective assessments used.

The main cases for which the use of subjective assessments by the Board of Directors is most required are:

- the quantification of losses due to impairment of receivables and, in general, of other financial assets;
- the determination of the fair value of the financial instruments to be used for the purposes of financial statement disclosure;
- the use of valuation models for measuring the fair value of financial instruments not listed on active markets;
- the quantification of personnel provisions and provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets.

The description of the accounting policies applied to the main balance sheet aggregates provides the information necessary to identify the main assumptions and subjective assessments used in the preparation of the financial statements.

For further detailed information regarding the composition and the relative book values of the items affected by the estimates in question, please refer to the specific sections of the explanatory notes.

4.4. Information to be provided in the financial reports on the impairment tests of the assets (with specific reference to the provisions of 14539 and the joint Banca d'Italia/Consob/Ivasp document no. 4 dated 3 March 2010)

With reference to the criteria used for the valuation of securities classified as HTC&S, the Board of Directors assesses the existence of objective evidence of non- temporary impairment.

4.5 Contributions to deposit guarantee systems and resolution mechanisms

With the 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 transposition of these directives into Italian law, starting from 2015, credit institutions are obliged to provide the financial resources necessary for the financing of the Interbank Deposit Protection Fund (FITD) and the National Resolution Fund, merged into the Single Resolution Fund (FRU), starting in 2016, through the payment of ordinary contributions and extraordinary contributions if required.

In compliance with the DGSD directive, the FITD has established 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 participating in the FITD. This level must be compulsorily reached by 3 July 2024. The amount of the contribution requested from individual banks is proportional to the size of its own protected deposits existing on 30 September of each year with respect to the total of protected deposits of Italian banks participating in the FITD and the degree of risk relating to the consortium bank having protected deposits with respect to the degree of risk of all the other banks participating in the FITD.

According to the provisions of the BRRD, Italian banks must pay ordinary annual contributions to provide the FRU with financial resources equal to at least 1% of the total protected deposits of all credit institutions authorised in all participating Member States. This level must be compulsorily reached by 1 January 2024. The contributions of each institution are calculated on the basis of the ratio between the amount of its liabilities (net of protected deposits and own funds and, for entities belonging to a group, net of intra-group 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 the other Italian banks.

It should be noted that if the available financial means of the FITD and/or the FRU are not sufficient respectively to guarantee the repayment to the depositors or to finance the resolution, it is envisaged that the credit institutions must provide by paying extraordinary contributions.

In the 2020 financial statements, ordinary and extraordinary contributions were recognised – on an accrual basis – under item 160. Other administrative expenses “in application of the interpretation IFRIC 21 “Taxes”, according to which the liability relating to the payment of a tax (the contributions in question were considered comparable to a tax from an accounting point of view), arises at the time of the so- called “binding fact”, 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 year 2020 amounted to **approximately 1.4 million euros** (1.4 million euros was the contribution referred to the year 2019).

In 2020, the extraordinary contribution to the National Resolution Fund paid in the first half of the year was approximately **465 thousand euros** (approximately 520 thousand euros for the contribution relating to 2019).

4.6 Information on the ECL

Foreword

Using the RiskCalc tool provided by Moody's, internal scores are processed for each counterparty (= alphanumeric score assigned internally to each counterparty) and **PD_{Fit}**. These parameters are calculated at the time of assignment/renewal of credit by the Credit Assessment and Processing Department on the basis of financial data (balance sheets) and qualitative considerations (qualitative overlay).

The **LGD_{PIT}** data are differentiated by debt seniority (the prevalent debt seniority for the Bank is “unsecured term loan”), by type of counterparty (bank or corporate) and by geographical area (Eurozone, US, MENA, Asia) and provided by Moody’s.

For the purposes of calculating the expected loss, or the accounting provision, macroeconomic scenarios are applied to these risk parameters to allow their recalculation in a “forward-looking” perspective.

The first PD_{FL} data processed using the CreditEdge tool (Moody’s) had highlighted the following methodological weaknesses such as excessive volatility (due to the low number of the reference sample) and flattening of the output data (due to the excessive concentration of the counterparties within the last remaining decile).

For this reason, the Bank has decided to start a project to customise macroeconomic scenarios in order to take due account of the geographical peculiarities of the credit portfolio.

Moody’s has therefore customised scenarios and models (MAKS - Moody’s Analytics Knowledge Services team) according to geographical areas (Europe, USA, MENA and Asia).

Three statistical regression models were selected (one for Europe/US, one for MENA and one for ASIA) based on statistical performance, the predictive capacity of macroeconomic variables and their explanatory power from an economic point of view. It should be noted that in light of the statistical validation tests, Moody’s deemed these models adequate for IFRS9 purposes. The model validation process, within Moody’s, follows the best practices in the sector and is entrusted to a different team than the one that developed the model.

With regard to the macroeconomic scenarios to be applied in order to foresee the point-in-time parameters over time and transform them into forward-looking data, the Bank has decided to apply the following of the type:

40% baseline scenario + 30% upside + 30% downside, now partially revised (25% baseline scenario + 70% upside + 5% downside) in order to consider the contingent emergency situation and avoid a double counting of the Covid effect in terms of impairment (see dedicated section).

Description of UBAE statistical models

PD MODEL

The models customised by Moody’s for UBAE are differentiated by geographic area, in particular:

1. Europe and USA
2. MENA
3. ASIA

The models were selected on the basis of the predictive capacity of the macroeconomic variables, their explanatory power, the statistical performance and the validation tests carried out.

With these models it is possible to estimate the 12-month PDs connected to a future time horizon and based on macroeconomic scenarios.

Using the data provided by UBAE, Moody's has elaborated a ten-year historical series of CCAEDF or PIT PD (probability of default adjusted according to the economic cycle) and FSOEDF or TTCPD (probability of default calculated only on financial data) and, using EDF data, has modelled the Z index (standard indicator that measures the change in credit quality).

The macroeconomic variables capable of explaining the trend of the historical Z index are then selected. The regression model based on these macroeconomic variables enables us, on the basis of future estimates of the variables, to estimate the projections of the Z index. Based on the future Z index and the TTCPD, the projections of the PIT PD can be derived.

An SFA (Single Factor Analysis) is then conducted to select the macro variables with greater predictive power on the Z index (highest R-square, p value less than 5%, stationary).

More than 33,000 combinations of variables (2 and more variables) were tested and subsequently, following the application of the criteria of multivariate analysis (based on statistical principles), the selected models turned out to be about 7,500. A further exclusion was made taking into account the following factors: assumption of one variable per category, optimisation of model performance, greater significance in economic terms. At the end of these technical analyses the candidate models were 10 (4 for EU US, 4 for ASIA, 2 for MENA). For each region, the best performing model was selected. The level of R-squared (predictive ability) found for these models in the Moody's team's experience is in line with past projects and above the industry average for this type of model.

From the data processed at portfolio level we move on to data differentiated by score class or by individual counterparty using a logistic spreading approach.

Once the model has been constructed, on the basis of the individual PDPITs for each counterparty, it is possible to calculate the model predicted PD and, by "offset for scaled PD", to obtain the forward-looking PD including the qualitative component to be used for the purposes of the provisions.

LGD MODEL

The initial situation consists of **LGD PIT** data deriving from RiskCalc and differentiated by:

- type of counterparty (banks and corporate);
- type of debt seniority (unsecured term loan, secured term loan, unsecured revolving loan); from the mapping of Moody's debt seniority and UBAE's technical form, the "unsecured term loan" debt seniority emerged as prevalent, and was therefore used as a reference in the quantitative analyses conducted);
- geographic area (US, MENA, EUROZONE, ASIA).

From the estimate of the historical series of LGD PIT for the ten-year time horizon, a linear regression model is developed according to macroeconomic variables that ensure greater predictive capacity and that perform better from a statistical point of view.

From the single factor analysis, the macroeconomic variables differentiated by geographical area are selected and three models are constructed:

1. Europe and USA
2. MENA
3. ASIA

The predicted LGD values are calculated based on the model and estimates of the macroeconomic variables.

More than 60,000 variable combination models (with 2 and more variables) were tested and subsequently, following the application of multivariate analysis criteria (based on statistical principles), about 6,800 models were selected. A further exclusion was made taking into account the following factors: assumption of one variable per category, optimisation of model performance, greater significance in economic terms. At the end of these technical analyses, there were 13 candidate models (5 for EU US, 5 for ASIA, 3 for MENA). For each region, the model that performed best and passed the statistical validation tests was selected.

Methodological approach for applying the IFRS9 models in light of the Covid-19 crisis and pandemic for the purpose of the 2020 balance and financial statements

The current international crisis has had a particularly negative impact on the Bank's impairment data, due to the level of some macroeconomic variables (e.g. GDP, unemployment rate, etc) considered statistically predictive by quantitative models.

In order to ensure that ECL data is effectively applicable in the management context as a useful indication for the business units and for the decision-making bodies in risk assessment, we assume the Bank has initiated technical investigations with the supplier of the models for calculating the impairment pursuant to IFRS9 (Moody's) and the appropriate bodies and structures, with the aim of evaluating the application of corrective measures to the contingent economic context.

In particular, the new approach for the purposes of impairment is summarised below:

- PD forward-looking data (adjusted scenario) - application of a different weighting calibration to determine the combined scenario: 70% upside - 25% baseline - 5% downside (formerly 30% upside - 40% baseline - 30% downside), since at present a recovery of the international economy is more likely and a further deterioration is unlikely.
- LGD forward-looking data – adoption of data as of 31 December 2019 (before Covid crisis).

Banca UBAE carried out internal simulations taking into account the two scenarios described above (both adjusted and basic) and the December 2019 levels of the LGD compared with the levels of December 2020.

These analyses identified the adjusted PD scenario as the most reliable approach in light of the current international situation and the recovery expectations for 2021, in line with the forecasts expressed by the main rating agencies and accredited financial institutions (Central Banks, supranational financial institutions, etc).

As regards LGD data, 2020 data continue to settle at above average levels (especially for the Eurozone and USA geographical areas), therefore in order to avoid a double counting of the Covid effect, the Bank has deemed it appropriate to confirm the adoption of the 2019 values (pre-crisis).

For the purposes of the 2020 Budget, the Bank therefore decided to confirm the “adjusted” methodological approach, deeming it more corresponding to reflect the current situation; the effect was of lower provisions for approximately 2.7 million euros.

4.7 Contractual modifications following COVID-19

With regard to contractual modifications and possible accounting cancellation, the Bank has proceeded to assist a limited number of small and medium-sized enterprises which requested to postpone the maturity of certain financial transactions in the context of the provisions of the “Decreto Cura Italia” of March 2020 and subsequent additions/modifications. This intervention had an insignificant impact on the 2020 budget. As of 31 December 2020, no derecognition has been made.

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:

- 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);
- 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:

- commitments with banks in various technical forms;
- commitments with customers in various technical forms;
- 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:

$$\mathbf{ECL = EAD \times PD \times LGD}$$

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 criteria

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 criteria

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 criteria

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) Recognition 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.

13 – 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.

14 – Other information

a) Fair value

Fair value is defined as the amount for which an asset may be traded, or a liability settled, in an unconstrained transaction between informed and mutually independent parties.

The methods adopted by the Bank for quantifying fair value may be grouped into three broad categories or levels:

1. Level 1 - prices listed on active markets (mark-to-market), where valuation is based on the price commanded by the same instrument, unmodified and un-recombined, as listed on an active market. A market is considered active when its listed prices reflect normal market conditions, are regularly and readily available through stock exchanges, listing services and/or brokers, and represent actual and regular market operations.

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

3. Level 3 – methods based on unobservable market parameters (mark-to-model).

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

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

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

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

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

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

c) For derivatives, fair value is represented by:

- the quoted price on the last trading day of the relevant period if the instrument is traded on a regulated market;
- if the instrument is an over-the-counter (OTC) derivative, its market value on the relevant reference date as determined for the type of derivative being valued, i.e.:
 - interest rate contracts: the "replacement cost" obtained by calculating the present value of balances on the scheduled settlement dates between cash flows generated at contract rates and expected cash flows generated at the (objectively determined) market rates current at the end of the period for an equivalent residual life;
 - forex derivatives: the forward Forex rates applying at the reference date for maturities equivalent to those of the transactions being valued;
 - derivatives on securities, commodities and precious metals: the forward prices applying at the reference date for maturities equivalent to those of the underlying assets.

15- 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.

16 - 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

No data to report.

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 31.12.2020			TOTAL 31.12.2019		
		L1	L2	L3	L1	L2	L3
1	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT	5,086	83	4,414	9,080	1,188	
A)	FINANCIAL ASSETS HELD FOR TRADING	5,086	83	4,414	9,080	1,188	
B)	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE						
C)	OTHER FINANCIAL ASSETS WITH MANDATORY VALUATION AT FAIR VALUE						
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY	959	2,794	56	990	3,409	3,867
3	DERIVATIVES FOR HEDGING						
4	TANGIBLE ASSETS						
5	INTANGIBLE ASSETS						
	TOTAL	6,045	2,877	4,470	10,070	4,597	3,867
1	FINANCIAL LIABILITIES HELD FOR TRADING		4,078			2,435	
2	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE						
3	DERIVATIVES FOR HEDGING						
	TOTAL		4,078			2,435	

Legend:

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

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

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

FINANCIAL ASSETS MEASURED AT FAIR VALUE									DERIVATIVES FOR HEDGING	TANGIBLE ASSETS	INTANGIBLE ASSETS
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 VALUATION AT FAIR VALUE	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY							
1	OPENING BALANCE				3,867						
2	INCREASES	4,414									
2.1	PURCHASES	4,414									
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										
3	DECREASES				3,811						
3.1	SALES										
3.2	REFUNDS										
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				3,811						
4	CLOSING BALANCE	4,414			56						

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		31.12.2020				31.12.2019			
		VB	L 1	L 2	L 3	VB	L 1	L 2	L 3
1	FINANCIAL ASSETS VALUED AT AMORTISED COST	1,489,982	590,484	132,668	789,080	1,736,047	405,334	260,779	1,070,121
2	TANGIBLE ASSETS HELD FOR INVESTMENT PURPOSES								
3	NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE								
	TOTAL	1,489,982	590,484	132,668	789,080	1,736,047	405,334	260,779	1,070,121
1	FINANCIAL LIABILITIES VALUED AT AMORTISED COST	1,451,776			1,451,776	1,835,175			1,833,861
2	LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE								
	TOTAL	1,451,776			1,451,776	1,835,175			1,833,861

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 31.12.2020	TOTAL 31.12.2019
A) CASH	725	559
B) FREE DEPOSITS WITH CENTRAL BANKS	128,752	298,796
TOTAL	129,477	299,355

The item b) contains an overnight deposit made at the Banca d'Italia of EUR 128 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 31.12.2020			TOTAL 31.12.2019		
		L1	L2	L3	L1	L2	L3
A	NON-DERIVATIVE ASSETS						
1	DEBT SECURITIES	4,158			9,080		
	1.1 STRUCTURED SECURITIES				3,475		
	1.2 OTHER DEBT SECURITIES	4,158			5,605		
2	EQUITY SECURITIES	928		4,414			
3	HOLDINGS IN UCI						
4	LOANS						
	4.1 REPO						
	4.2 OTHER DEBT SECURITIES						
TOTAL (A)		5,086		4,414	9,080		
B	DERIVATIVES:						
1	FINANCIAL DERIVATIVES		83			1,188	
	1.1 FOR TRADING		83			1,188	
	1.2 CONNECTED AT FAIR VALUE OPTION						
	1.3 OTHER						
2	CREDIT DERIVATIVES						
	2.1 FOR TRADING						
	2.2 CONNECTED AT FAIR VALUE OPTION						
	2.3 OTHER						
TOTAL (B)			83			1,188	
TOTAL (A+B)		5,086	83	4,414	9,080	1,188	

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/VALUES		TOTAL 31.12.2020	TOTAL 31.12.2019
A	ASSETS FOR CASH		
1	DEBT SECURITIES	4,158	9,080
A)	CENTRAL BANKS		
B)	PUBLIC ADMINISTRATIONS	838	
C)	BANKS	510	4,491
D)	OTHER FINANCIAL COMPANIES - OF WHICH: INSURANCE FIRMS	1,552	1,144
E)	NON-FINANCIAL COMPANIES	1,258	3,445
2	CAPITAL SECURITIES	5,342	
A)	BANKS		
B)	OTHER FINANCIAL COMPANIES OF WHICH: INSURANCE FIRMS		
C)	NON-FINANCIAL COMPANIES	5,342	
D)	OTHER ISSUERS		
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)		9,500	9,080
B	DERIVATIVE INSTRUMENTS	83	1,187
A)	CENTRAL COUNTERPARTIES		
B)	OTHERS	83	1,187
TOTAL (B)		83	1,187
TOTAL (A+B)		9,583	10,267

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 (31.12.2020)			TOTAL (31.12.2019)		
		L 1	L 2	L 3	L 1	L 2	L 3
1	DEBT SECURITIES	959	2,794		990	3,409	1,269
	1.1 STRUCTURED SECURITIES						
	1.2 OTHER DEBT SECURITIES	959	2,794		990	3,409	1,269
2	CAPITAL SECURITIES			56			2,598
3	FINANCING						
TOTAL		959	2,794	56	990	3,409	3,867

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

ITEMS/VALUES		TOTAL 31.12.2020	TOTAL 31.12.2019
1	DEBT SECURITIES	3,753	5,668
	A) CENTRAL BANKS		
	B) PUBLIC ADMINISTRATIONS	2,794	3,409
	C) BANKS		
	D) OTHER FINANCIAL COMPANIES OF WHICH: - INSURANCE FIRMS		
	E) NON-FINANCIAL COMPANIES	959	2,259
2	CAPITAL SECURITIES	56	2,598
	A) BANKS		
	B) OTHER ISSUERS:	56	2,598
	- OTHER FINANCIAL FIRMS OF WHICH: INSURANCE FIRMS		
	- NON-FINANCIAL COMPANIES	56	2,598
	- 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		3,809	8,266

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			TOTAL PARTIAL WRITE-OFFS (*)
	FIRST STAGE	SECOND STAGE	THIRD STAGE	FIRST STAGE	SECOND STAGE	THIRD STAGE	
DEBT SECURITIES			2,917	1,926	(123)	(967)	
FINANCINGS							
TOTAL (31.12.20)			2,917	1,926	(123)	(967)	
TOTAL (31.12.19)			3,576	5,258	(167)	(2,999)	
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 2,9 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 2 million euros.

SECTION 4 – FINANCIAL ASSETS AT AMORTISED COST – ITEM 40

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

TYPES OF OPERATIONS/VALUE	TOTAL (31.12.20)						TOTAL (31.12.19)					
	BALANCE SHEET VALUE			FAIR VALUE			BALANCE SHEET VALUE			FAIR VALUE		
	1ST &2ND STAGES	3RD STAGE	OF WHICH: IMPAIRED, ACQUIRED/ ORIGINATED	L1	L2	L3	1ST &2ND STAGES	3RD STAGE	OF WHICH: IMPAIRED, ACQUIRED/ ORIGINATED	L1	L2	L3
A. LOANS TO CENTRAL BANKS												
1. DEPOSITS AT MATURITY												
2. MANDATORY RESERVE												
3. REPURCHASE AGREEMENTS												
4. OTHER												
B. LOANS TO BANKS	568,079	164			28,937	538,010	779,263	728			38,822	741,169
1. FINANCINGS	533,546	164				533,710	741,329	728				742,057
1.1 CURRENT ACCOUNTS AND DEPOSITS	88,458	164				88,622	128,133	362				128,495
1.2. DEPOSITS AT MATURITY	279,060					279,060	246,070					246,070
1.3. OTHER FINANCINGS: - ACTIVE REPURCHASE AGREE'TS - FINANCIAL LEASING - OTHER	166,028					166,028	367,126	366				367,492
2. DEBT SECURITIES	34,533				28,937	4,300	37,934				38,822	
2.1 STRUCTURED SECURITIES												
2.2 OTHER DEBT SECURITIES	34,533				28,937	4,300	37,934				38,822	
TOTAL	568,079	164			28,937	542,310	779,263	728			38,822	984,262

Legend:

L1= Livel 1

L2= Livel 2

L3= Livel 3

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

TYPES OF OPERATIONS/VALUES	TOTAL (31.12.20)				TOTAL (31.12.19)							
	BALANCE SHEET VALUE		FAIR VALUE		BALANCE SHEET VALUE		FAIR VALUE					
	FIRST AND SECOND STAGE	THIRD STAGE	OF WHICH IMPAIRED/ ACQUIRED/ ORIGINED	L1	L2	L3	FIRST AND SECOND STAGE	THIRD STAGE	OF WHICH IMPAIRED/ ACQUIRED/ ORIGINED	L1	L2	L3
FINANCINGS	227,851	19,111				246,962	293,847	34,216				328,063
1.1. CURRENT ACCOUNTS	687	7,222				7,909	767	12,056				12,823
1.2. ACTIVE REPURCHASE AGREEMENTS												
1.3. MORTGAGES	9,722	113				9,835	9,791	110				9,901
1.4. CREDIT CARDS,PERSONAL LOANS AND EMPLOYEE	3,014					3,014	2,860					2,860
1.5. FINANCIAL LEASING												
1.6. FACTORING	49,877					49,877	49,356					49,356
1.7. OTHER FINANCINGS	164,551	11,776				176,327	231,073	22,050				253,123
DEBT SECURITIES	667,937	6,840		590,484	103,731	4,108	627,992			405,334	221,957	
1.1. STRUCTURED SECURITIES												
1.2. OTHER DEBT SECURITIES	667,937	6,840		590,484	103,731	4,108	627,992			405,334	221,957	
TOTAL	895,788	25,951		590,484	103,731	251,070	921,839	34,216		405,334	221,957	328,063

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

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

TYPES OF OPERATIONS/VALUES		TOTAL (31.12.20)			TOTAL (31.12.19)		
		FIRST AND SECOND STAGES	THIRD STAGE	OF WHICH: IMPAIRED, ACQUIRED/ ORIGINATED	FIRST AND SECOND STAGES	THIRD STAGE	OF WHICH: IMPAIRED, ACQUIRED/ ORIGINATED
1	DEBT SECURITIES	667,937	6,840		627,992		
	A) PUBLIC ADMINISTRATIONS	667,937	6,840		627,992		
	B) OTHER FINANCIAL COMPANIES OF WHICH: INSURANCE FIRMS						
	C) NON-FINANCIAL COMPANIES						
2	FINANCINGS	227,851	19,111		293,847	34,216	
	A) PUBLIC ADMINISTRATIONS	14,179	7,138			9,993	
	B) OTHER FINANCIAL COMPANIES OF WHICH: INSURANCE FIRMS	7			1,421		
	C) NON-FINANCIAL COMPANIES	200,197	11,859		278,949	24,111	
	D) FAMILIES	13,468	114		13,477	112	
TOTAL		895,788	25,951		921,839	34,216	

4.4a Financing assets valued at amortized cost subject to Covid-19 support measures: gross value and overall value adjustments

	GROSS VALUE			OVERALL VALUE ADJUSTMENTS			TOTAL PARTIAL WRITE-OFFS (*)	
	FIRST STAGE		SECOND STAGE	THIRD STAGE	FIRST STAGE	SECOND STAGE		THIRD STAGE
		OF WHICH, INSTRUMENTS WITH LOW CREDIT RISK						
1. FINANCING SUBJECT TO CONCESSIONS COMPLIANT WITH GLS	2,485				(2)			
2. FINANCING SUBJECT TO OTHER FOREBEARANCE MEASURES								
3. NEW FINANCING PROVISIONS								
TOTAL (31.12.2020)	2,485				(2)			
TOTAL (31.12.2019)								

(*) Value to be used for information purposes

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

	GROSS VALUE		TOTAL VALUE ADJUSTMENTS			TOTAL PARTIAL WRITE-OFFS (*)
	FIRST STAGE	SECOND STAGE	THIRD STAGE	FIRST STAGE	SECOND STAGE	THIRD STAGE
DEBT SECURITIES	672,971	672,971	46,556	(1,494)	(520)	(39,716)
FINANCINGS	670,171	98,952	73,688	(2,473)	(5,253)	(54,413)
TOTAL	1,343,142	672,971	120,244	(3,967)	(5,773)	(94,129)
TOTAL (31.12.2019)	1,612,541	618,398	122,008	(6,261)	(16,416)	(87,063)
OF WHICH: IMPAIRED, ACQUIRED/ORIGINATED						278

(*) 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 (31.12.2020)	TOTAL (31.12.2019)
1	PROPRIETARY ASSETS	21,646	22,483
	A) LAND	8,187	8,187
	B) BUILDINGS	12,710	13,410
	C) FURNISHINGS	94	112
	D) ELECTRIC/ELECTRONIC EQUIPMENT	1	2
	E) OTHER ITEMS	654	772
2	RIGHT OF USE ACQUIRED THROUGH LEASING	172	287
	A) LAND		
	B) BUILDINGS	156	252
	C) FURNISHINGS		
	D) ELECTRIC/ELECTRONIC EQUIPMENT		
	E) OTHER ITEMS	16	35
TOTAL		21,818	22,770
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	23,678	1,807	2,377	3,474	39,523
	A1 REDUCTION OF TOTAL NET VALUES		10,016	1,693	2,376	2,668	16,753
	A2 NET OPENING BALANCE	8,187	13,662	114	1	806	22,770
B	INCREASES:		120	2		92	214
	B1 PURCHASES		12	2		92	
	B2 EXPENSES FOR CAPITALISED IMPROVEMENTS						
	B3 WRITE-BACKS						
	B4 POSITIVE VARIATIONS OF FAIR VALUE ATTRIBUTED TO:						
	A) NET ASSETS						
	B) INCOME STATEMENT						
	B5 POSITIVE DIFFERENCES OF EXCHANGE RATES						
	B6 TRANSFERS FROM PROPERTIES HELD FOR INVESTMENT PURPOSES						
	B7 OTHER VARIATIONS		108				
C	DECREASES:		916	20	1	229	1,166
	C1 SALES						
	C2 AMORTISATIONS		733	20	1	209	
	C3 VALUE ADJUSTMENTS FROM DETERIORATION ATTRIBUTED TO:						
	A) NET ASSETS						
	B) INCOME STATEMENT						
	C4 NEGATIVE VARIATIONS OF FAIR VALUE ATTRIBUTED TO:						
	A) NET ASSETS						
	B) INCOME STATEMENT						
	C5 NEGATIVE DIFFERENCES OF EXCHANGE RATES						
	C6 TRANSFERS TO:						
	A) TANGIBLE ASSETS HELD FOR INVESTMENT PURPOSES						
	B) NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE						
	C7 OTHER VARIATIONS		183			20	
D	NET CLOSING BALANCE	8,187	12,866	96		669	21,818
	D1 REDUCTION OF TOTAL NET VALUES		10,932	1,713	2,377	2,897	17,919
	D2 GROSS CLOSING BALANCE	8,187	23,798	1,809	2,377	3,566	39,737
E	VALUATION 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

			TOTAL (31.12.2020)		TOTAL (31.12.2019)	
			LIMITED LIFE	UNLIMITED LIFE	LIMITED LIFE	UNLIMITED LIFE
A1	GOODWILL					
A2	OTHER INTANGIBLE ASSETS		264		127	
	A2.1	ASSETS VALUED AT COST	264		127	
		A) INTANGIBLE ASSETS DEVELOPED IN-HOUSE				
		B) OTHER ASSETS	264		127	
	A2.2	ASSETS ASSESSED AT FAIR VALUE				
		A) INTANGIBLE ASSETS DEVELOPED IN-HOUSE				
		B) OTHER ASSETS				
TOTAL			264		127	

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			127				127
	A1	REDUCTION OF TOTAL NET VALUE						
	A2	NET OPENING BALANCE		127				127
B	INCREASES			376				376
	B1	PURCHASES		376				376
	B2	INCREASE OF INTANGIBLE ASSETS INTERNALLY						
	B3	VALUE ADJUSTMENTS						
	B4	POSITIVE VARIATIONS OF FAIR VALUE:						
		- TO NET ASSETS						
		- TO INCOME STATEMENT						
	B5	POSITIVE DIFFERENCES IN EXCHANGE RATES						
	B6	OTHER VARIATIONS						
C	DECREASES			239				239
	C1	SALES						
	C2	VALUE ADJUSTMENTS		239				239
		- AMORTISATIONS		239				239
		- WRITE-DOWNS:						
		+ NET ASSETS						
		+ INCOME STATEMENT						
	C3	NEGATIVE VARIATIONS OF FAIR VALUE:						
		- TO NET ASSETS						
		- TO INCOME STATEMENT						
	C4	TRANSFERS TO NON-CURRENT ASSETS HELD FOR SALE						
	C5	NEGATIVE DIFFERENCES IN EXCHANGE RATES						
	C6	OTHER VARIATIONS						
	D	NET CLOSING BALANCE			264			
D1		TOTAL NET VALUE ADJUSTMENTS						
E	GROSS CLOSING BALANCE			264				264
F	VALUATION AT COST			264				264

Legend

DEF= definite duration

Other intangible assets as of 31 December 2020 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 (31.12.2020)	TOTAL (31.12.2019)
TOTAL		8,019	8,019
INCOME STATEMENT		5,385	5,385
1	TAX LOSSES		
2	LOAN LOSSES	4,253	4,253
3	OTHER	1,132	1,132
SHAREHOLDERS' EQUITY		2,634	2,634
4	VALUATION RESERVES	2,634	2,634
5	OTHER		

Deferred tax assets refer to approximately EUR 4.2 million that are not based on future profitability; deferred tax assets of approximately EUR 3.6 million that are based on future profitability and derive from temporary differences; of approximately EUR 0.2 million are based on future profitability and do not derive from temporary differences.

In addition, as illustrated in the Report on Operations, the Bank has prudentially not recognised deferred tax assets of approximately € 35 million.

10.2 Deferred Tax liabilities: breakdown

		TOTAL (31.12.20)	TOTAL (31.12.19)
TOTAL		412	521
1	INCOME STATEMENT		
2	SHAREHOLDERS' EQUITY	412	521
	VALUATION RESERVES	412	521
	OTHER		

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

		TOTAL (31.12.2020)	TOTAL (31.12.2019)
1	INITIAL AMOUNT	2,633	15,477
2	INCREASES		
2.1	DEFERRED TAX ASSETS RECOGNISED 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		
3	DECREASES		12,844
3.1	DEFERRED TAX ASSETS CANCELLED DURING THE YEAR		
	A) REVERSALS		
	B) UNRECOVERABLE WRITE-OFFS		
	C) DUE TO CHANGES IN ACCOUNTING CRITERIA		
	D) OTHER		803
3.2	REDUCTION IN TAX RATES		
3.3	OTHER DECREASES		12,041
4	FINAL AMOUNT	2,633	2,633

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 (31.12.2020)	TOTAL (31.12.2019)
1	GOLD, SILVER AND PRECIOUS METALS		
2	ACCRUED INCOME		
3	IMPROVEMENTS TO ASSETS PERTAINING TO THIRD PARTIES		
4	OTHER (ILLIQUID ITEMS, AS YET UNPROCESSED AMOUNTS)	16,226	10,771
TOTAL		16,226	10,771

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 (31.12.2020)				TOTAL (31.12.2019)			
		BALANCE VALUE	FAIR VALUE			BALANCE VALUE	FAIR VALUE		
			L1	L2	L3		L1	L2	L3
1	DEBTS TOWARDS CENTRAL BANKS	263,667				264,231			
2	DEBTS TOWARDS BANKS	1,035,920				1,348,562			
	2.1 CURRENT ACCOUNTS AND DEPOSITS AT SIGHT	196,597				196,665			
	2.2 DEPOSITS AT MATURITY	839,323				1,051,897			
	2.3 FINANCING OPERATIONS					100,000			
	2.3.1 REPURCHASE AGREEMENTS								
	2.3.2 OTHERS					100,000			
	2.4 PAYABLES FOR REPURCHASE COMMITMENTS OF OWN EQUITY INSTRUMENTS								
	2.5 LEASE FOR LIABILITIES								
	2.6 OTHER PAYABLES								
TOTAL		1,299,587			1,299,587	1,612,793			1,612,793

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 (31.12.2020)				TOTAL (31.12.2019)			
		VB	FAIR VALUE			VB	FAIR VALUE		
			L1	L2	L3		L1	L2	L3
1	CURRENT ACCOUNTS AND DEPOSITS AT SIGHT	136,018				115,962			
2	DEPOSITS AT MATURITY	13,927				104,017			
3	FINANCING OPERATIONS								
	3.1 REPURCHASE AGREEMENTS								
	3.2 OTHERS								
4	PAYABLES FOR REPURCHASE COMMITMENTS OF OWN EQUITY INSTRUMENTS								
5	LEASE FOR LIABILITIES	183				290			
6	OTHER PAYABLES	2,061				2,112			
TOTAL		152,189			152,189	222,091			222,381

Legend:

VB= Balance value

L1= Level 1

L2 = Level 2

L3= Level 3

SECTION 2 – ACCOUNTS PAYABLE TO CUSTOMERS - ITEM 20

2.1 Financial liabilities held for trading: breakdown by type

TYPE OF OPERATIONS/VALUES		31.12.2020					31.12.2019				
		NV	FV			FV*	VN	FV			FV*
			L1	L2	L3			L1	L2	L3	
A	CASH LIABILITIES										
	1 ACCOUNTS PAYABLE TO BANKS										
	2 ACCOUNTS PAYABLE TO CUSTOMERS										
	3 DEBT SECURITIES										
	3.1 BONDS										
	3.1.1 STRUCTURED										
	3.1.2 OTHER										
	3.2 OTHER SECURITIES										
	3.2.1 STRUCTURED										
	3.2.2 OTHER										
TOTAL A											
B	DERIVATIVES										
	1 ACCOUNTS PAYABLE TO BANKS			4,078				2,435			
	1.1 HELD FOR TRADING			4,078				2,435			
	1.2 LINKED TO FAIR VALUE OPTION										
	1.3 OTHER										
	2 CREDIT DERIVATIVES										
	2.1 HELD FOR TRADING										
	2.2 LINKED TO FAIR VALUE OPTION										
	2.3 OTHER										
TOTAL B				4,078				2,435			
TOTAL (A+B)				4,078				2,435			

Legend:

NV= nominal or notional value

L1= Level 1

L2 = Level 2

L3= Level3

FV* = fair value as reckoned by excluding variations in value due to changes intervened in the issuer'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 (31.12.2020)	TOTAL (31.12.2019)
1	ACCRUED LIABILITIES		
2	OTHER LIABILITIES (SUMS AVAILABLE TO CUSTOMERS, ILLIQUID ITEMS)	25,562	17,520
TOTAL		25,562	17,520

SECTION 9 – EMPLOYEE SEVERANCE BENEFITS - ITEM 90

9.1 Staff severance fund: Yearly variations

		31.12.2020	31.12.2019
A	OPENING BALANCE	1,086	1,104
B	INCREASES	13	37
	B.1 PROVISIONING FOR THE YEAR	8	10
	B.2 OTHER INCREASES	5	27
C	DECREASES	248	55
	C.1 SEVERANCE PAYMENTS	248	55
	C.2 OTHER DECREASES		
D	CLOSING BALANCE	851	1,086
TOTAL		851	1,086

9.1.1 Rates

ANNUAL TECHNICAL	0.22%
ANNUAL INFLATION RATE	0.80%
ANNUAL FREQUENCIES OF TURNOVER ADVANCES	4.00%
ANNUAL FREQUENCIES OF ADVANCES ON SEVERANCE FUND	3.00%
GROSS ANNUAL SSF	2.10%

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 0.80%;
- 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 (31.12.2020)	TOTAL (31.12.2019)
OPENING BALANCE	1,086	1,104
REALIGNMENT		
PENSION COST		
FINANCIAL CHARGES	8	10
BENIFITS PAID	(248)	(55)
TRANSFERS		
EXPECTED LIABILITIES	846	1,059
ACTUARIAL LOSS	5	27
CLOSING BALANCE	851	1,086

9.2 Other information

	TOTAL (31.12.2020)
PROVISIONING FOR THE YEAR	13
PENSION COSTS	
FINANCIAL CHARGES	8
ACTUARIAL LOSS	5
OTHER	

SECTION 10 – PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 Provisions for risks and charges: breakdown

ITEMS/VALUES	TOTAL (31.12.2020)	TOTAL (31.12.2019)
1 FUNDS FOR CREDIT RISK RELATING TO COMMITMENTS AND FINANCIAL GUARANTEES ISSUED	5,013	5,108
2 FUNDS ON OTHER COMMITMENTS AND OTHER GUARANTEES ISSUED		
3 COMPANY RETIREMENT FUNDS		
4 OTHER PROVISIONS FOR RISKS AND CHARGES	14,844	1,308
4.1 LEGAL AND TAX DISPUTES	500	690
4.2 PERSONNEL COSTS	7,911	618
4.3 OTHERS	6,433	
TOTAL	19,857	6,416

At 31 December 2020, the item "Provisions for risks and charges" includes specific and extraordinary provisions (€ 7.3 million approx.) to cover expected future charges following the initiation of collective proceedings, on a voluntary basis, prudential provisions relating to a lawsuit against the Inland Revenue, whose judgement is still awaited by the Court of Cassation (€ 3.2 million), as well as potential legal risks that may arise from the existing portfolio of international guarantees (€ 2.7 million).

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	5,108		1,308	6,416
B	B. INCREASES		7,280	6,446	13,726
	B1 ALLOCATION FOR THE YEAR		7,280	6,446	
	B2 CHANGES DUE TO THE PASSAGE OF TIME				
	B3 VARIATIONS DUE TO CHANGES IN THE DISCOUNT RATE				
	B4 OTHER CHANGES				
C	DECREASES	95		190	
	C1 USE DURING THE YEAR	95		190	
	C2 VARIATIONS DUE TO CHANGES IN THE DISCOUNT RATE				
	C3 OTHER CHANGES				
D	LOSING BALANCE	5,013	7,280	7,564	19,857

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	3	64		67
FINANCIAL GUARANTEES ISSUED	1,129	613	3,204	4,946
TOTAL	1,132	677	3,204	5,013

10.6 Provisions for risks and charges – other provisions

	TOTAL (31.12.2020)	TOTAL (31.12.2019)
PROVISION FOR HOLIDAYS NOT TAKEN	631	618
LEGAL DISPUTES	500	690
OTHER	6,433	
TOTAL	7,564	1,308

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

		31.12.2020	31.12.2019
1	SHARE CAPITAL	261,186	159,861
2	SHARE PREMIUM ACCOUNT	870	870
3	RESERVES	(20,103)	107,366
4	CAPITAL INSTRUMENTS		
5	(TREASURY STOCK)		
6	VALUATION RESERVES	617	834
7	PROFIT (LOSS) FOR THE YEAR	(57,767)	(26,144)
TOTAL		184,803	242,787

12.2 Share capital: Yearly variations in number of shares

			COMMON	OTHER
A	SHARES AT START OF YEAR		1,453,280	
		- FULLY PAID UP	1,453,280	
		- NOT FULLY PAID UP		
	A1	TREASURY STOCK		
	A2	A.2 SHARES OUTSTANDING: OPENING BALANCE	1,453,280	
B	INCREASES		921,137	
	B1	NEW SHARE ISSUES		
		RIGHTS ISSUES:		
		- COMBINATION OF COMPANIES		
		- CONVERSION OF BONDS		
		- EXERCISE OF WARRANTS		
		- OTHERS		
		BONUS ISSUES:		
		- FOR EMPLOYEES		
		- FOR DIRECTORS		
		- OTHER	921,137	
	B2	SALE OF TREASURY STOCK		
	B3	OTHER INCREASES		
C	DECREASES			
	C1	CANCELLATIONS		
	C2	PURCHASE OF TREASURY STOCK		
	C3	DISPOSAL OF COMPANIES		
	C4	OTHER DECREASES		
D	SHARES OUTSTANDING: FISCAL CLOSING BALANCE		2,374,417	
	D1	TREASURY STOCK(+)		
	D2	SHARES AT END OF YEAR	2,374,417	
		- FULLY PAID UP	2,374,417	
		- NOT FULLY PAID UP		

Each of the Bank's 2,374,147 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	261,186			
CAPITAL RESERVES	870			
SHARE PREMIUM ACCOUNT	870	A,B,C	870	
RESERVES	(20,103)			
A) LEGAL RESERVE	13,494	B	13,494	
B) EXTRAORDINARY RESERVE		A,B,C		
C) FTA/IFRS RESERVES	(7,758)			
D) RETAINED PROFIT IFRS 2005	305			
E) RETAINED PROFIT	(26,144)	A,B,C		
OTHER RESERVES				
TOTAL	(19,233)			
AMOUNT NOT ALLOCATABLE	(20,103)			
AMOUNT ALLOCATABLE	870			

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 (31.12.2020)	TOTAL (31.12.2019)
		(FIRST STAGE)	(SECOND STAGE)	(THIRD STAGE)		
COMMITMENTS TO DISBURSE FUNDS		5,499,714	308,068	5,478	5,813,260	7,501,833
A)	CENTRAL BANKS		15,000		15,000	86,500
B)	PUBLIC ADMINISTRATIONS	25,000			25,000	
C)	BANKS	5,021,585	173,622		5,195,207	6,439,974
D)	OTHER FINANCIAL COMPANIES	117,716		1	117,717	221,579
E)	NON-FINANCIAL COMPANIES	360,413	118,077	5,477	483,967	752,348
F)	FAMILIES		1,369		1,369	1,432
FINANCIAL GUARANTEES ISSUED		442,816	94,259	12,444	549,519	690,486
A)	CENTRAL BANKS	18,375			18,375	25,484
B)	PUBLIC ADMINISTRATIONS					
C)	BANKS	287,840	28,132		315,972	417,058
D)	OTHER FINANCIAL COMPANIES					
E)	NON-FINANCIAL COMPANIES	136,601	66,127	12,444	215,172	247,944
F)	FAMILIES					

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

PORTFOLIOS		AMOUNT (31.12.20)	AMOUNT (31.12.19)
1	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT		
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY		
3	FINANCIAL ASSETS VALUED AT AMORTISED COST	509	511
4	TANGIBLE ASSETS		
	OF WHICH: TANGIBLE ASSETS THAT CONSTITUTE INVENTORIES		

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

4. Asset management and brokerage services

SERVICES		AMOUNT
1)	TRADING IN FINANCIAL INSTRUMENTS ON BEHALF OF THIRD PARTIES	
	A) PURCHASES	
	1. REGULATED	
	2. UNREGULATED	
	B) SALES	
	1. REGULATED	
	2. UNREGULATED	
2)	MANAGING INDIVIDUAL PORTFOLIOS	
3)	CUSTODY AND ADMINISTRATION OF SECURITIES	798,066
	A) THIRD-PARTY SECURITIES ON DEPOSIT: CONNECTED WITH ACTING AS CUSTODIAN BANK (EXCLUDING ASSET MANAGEMENT)	
	1. SECURITIES ISSUED BY BANK THAT DRAWS UP BALANCE SHEET	
	2. OTHER SECURITIES	
	B) THIRD-PARTY SECURITIES ON DEPOSIT (EXCLUDING ASSET MANAGEMENT): OTHER	26,983
	1. SECURITIES ISSUED BY BANK THAT DRAWS UP BALANCE SHEET	14,379
	2. OTHER SECURITIES	12,604
	C) THIRD-PARTY SECURITIES HELD BY THIRD PARTIES	11,556
	D) OWN SECURITIES HELD BY THIRD PARTIES	759,527
4)	OTHER OPERATIONS	

Note that the Bank's memorandum accounts include third-party funds for a countervalue of EUR 3,6 billion (EUR 3,2 billion as of 31 December 2020) 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. The Bank has no ownership or immediate availability of these amounts. A number of legal proceedings are pending in the US and Luxembourg jurisdictions, the outcome of which is currently unforeseeable. There are, however, no signs to date of adverse outcomes that involve liabilities for the Bank.

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 (31.12.2020)	TOTAL (31.12.2019)
1	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT:	144			144	71
	1.1 FINANCIAL ASSETS HELD FOR TRADING	144			144	71
	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	308			308	353
3	FINANCIAL ASSETS VALUED AT AMORTISED COST:	9,457	15,895		25,352	42,844
	3.1 CREDITS TOWARDS BANKS	2,063	7,338		9,401	19,664
	3.2 CREDITS TOWARDS CUSTOMERS	7,394	8,557		15,951	23,180
4	DERIVATIVES FOR HEDGING OPERATIONS					
5	OTHER ASSETS					0
6	FINANCIAL LIABILITIES					
TOTAL		9,909	15,895		25,804	43,268
OF WHICH: INTEREST INCOME ON IMPAIRED FINANCIAL ASSETS		1,763	658		2,421	1,010
OF WHICH: INTEREST INCOME ON FINANCIAL LEASING						

Interest relating to customers' impaired assets amounted to Euro 2.4 million (previously Euro 1 million the year ended 31/12/2019).

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 (31.12.2020)	TOTAL (31.12.2019)
1	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT:	86			86	53
	1.1 FINANCIAL ASSETS HELD FOR TRADING	86			86	53
	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					123
3	FINANCIAL ASSETS VALUED AT AMORTISED COST:	5,339	10,287		15,626	31,708
	3.1 CREDITS TOWARDS BANKS	268	5,407		5,675	15,755
	3.2 CREDITS TOWARDS CUSTOMERS	5,071	4,880		9,951	15,953
4	DERIVATIVES FOR HEDGING OPERATIONS					
5	OTHER ASSETS					
6	FINANCIAL LIABILITIES					
TOTAL		5,425	10,287		15,712	31,884
OF WHICH: INTEREST INCOME ON IMPAIRED FINANCIAL ASSETS		1,763				
OF WHICH: INTEREST INCOME ON FINANCIAL LEASING						

1.3 Interest charges and similar expenses: breakdown

ITEMS/TECHNICAL FORMS		DEBTS	SECURITIES	OTHER OPERATIONS	TOTAL (31.12.2020)	TOTAL (31.12.2019)
1	FINANCIAL LIABILITIES VALUED AT AMORTISED COST	13,816			13,816	28,551
	1.1 DEBTS TOWARDS CENTRAL BANKS	1,013			1,013	2,153
	1.2 DEBTS TOWARDS OTHER BANKS	10,847			10,847	25,158
	1.3 DEBTS TOWARDS CUSTOMERS	1,956			1,956	1,240
	1.4 SECURITIES ISSUED					
2	FINANCIAL LIABILITIES FOR TRADING					
3	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE					
4	OTHER LIABILITIES AND FUNDS					
5	HEDGING DERIVATIVES					
6	FINANCIAL ASSETS				68	13
TOTAL		13,816			13,884	28,564
OF WHICH: INTEREST EXPENSE RELATING TO LEASE LIABILITIES		3			3	5

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 (31.12.2020)	TOTAL (31.12.2019)
1	FINANCIAL LIABILITIES VALUED AT AMORTISED COST	10,827			10,827	20,800
	1.1 DEBTS TOWARDS CENTRAL BANKS	162			162	724
	1.2 DEBTS TOWARDS OTHER BANKS	8,718			8,718	18,850
	1.3 DEBTS TOWARDS CUSTOMERS	1,947			1,947	1,226
	1.4 SECURITIES ISSUED					
2	FINANCIAL LIABILITIES FOR TRADING					
3	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE					
4	OTHER LIABILITIES AND FUNDS					
5	HEDGING DERIVATIVES					
6	FINANCIAL ASSETS					
TOTAL		10,827			10,827	20,800
OF WHICH: INTEREST EXPENSE RELATING TO LEASE LIABILITIES						

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

2.1 Commission income: breakdown

TYPE OF SERVICE/VALUES		TOTAL (31.12.2020)	TOTAL (31.12.2019)
A)	GUARANTEES ISSUED	11,845	19,816
B)	CREDIT DERIVATIVES		
C)	MANAGEMENT, BROKERAGE AND CONSULTANCY SERVICES:	245	770
1	TRADING FINANCIAL INSTRUMENTS		
2	TRADING FOREIGN CURRENCY	245	770
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 INVESTMENT		
	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	7	10
E)	SERVICING FOR SECURITISATION TRANSACTIONS		
F)	SERVICING FOR FACTORING OPERATIONS	543	307
G)	EXERCISE OF TAX COLLECTION AND RECEIVERS		
H)	MANAGING MULTILATERAL TRADING SYSTEMS		
I)	KEEPING AND MANAGING CURRENT ACCOUNTS	14	15
J)	OTHER SERVICES	985	1,663
TOTAL		13,639	22,581

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 (31.12.2020)	TOTAL (31.12.2019)
A)	GUARANTEES RECEIVED	3,037	7,881
B)	CREDIT DERIVATIVES		
C)	MANAGEMENT AND BROKERAGE SERVICES		
	1 TRADING IN FINANCIAL INSTRUMENTS		
	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	4	6
E)	OTHER SERVICES	270	336
TOTAL		3,311	8,224

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

		TOTAL (31.12.2020)		TOTAL (31.12.2019)	
		DIVIDENDS	INCOME FROM INVESTMENT FUNDS	DIVIDENDS	INCOME FROM INVESTMENT FUNDS
A	FINANCIAL ASSETS HELD FOR TRADING				
B	FINANCIAL ASSETS NECESSARILY MEASURED AT FAIR VALUE				
C	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY			1	
D	EQUITY INVESTMENTS				
TOTAL				1	

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 RESULT [(A+B) - (C+D)]
1	FINANCIAL ASSETS FOR TRADING		89	944	660	(1,515)
1.1	DEBT SECURITIES		74	36	379	(341)
1.2	CAPITAL SECURITIES		13	908	138	(1,033)
1.3	O.I.C.R. PORTIONS		2		143	(141)
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 (*)					(24)
4	DERIVATIVE INSTRUMENTS (**)	185	2,207	2,665	3,737	(4,064)
4.1	FINANCIAL DERIVATIVES:	185	2,207	2,665	3,737	(4,064)
	- ON DEBT SECURITIES AND INTEREST RATES	185	2,091	2,665	3,601	(3,990)
	- ON CAPITAL SECURITIES AND EQUITY INDICES		116		136	(20)
	- ON FOREIGN CURRENCIES AND GOLD					(54)
	- OTHERS					
4.2	CREDIT DERIVATIVES					
OF WHICH: NATURAL HEDGING RELATED TO FAIR VALUE OPTION						
TOTAL		185	2,296	3,609	4,397	(5,603)

(*)The amount reflects the profit deriving from the valuation of items in foreign currency.

(**) Capital gains and losses (Euro -3.4 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 0.1 million) and in item 20 of liabilities (below Euro 4 million).

SECTION 5 – NET INCOME FROM HEDGING ACTIVITIES – ITEM 90

No data to report.

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

6.1 Profit (Loss) from sale/repurchase: composition

ITEMS/INCOME COMPONENTS		TOTAL (31.12.2020)			TOTAL (31.12.2019)		
		PROFIT	LOSS	NET RESULT	PROFIT	LOSS	NET RESULT
A.	FINANCIAL ASSETS						
1.	FINANCIAL ASSETS VALUED AT AMORTISED COST:	908		908			
	1.1 CREDITS TOWARDS BANKS	883		883			
	1.2 CREDITS TOWARDS CUSTOMERS	25		25			
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	122		122	3	(9)	(6)
	2.1 DEBT SECURITIES	122		122	3	(9)	(6)
	2.4 FINANCIAL OPERATIONS						
TOTAL ASSETS		1,030		1,030	3	(9)	(6)
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 (31.12.2020) (2-1)	TOTAL (31.12.2019)
		FIRST AND SECOND STAGES	THIRD STAGE		FIRST AND SECOND STAGES	THIRD STAGE		
			WRITE- OFF	OTHERS				
A	CREDITS TOWARDS BANKS	5,513		164	2,401	90	(3,186)	4,143
	- FINANCING OPERATIONS	5,028		164	2,399	90	(2,703)	3,094
	- DEBT SECURITIES	485			2		(483)	1,049
OF WHICH: IMPAIRED CREDITS ACQUIRED OR ORIGINATED								
B	CREDITS TOWARDS CUSTOMERS:			47,538	15,719	2,327	(29,492)	(26,085)
	- FINANCING OPERATIONS			7,822	63	2,327	(5,432)	(13,132)
	-DEBT SECURITIES			39,716	15,656		(24,060)	(12,953)
	OF WHICH: IMPAIRED CREDITS ACQUIRED OR ORIGINATED							
C	TOTAL	5,513		47,702	18,120	2,417	(32,678)	(21,942)

8.1a Net value adjustments for credit risk relative to financing provisions valued at amortized cost, subject to Covid-19 support measures: composition

OPERATIONS/ INCOME COMPONENTS		VALUE ADJUSTMENTS (1)			WRITEBACKS (2)		TOTAL (31.12.2020) (2-1)	TOTAL (31.12.2019)
		FIRST AND SECOND STAGES	THIRD STAGE		FIRST AND SECOND STAGES	THIRD STAGE		
			WRITE- OFF	OTHER				
1	FINANCING SUBJECT TO CONCESSIONS COMPLIANT WITH GLS	(2)					(2)	
2	FINANCING SUBJECT TO OTHER FOREBEARANCE MEASURES							
3	NEW FINANCING PROVISIONS							
C	TOTAL	(2)					(2)	

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 (31.12.2020) (2-1)	TOTAL (31.12.2019)
		FIRST AND SECOND STAGES	THIRD STAGE		FIRST AND SECOND STAGES	THIRD STAGE		
			WRITE- OFF	OTHERS				
A	DEBT SECURITIES			404	372	2,033	2,001	942
B	FINANCING OPERATIONS							
	- TOWARDS CUSTOMERS							
	- TOWARDS BANKS							
OF WHICH: IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED								
TOTAL				404	372	2,033	2,001	942

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 (31.12.2020)	TOTAL (31.12.2019)
1	STAFF	23,427	17,317
	A) WAGES AND SALARIES	10,278	11,182
	B) SOCIAL SECURITY CONTRIBUTIONS	3,251	3,396
	C) SEVERANCE PAYMENTS		
	D) PENSION PAYMENTS		
	E) ALLOCATION TO THE STAFF SEVERANCE FUND		
	F) ALLOCATION TO THE PROVISION FOR PENSION AND SIMILAR LIABILITIES:		
	- DEFINED CONTRIBUTION		
	- DEFINED BENEFIT		
	G) PAYMENTS TO EXTERNAL COMPLEMENTARY PENSION FUNDS:	693	754
	- DEFINED CONTRIBUTION	693	754
	- DEFINED BENEFIT		
	H) COST A RISING FROM AGREEMENTS TO MAKE PAYMENTS IN OWN EQUITY INSTRUMENTS		
	I) OTHER BENEFITS TO STAFF	9,205	1,985
2	NON-SALARIED PERSONNEL	77	182
3	DIRECTORS	1,251	1,748
4	RETIRED PERSONNEL		
5	EXPENSES RECOUPED FOR STAFF SECONDED TO OTHER INSTITUTIONS		
6	EXPENSES REIMBURSED FOR STAFF SECONDED FROM OTHER INSTITUTIONS		
TOTAL		24,755	19,247

10.2 Average number of employees per category

EMPLOYEES:		
A)	EXECUTIVES	3
B)	MANAGERS	86
C)	REMAINING EMPLOYEES	87
OTHER PERSONNEL		

10.4 Other staff benefits

	TOTAL (31.12.2020)	TOTAL (31.12.2019)
EARLY RETIREMENT PAYMENTS	7,280	
OTHER PAYMENTS	1,925	1,985
TOTAL	9,205	1,985

10.5 Other administration expenses: breakdown

		TOTAL (31.12.2020)	TOTAL (31.12.2019)
A)	IT EXPENSES	1,944	2,224
B)	EXPENSES FOR MOVABLE/IMMOVABLE PROPERTY:	637	1,041
	- RENTALS AND OTHER FEES	109	107
	- OTHER	528	934
C)	EXPENSES FOR THE PURCHASE OF GOODS AND NON-PROFESSIONAL SERVICES	2,358	2,528
D)	EXPENSES FOR PROFESSIONAL SERVICES	3,666	2,913
E)	INSURANCE PREMIUMS	151	176
G)	ADVERTISING	56	200
H)	INDIRECT DUTIES AND TAXES	594	626
I)	OTHER :	2,152	2,395
	<i>OF WHICH: RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES (DGS)</i>	1,950	2,002
TOTAL		11,558	12,103

Item i) "Other" as of 31 December 2020 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 1,9 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 (31.12.2020)	TOTAL (31.12.2019)
LEGAL DISPUTES	500	690
COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED	(94)	(865)
OTHER RISKS AND CHARGES	6,620	187
TOTAL	7,026	12

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

	TOTAL (31.12.2020)	TOTAL (31.12.2019)
OTHER RISKS AND CHARGES	6,619	187
TOTAL	6,619	187

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				
	1	FOR FUNCTIONAL USE	1,059		1,059
		- OWNED	945		945
		- RIGHT OF USE ACQUIRED TROUGH LEASING	114		114
	2	FOR INVESTMENT			
		- OWNED			
		- RIGHT OF USE ACQUIRED TROUGH LEASING			
	3	INVENTORIES			
TOTAL		1,059			1,059

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 IMPAIRMENT (B)	VALUE RECOVERIES (C)	NET RESULT (A + B - C)
A	INTANGIBLE ASSETS				
	A1	OWNED	75		75
		- GENERATED INTERNALLY BY THE BANK			
		- OTHERS	75		75
	A2	RIGHT OF USE ACQUIRED TROUGH LEASING			
TOTAL		75			75

SECTION 14 – OTHER OPERATING INCOME / CHARGES – ITEM 200

14.1. Other operating charges: breakdown

	TOTAL (31.12.2020)	TOTAL (31.12.2019)
OTHER OPERATING CHARGES	3,858	187
TOTAL	3,858	187

This item mainly reflects the negative outcome of the VAT dispute for 2005-2006.

14.2. Other operating income: breakdown

	31.12.2020	31.12.2019
DUTIES AND TAXES RECOUPED	28	24
RENTALS AND FEES		2
INCOME FROM IT SERVICES RENDERED:		
- TO COMPANIES WITHIN THE BANKING GROUP		
- TO OTHERS		
EXPENSES RECOUPED:		
- FOR OWN STAFF SECONDED TO THIRD PARTIES		
- ON DEPOSITS AND CURRENT ACCOUNTS	291	180
- OTHER	932	1,298
SSF ATTRIBUTION TO PROFIT AND LOSS		
OTHER INCOME	2,314	107
TOTAL	3,565	1,611

This item includes income of approximately Euro 926,000 resulting from the exercise of the option pursuant to Article 44-bis of Legislative Decree no. 34 of 30 April 2019, converted into Law no. 58 of 28 June 19.

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

No data to report.

19.2 Reconciliation of theoretical tax liability and actual book liability

	TOTAL (31.12.2020)	TOTAL (31.12.2019)
PROFIT BEFORE TAX	(57,767)	(26,144)
THEORETICAL IRES AND IRAP DUE		
IRAP ADJUSTMENTS FOR ADMINISTRATION EXPENSES		
IRAP ADJUSTMENTS FOR WRITE-OFFS		
TAXES ON NON-DEDUCTIBLE COSTS		
PRE-PAID AND DEFERRED TAXES		
NET WORTH INCREASE BENEFIT		
TOTAL TAXES		
NET PROFIT	(57,767)	(26,144)

As regards the tax effect relating to the year 2019, please refer to "The year's key results".

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

22.1 Average number of diluted common shares

No data to report.

PART D: COMPREHENSIVE INCOME DETAIL

ITEMS		TOTAL (31.12.2020)	TOTAL (31.12.2019)
10	PROFIT (LOSS) FOR YEAR	(57,767)	(26,144)
OTHER INCOME COMPONENTS WITHOUT REVERSAL TO INCOME STATEMENT		4	(31)
70	DEFINED BENEFIT PLANS	4	(31)
OTHER INCOME COMPONENTS WITH REVERSAL TO THE INCOME STATEMENT		(221)	25,423
150	FINANCIAL ASSETS (OTHER THAN EQUITY SECURITIES) MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY:	(221)	25,423
	A) CHANGES IN FAIR VALUE	(221)	25,423
190	TOTAL OTHER INCOME COMPONENTS	(217)	25,393
200	OVERALL PROFITABILITY (10+190)	(57,984)	(752)

PART E: RISKS AND THEIR COVERAGE

GOVERNANCE

Banca UBAE has adopted a traditional type of governance model, suitably adapted to take into account the particular characteristics of the shareholder structure (since March 2020 the Libyan Foreign Bank holds 80.15% of the capital with voting rights) and the need to ensure the full functionality and effectiveness of the corporate bodies.

Within the traditional model, in addition to the Shareholders' Meeting which represents all the shareholders, the following bodies are identified¹:

- the **Board of Directors** (made up of 9 to 11 members) is both a strategic supervisory body and a management body; as envisaged by the articles of association, pursuant to article 2381 of the Civil Code, the Board – if deemed appropriate – may delegate part of its powers and faculties, naturally subject to the limitations of the law and the Articles of Association, to an Executive Committee;
- the **General Manager**, appointed by the Board of Directors, participates in the exercise of the management function as Head of the Executive and performs the investigative function of the documents submitted for examination by the Board of Directors;
- the **Board of Statutory Auditors** is the control body.

The Board of Directors of Banca UBAE has resolved to exercise its authority and powers by making use of advisory committees for investigative, proactive and consultative purposes, each of which must include independent directors (at least two in the Audit & Risk Committee; at least one in the Remuneration Committee).

The Board Committees, without decision-making powers, are currently the following:

- Audit & Risk Committee;
- Remuneration Committee.

Each of the aforesaid Committees has its own regulations governing their composition, functions and operating procedures.

1) Pursuant to article 22 of the Articles of Association (approved by the Shareholders' Extraordinary Meeting on 15 June 2016), the Board of Directors has decided – for the moment – to postpone the appointment of the Executive Committee, although it is understood that it may be established in the future should the Board deem it necessary.

BOARD OF DIRECTORS

As its exclusive task, the Board:

- decides on corporate strategic lines and operations;
- approves the industrial and financial plans, as well as the budget;
- approves the Internal Regulations;
- approves the organisation chart and decides on related changes;
- periodically reviews what is listed in the previous points, in relation to the evolution of corporate activity and the external context, in order to ensure its effectiveness over time. To this end, it promotes the full use of the results of the ICAAP (Internal Capital Adequacy Assessment Process) and of the ILAAP (Internal Liquidity Adequacy Assessment Process) for strategic purposes and in business decisions;
- defines the guidelines for the internal control system, approves the establishment of the corporate control functions (Internal Audit, Compliance and Risk Management), verifying that the internal control system is consistent with the strategic guidelines and the Bank's risk appetite;
- ensures that the efficiency, effectiveness and functionality of the internal control system are periodically evaluated and that the results of the checks are promptly brought to the attention of the Board;
- ensures that a correct, complete and timely information system is designed, adopted and maintained over time;
- determines the establishment and closing of the branches and representation offices in Italy and abroad
- approves the acquisition and sale of significant shareholdings;
- prepares the annual financial statements, accompanied by a report in accordance with the law;
- appoints and revokes the members of the Oversight Body referred to in legislative decree no. 231/2001;
- defines the remuneration and incentive policies for the members of the bodies with strategic supervision, management and control functions and the remaining staff, including any plans based on financial instruments and the criteria for determining the remuneration to be granted in the event of advance termination of the employment relationship or early termination of office, including the limits set for said remuneration in terms of annual fixed remuneration and the maximum amount deriving from their application, to be submitted for approval by the Shareholders' Ordinary Meeting.

In line with the Policy on credit risk and counterparty risk management approved in July 2020, the Board of Directors exercises the power of guidance on the granting of credit lines and can approve credit lines within the limits of current legal provisions.

The Board of Directors delegates to the Credit Committee, the General Manager and the Deputy General Manager the powers regarding the granting of credit lines within pre-established limits. The resolutions relating to credit lines falling within the application of article 136 of the Consolidated Law on Banking (T.U.B.) and credit lines to associated parties on the basis of the specific procedure, remain the exclusive competence of the Board of Directors.

In general, it is the responsibility of the Board of Directors, on the proposal of the General Manager, to take decisions in relation to losses and write-downs of impaired credit positions, as well as any agreements for the restructuring of loans.

In addition, annually, at the proposal of the General Manager, the Board of Directors approves an expense and investment plan for the following year containing, among other things, an annual budget relating to overheads divided into chapters and sub-chapters.

All acts of extraordinary administration relating to non-credit transactions are the responsibility of the Board of Directors without prejudice to the powers delegated in this regard and specified in the Internal Regulations.

On the subject of personnel management, the Board of Directors:

- appoints and dismisses the General Manager, the Deputy General Manager, the Vice Chairmen and the other executives, establishing their remuneration (article 18 of the Articles of Association) 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 Heads of anti-money laundering, the internal audit unit, the compliance control unit, the risk control unit, assigning to each the powers of representation necessary for the performance of their respective functions;
- appoints and revokes the Head of the Business Continuity Plan, the Data Governance Contact Person, the Head of the internal systems for reporting violations (whistleblowing) and the Data Protection Officer;
- resolves on any interim positions within the General Management;
- on the proposal of the General Manager, the Board grants the powers of representation and corporate signature to employees with lower qualifications than managers, by approving a specific service order;
- approves, on the proposal of the General Manager and subject to the favourable opinion of the Personnel Committee, the Supplementary Welfare Agreement;

- defines the remuneration and incentive policies and any plans based on financial instruments, to be submitted for the approval of the shareholders' ordinary meeting, in favour of directors, employees and collaborators not linked to the company by subordinate employment relationships;
- approves the results of any procedure concerning key personnel and periodically reviews the related criteria;
- hires non-managerial staff (white-collar workers, managers) on a permanent basis, subject to the favourable opinion of the Personnel Committee;
- appoints and dismisses, on the proposal of the General Manager, the consultants of the bank's foreign commercial network and the consultants necessary to support the Board itself.

Lastly, the Bank's delegate for reporting suspicious transactions is appointed by the Chairman of the Board of Directors, in his capacity as the Bank's legal representative.

GENERAL MANAGER

The General Manager participates with proposing functions, without the right to vote, in the meetings of the Board of Directors by submitting the documents and subjects intended for examination and approval and providing any clarification required in this regard. In case of absence or impediment, he is replaced by the Deputy General Manager who will act on his behalf.

He represents the top of the internal structure and participates in the management function, is the recipient of the information flows provided for the corporate bodies; the General Manager puts in place all administrative acts related to the ordinary management of the Bank and is responsible for the implementation of the resolutions taken by the Board and its advisory bodies.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors is responsible for supervising compliance with the law and the statute, 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 RAF. In addition, the Board of Statutory Auditors is required to ascertain the effectiveness of all the structures and control functions involved and their adequate coordination, promoting the corrective actions for the deficiencies and irregularities found.

The Board of Statutory Auditors informs Banca d'Italia without delay of all acts 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.

In order to carry out its duties, the Board of Statutory Auditors has adequate information flows from the other corporate bodies and control functions.

The Board of Statutory Auditors also performs the functions of the Oversight Body, established pursuant to legislative decree no. 231/2001, on the subject of administrative liability of entities, overseeing the functioning and observance of the Bank's organisation and management model.

ADVISORY COMMITTEES

Audit & Risk Committee

The Audit & Risk Committee (ARC) is a support and advisory body for the Board of Directors and has exclusively advisory and propositional functions towards the Board and preliminary functions towards the Sectors interested in the issues falling within its competence (internal controls, risks, governance).

Remuneration Committee

The Remuneration Committee (RC) is a support and consultative body for the Board of Directors and has exclusively consultative and propositional functions, on the subject of: remuneration of personnel whose remuneration and incentive systems are decided by the body with strategic supervision; analysis of remuneration and incentive policies; identification of the most significant personnel and determination of the criteria for quantifying related remuneration; determination of the criteria for the remuneration of the consultants of the foreign commercial network and the Head of the Representation Office in Tripoli.

SYSTEM OF INTERNAL CONTROLS

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

The internal control system was designed in accordance with the legislative and regulatory 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 is substantiated as follows:

- **line controls** (first-level controls), aimed at ensuring the proper conduct of operations. They are carried out by the operating structures themselves (e.g. hierarchical, systematic and random checks), also through different units that report to the heads of the operating structures, or performed within the back office framework;
- **controls on risks and on compliance** (second-level controls) which, entrusted to structures other than the production ones, have the objective of ensuring, among other

things, the correct implementation of the risk management process, compliance with the operating limits assigned to the various functions and compliance with the rules of corporate operations: these are controls that are mainly the responsibility of the Risk Management unit and the Compliance unit. In particular, the Risk Management unit deals with the definition of risk measurement methods and the control of compliance with risk limits, the Compliance unit is responsible for verifying compliance with the relevant legislation, also carrying out verification activities;

- **internal revision** (third-level controls), aimed at identifying violations of procedures and regulations as well as periodically assessing the completeness, functionality and adequacy, in terms of efficiency and effectiveness, of internal controls, including those on the IT system (ICT audit), with a pre-established frequency in relation to the nature and intensity of the risks; these activities are carried out by the Internal Audit Sector.

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;
- compliance of operations with regulatory provisions, supervisory obligations, regulations and internal procedures;
- the protection of the corporate system from losses.

The various members of the control system contribute to the achievement of these objectives, each to the extent of their competence. Roles and functions are described below according to the current structure.

As part of the design of the internal control system and the risk management system, the Board of Directors approved the establishment of some internal managerial committees, approving the related operating regulations.

Internal managerial committees

The **Credit Committee** is made up of: the General Manager, Deputy General Manager, Head of Administration.

The Credit Committee is the proposing body for the granting of credit lines to be submitted to the Board of Directors, exercises the powers of credit within the limits delegated by the Board of Directors, revokes the credit lines approved by the Board of Directors (with the exception of those falling within the application of article 136 of the T.U.B. and towards related parties) and is competent to discuss any issue concerning the granting of credit and the monitoring of the related risk.

The **Risk Committee** is made up of: the General Manager, Deputy General Manager, Head of Administration. The Risk Committee proposes to the Board of Directors the guidelines for the management of each single quantifiable and non-quantifiable risk; examines the RAF (Risk Appetite Framework) verifying the consistency of the Bank's risk profile with the limits set out therein; discusses and evaluates: the effectiveness of approved policies on the identification, measurement and management of all risks; periodic reports relating to the absorption of regulatory and economic capital from an ICAAP perspective; the annual ICAAP and ILAAP reporting; periodic reports regarding the monitoring of regulatory limits, internal operating limits, risk indicators, periodic simulations in terms of stress testing and prospective analysis; the operational strategies of the Finance Sector and the use of derivative financial instruments to hedge risks, giving, where appropriate, specific instructions to the Head of the Finance Sector and establishing 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 any exceptions; submits divestment operations on the HTC (Held to Collect) portfolio to the Board of Directors.

The **Personnel Committee** is made up of the General Manager and Deputy General Manager (with voting rights) and the HR Manager (without voting rights). The Personnel Committee preliminarily examines the proposals relating to the recruitment of personnel (with the exception of members of the General Management) and the transformation of the related contracts, defines criteria and methods relating to the career advancement of personnel and the payment of the variable remuneration component in line with the remuneration policies established by the competent body; the committee examines preliminarily the Supplementary Agreement.

ROLES AND RESPONSIBILITIES OF THE BANK'S CONTROL UNITS

Risk Management Department

The Risk Management Department forms part of the General Manager's staff to whom it reports functionally while reporting hierarchically to the Board of Directors also via the Audit & Risk Committee. This Department carries out support activities in the context of strategic planning decided by the senior management, ensuring the monitoring and reporting of each category of risk in light of the established operating limits.

The monitoring aims to ensure that the effective risk profile (i.e. overall internal capital) does not exceed the accepted level of risk for each category.

The communication and analysis of the risk profile are performed through an appropriate reporting system, shared and subjected to independent periodic checks.

From an ICAAP (Internal Capital Adequacy Assessment Process) perspective, the Department develops, updates and improves methodologies and tools for impact assessment and risk monitoring; it oversees risk management models, conducts stress tests and prospective analyses and supports the capital management process.

Regarding ILAAP (Internal Liquidity Adequacy Assessment Process), the Department monitors the Bank's exposure to liquidity risk, produces the weekly reporting flow to the Oversight Body, prepares reporting for senior management, and conducts the defined stress tests in the context of remediation.

Regarding the Risk Appetite Framework (RAF), the Department carries out periodic monitoring and reporting of risk appetite limits and deals with their annual revision if required. The Department Manager also puts forward consistency opinions with the RAF of the Most Significant Operations (OMR) as required by the current management process.

Regarding the Recovery Plan, the Department supports the definition of stress scenarios in order to verify the adequacy of the recovery options identified and the effectiveness of the recovery indicators selected, together with the related alarm thresholds. It also monitors and reports the indicators pertaining to the categories of capital, liquidity, profitability and asset quality in order to verify the achievement of the attention thresholds and the possible need to activate the appropriate interventions.

As part of the process of adaptation to the international accounting standard IFRS9, the Department supports the definition of the staging criteria and in particular the concept of "significant credit deterioration"; it verifies the correctness of the macroeconomic scenarios aimed at transforming risk parameters with a view to forward-looking for the purpose of impairment of performing loans, and lastly supports the decision-making process by accompanying the loan proposals with specific information on expected credit loss.

As part of the remuneration policies, the Department calculates the value of the reference indicator for the purpose of determining the bonus pool, elaborates and, where needed, updates the indicators set for the purpose of disbursing the bonus (including the deferred component) taking care to ensure integration between incentive systems and strategic risk management processes (ICAAP/ILAAP, RAF and Recovery Plan).

The Department Manager participates without voting rights in the meetings of the Risk Committee carrying out the secretarial functions, and is periodically required to report his activity to the Audit & Risk Committee.

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 2019, 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 supervisory regulations provide for a selective differentiation of the methodologies for calculating capital requirements in relation to market, credit (including counterparty risk) and operational risks (Pillar I), based on the size and operational complexity of the banks and the assessments of the Oversight Authority.

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

For the purposes of the “prudential control process” (ICAAP - Internal Capital Adequacy Assessment Process), individual banks must internally assess the overall adequacy of their capital with respect to other types of risk, not considered in the calculation of the capital requirements envisaged by Pillar I of the prudential regulations.

The entire process is based on a principle of proportionality, according to which the risk management procedures, the internal control mechanisms, the methodologies for assessing the economic capital as well as the frequency and intensity of the review by the Oversight Body, depend on the nature, size and complexity of the business carried out by each bank.

For this reason, Banca d’Italia has arranged, for the purposes of applying the legislation on Pillar II, a division of banks and intermediaries into three groups.

In particular, Banca UBAE falls into the third group, characterized by banks not belonging to the first group (banks with systemic importance) or to the second group (banks authorised to use internal models or having assets exceeding 4 billion euros). The banks included in the third group adopt simplified methodologies for the calculation and assessment of the other risks to be considered under Pillar II.

It should be noted that, for the concentration risk per counterparty or for groups of connected counterparties and for the interest rate risk on the banking book, the legislation proposes a calculation methodology that translates into the identification of “additional” capital requirements compared to the regulatory requirements set out in Pillar I¹.

Furthermore, as early as 2012, in order to take into account its peculiar operations leaning more towards high-risk countries, Banca UBAE has introduced as part of Pillar II, a new additional capital requirement, albeit not required by law, to cover country risks. In order to then consider all the relevant risks for the Bank, an additional capital requirement was introduced for the geo-sectoral concentration risk, with the aim of quantifying the risk deriving from the concentration of the Bank’s loans to certain economic macro-sectors. Lastly, in light of the current economic context, starting from 2017, the Bank deemed it appropriate to consider for the purposes of capital adequacy also an additional capital absorption against the strategic risk estimated according to an internal calculation method.

The activity conducted as part of the prudential control process is reported annually to the Oversight Authority through the ICAAP report. The report on the data as at 31 December 2020 will be sent to Banca d’Italia by April 2021.

With regard to compliance with the obligations of disclosure to the public of data and information regarding exposure to individual risk categories (Pillar III), the Bank will publish the information tables in terms of quality and quantity, on the corporate website (in the “Financials” area) within the deadline set for the publication of the financial statements.

1) For the other “quantifiable” risk, namely liquidity risk, there is no provision for an additional capital requirement but the implementation of a management system that includes the construction of a maturity ladder, the conduct of stress tests and the definition of an internal policy and a contingency funding plan.

SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

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

- governance in the management area, roles and responsibilities of corporate bodies and offices within the credit risk management process;
- during the risk identification and measurement phase, the process of taking on risk in terms of both preliminary investigations and operational mandates for assignments;
- in the risk monitoring phase, the process of monitoring credit performance and the internal limits of risk monitoring;
- during the risk management phase, the process of identifying impaired credit exposures and the process of managing, classifying and evaluating them;
- the internal information flows between the corporate functions (horizontal flows) and to the corporate bodies (vertical flows), as well as towards the Oversight Authority.

Banca UBAE's mission is to promote and develop any type of financial, commercial, industrial and economic relationship in the international arena. The Bank's activity is aimed primarily, though not exclusively, at supporting relations between Mediterranean and Middle East countries with Europe, as well as between them and the rest of the world.

Compliance with this mission, consolidated in over 40 years of activity in favour of its customers, entails the adoption of credit selection and disbursement policies based on rigorous professional criteria.

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

The Board of Directors establishes individual exposure limits for certain countries and for technical forms, based on criteria of sound and prudent management.

The measurement of internal capital against credit risk is carried out by applying the standard method as required by current prudential legislation. Furthermore, with a view to stress testing, scenario analyses are carried out simulating the impact in terms of the capital requirement generated by certain information shocks such as the deterioration of the domestic economic situation or the worsening of the creditworthiness for counterparties resident in certain countries or operating in defined economic sectors.

2. Policies for managing credit risk

2.1 Organisational aspects

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

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

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

The internal policy governing the credit risk management process and in particular of impaired loans was approved by the 247th BoD on 31 August 2018, and ratified in some of its variations by the 250th BoD on 10-11 December 2018 and, during 2020, it was subject to review to take into account the first operational applications, the impact of non-performing positions in terms of NPL strategy, as well as the need to integrate this regulatory framework with the Bank's Recovery Plan.

In the Pillar I area, the Risk Management Department is responsible for monitoring the capital requirement for credit risk and, on the basis of the data communicated quarterly to the Supervision by sending the risk matrix, it submits to the Risk Committee, the Control Committee and Risks and to the BoD a quarterly reporting concerning capital adequacy. It also deals, for ICAAP purposes, with formulating stress testing hypotheses to be submitted to the Risk Committee and estimating the internal capital prospectively on the basis of budgeting data.

As part of the Risk Appetite Framework, the Risk Management Department, on a quarterly basis, monitors compliance with the macro risk limit and risk tolerance for credit risk; the results of the analyses carried out are periodically reported to the Risk Committee, the advisory committees and the Board of Directors. In addition, consistency opinions with the RAF are formulated by the Risk Manager for the most significant operations (OMR).

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

2.2 Systems for managing, measuring and checking

Credit assessment and processing department

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

The investigation has as objectives:

- verification of the correctness of the corporate and financial reporting documents presented by the requesting counterparty;
- assessment of creditworthiness;
- verification of the consistency of the request for renewal and/or variation of the credit line or of a new credit line, with the Bank's objectives and needs identified during the analysis;
- verification of the consistency of the technical forms requested with what was previously decided for the same counterparty;
- verification of compliance with the regulations in force (Civil Code and Consolidated Banking Law - T.U.B.) regarding obligations envisaged for bank representatives (Directors, Statutory Auditors and General Manager);
- identification of the groups of customers connected for the purposes of risk concentration analysis.
- identification of connected subjects pursuant to Circular no. 263/2006 - Title V Chapter 5;
- registration of the approved credit lines in the Bank's IT system, in order to report the credit lines granted to the Central Credit Register.

The investigation 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 investment transaction.

The Credit Assessment and Processing Department identifies the deliberating body to which to send the proposal on the basis of the delegation system established by the Board of Directors. The Credit Analysis and Investigation Department also informs the BoD quarterly of the operations carried out by all the other deliberating bodies.

The flow of all the activities described above is governed by a homogeneous system of internal rules that governs its performance in every phase, from the initial request presented by the counterparty to approval by the competent delegated body.

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

- internal models for the reclassification of the economic-financial information of each counterparty that ensure a homogeneous analysis of the data and an absolutely “super partes” technical control;
- internal calculation system for all customers carried out through specific software provided by Moody’s (RiskCalc procedure) in order to assign each counterparty to homogeneous internal risk classes by providing the related PD - Probability of Default (quantitative and qualitative);
- verification of harmful events, hypo-cadastral surveys on the assets of the guarantors, and sectoral comparisons by consulting the most reliable national and international info-providers (CERVED, DUN & BRADSTREET, etc);
- Country Risk Analysis through collaboration with the ECONOMIST INTELLIGENCE UNIT (EIU provides monthly reports and country ratings).

Credit Performance Check

When monitoring credit performance, the department responsible for this, with the support of the relevant Italian and foreign Commercial Sectors, compiles and updates a list of risk positions to be kept under observation, based on information available from external sources (risk centres, prejudicial acts, press reports), and internal sources (e.g. reports produced by the application for performance monitoring, reports from the competent Italian and foreign commercial sectors concerning specific countries and/or economic sectors, etc). In the case of updated information or upon request, the Heads of the Italian and foreign Commercial Sectors will inform the Credit Performance Control Department of the reasons for the anomalies found on the reported positions and possibly on the actions taken to mitigate credit risk.

The Credit Performance Control Department reports monthly to the General Management, to the Area, Management and Commercial Sector Managers in Italy and abroad. If it deems it appropriate, and in any case in coincidence with events that may lead to an objective deterioration of the possibilities of partial or full recovery of the credit exposure, the Department proposes to the General Manager the reclassification of the position at risk as a deteriorated position (probable default or non-performing) accompanied by any proposal for write-down.

As regards 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, is provided with a platform, called CQM - Credit Quality Manager, which has the aim of identifying the positions to be monitored and managing those in which the anomalies occur, where they have already been demonstrated, with the aim of controlling and minimising the Bank’s credit risk (the platform

allows customers to be divided into monitoring sub-portfolios according to the Bank's strategic guidelines).

Other information flows to which particular attention is paid, in order to process the necessary information for the management and the departments involved, are: the information present in the return list of the Risk Centre and the printout of the continuous checking ("past due") by the Cedacri IT system, together with those of the Organisational Development Department, for the monthly monitoring of related parties.

2.3 Methods for measuring expected losses

The accounting standard IFRS9, published by the IASB on 24 July 2014, was definitively endorsed by the European Commission on 22 November 2016. IFRS9 fully replaces IAS39 and therefore applies to all financial instruments classified in assets and in the liabilities of the balance sheet, modifying 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 IFRS9 became mandatory starting from 1 January 2018; in particular, from the first balance sheet, economic and financial reporting date after 1 January 2018 which is represented by the FINREP maturity referring to 31 March 2018.

The impact for banks and companies in the financial sector was particularly significant since – in the matter of impairment – the standard introduced the definition of provisions on the accounting plan on the basis of expected loss, already used in prudential regulation, instead of the actual loss (incurred loss) envisaged by IAS39, thereby causing a greater convergence between accounting and regulatory aspects.

The IFRS9 standard is structured into 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 was 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 share of loss historically suffered by the bank, but according to the following formula:

$$\text{ECL} = \text{EAD} * \text{PDFL} * \text{LGD}_{\text{FL}}$$

where:

- **ECL (Expected Credit Loss):** represents allocations for IFRS9 purposes;

- **EAD (Exposure at Default):** corresponds to the existing utilisation on the reference date weighted by the credit conversion factor (CCF);
- **PD_{FL} (Probability of Default forward-looking):** represents the probability of default in the future, obtained by applying a macro-economic scenario to the PD_{PIT};
- **PD_{PIT} (Probability of Default point-in-time):** represents the probability of default by each individual counterparty, and is calculated according to balance sheet data, the country of residence, together with other qualitative aspects;
- **LGDFL (Loss Given Default forward-looking):** represents the loss in the event of default, obtained by applying a macro-economic scenario to the LDGPIT;
- **LDGPIT (Loss Given Default point-in-time):** represents the loss in the event of default calculated according to the nature of the exposure, and depends on the existence of real active guarantees (e.g. cash collateral) or personal guarantees (e.g. SACE).

The Bank has the score and PDPIT data for each counterparty (processed by the Credit Analysis and Investigation Department during assignment and/or renewal) and LDGPIT data differentiated by debt seniority, by type of counterparty (bank or corporate) and by geographical area (Eurozone, US, MENA, Asia) and supplied by Moodys.

The purpose of calculating the expected loss, or the accounting provision, macroeconomic scenarios are applied to these risk parameters to allow their recalculation in a forward-looking perspective.

The Bank has customised macroeconomic models differentiated for the following geographical areas:

- Eurozone
- US
- MENA
- ASIA

Impairment – non-performing credits (Stage 3)

The valuation methodology for non-performing loans – all classified in Stage 3 on the basis of the IFRS9 principle – is differentiated according to the status of impaired exposures.

Consequently, various evaluation methodologies are envisaged:

- **Evaluation of loans classified as “Impaired”** performed analytically by the Legal Department for all the positions thus classified.

The analytical evaluation 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 implementation in the Financial Statements of all events that may change the prospects for debt collection. In any case, the evaluation must be carried out 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 responsible for the position);
 - subsequently, whenever a new event occurs that may affect the prospects for recovery (e.g. change in the value of the assets on which a guarantee has been acquired, developments of the disputes in progress, information or data acquired and received, etc) and in any case at least once every six months.
- **Evaluation of loans classified as “Unlikely to Pay” (UTP)** in turn distinguished as follows:
 - **analytical evaluation on a forfeitary basis** applicable to positions whose amount is below a certain threshold (EAD < 500,000 euros);
 - **analytical evaluation**, applicable to positions whose amount is above a certain threshold (EAD > 500,000 euros).
 - **Evaluation of loan positions as “Past Due”**, carried out analytically on a forfeitary basis using a statistical approach:

The principles for determining the 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 recovery values of the receivables must be estimated on the basis of an assessment of the ability of the debtors to meet the obligations assumed, measured in consideration of all the most recent information available, on the equity and economic situation of the customers and the value of any existing guarantees to protect the loans.

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

Rules of staging

As far as staging allocation is concerned, specific classification criteria are applied and for each stage and the legislation provides for a specific calculation methodology:

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

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

Stage 3 – non-performing exposures (past due over 90 days, probable defaults and bad debts); write-downs calculated analytically in line with the current approach.

More specifically, the following cases are envisaged for the transition to stage 2:

- **Forborne** – automatic transition.
- **Expired between 30 and 90 days** – automatic transition.
- **Watching list** – anomaly detection according to specific indicators (AQR) or presence on the observation lists.
- **Counterparties lacking scores and PD** – automatic transition.
- **Significant deterioration of loan** – recorded in terms of % increase in PD compared to the original value. For each score class, an X parameter corresponding to a downgrade of 2 notches was defined (based on the average PD per score class).

The UBAE approach is to classify all counterparties in stage 1, **including speculative grade counterparties** (rated from BB + to B-), for which there is no significant deterioration in creditworthiness with respect to the time the relationship is entered into, with the exception of CCC-scored counterparties for which a direct classification in stage 2 will be called for unless it can be demonstrated that the pricing applied is in line with the estimated expected losses.

As regards exposures in the form of securities, the solution adopted by the Bank provides for placement in stage 2 in the event of speculative grade issues (rating equal to or lower than BB+) for which there is a significant deterioration in credit.

The concept of significant credit deterioration is intended as a downgrade of two notches from the score origination. Therefore, the “low credit risk assumption” is envisaged only in the securities sector.

2.4 Methods for reducing credit risk (sent to appropriate offices)

Credit risk mitigation techniques are currently governed by additional regulatory sources compared to the pre-existing ones; in particular, by Regulation (EU) no. 575/2013 and Directive 2013/36/EU on prudential supervision, both rules 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 transposed and included the two aforesaid acts among the regulatory sources governing the matter.

The current regulatory framework has kept the distinction between real credit protection tools and personal credit protection tools.

In order to be eligible, collateral, which allows those who have the right to credit fulfilment on specifically identified assets or sums of money, must be included in the list of activities allowed by the aforesaid Regulation and precisely:

- cash deposits with the lending institution¹ or similar instruments held by that institution;
- debt securities issued by administrations or central banks for which an assessment of the creditworthiness by an ECAI or by an export credit agency is available comparable to creditworthiness class 4 or higher;
- debt securities issued by banks or other entities for which an assessment of creditworthiness is available by an ECAI comparable to creditworthiness class 3 or higher;
- debt securities for which an assessment of the short-term creditworthiness of an ECAI comparable to creditworthiness class 3 or higher is available;
- equity instruments or convertible bonds;
- gold;
- securitization positions that have an external assessment of creditworthiness by an ECAI comparable to class of merit 3 or higher;
- debt securities issued by entities without credit assessment of an ECAI if these securities have stringent conditions (i.e. they are listed on recognised stock exchanges, qualified as first degree debt, the other issues of the institution are associated with the class of merit 3 or higher, etc);

Also allowed, only for the reciprocal cash balances between the lender and the counterparty, is the offsetting of mutual credits in the balance sheet.

Other types of real credit protection are:

- cash deposits or similar instruments with a third party;
- life insurance policies set up as a guarantee in favour of the lender;
- instruments issued by third parties which will be repurchased by such entities on request.

1) This is defined as the entity holding the exposure.

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

- central administrations and central banks;
- regional administrations or local authorities;
- multilateral development banks;
- international organisations when exposures to them are 0% weighted;
- certain bodies or entities or companies that meet the requirements of article 201 of Regulation (EU) no. 575/2013;
- central counterparties.
- Regulation 575/2013 does not include eligible personal guarantees, limiting itself to introducing a general principle of admissibility of these forms of credit protection. In the context of the above admissibility principle, only credit derivatives included in the category of personal guarantees are listed, i.e. credit default swaps, total return swaps, credit-linked notes.
- however, Banca UBAE does not acquire credit risk protection through the holding of these instruments.
- the Regulation identifies, for each type of guarantee, both real and personal, the requirements for the purposes of its eligibility.

REAL GUARANTEES

A) OFF-SETTING BALANCE SHEET ITEMS:

Requisites:

- legal effectiveness and applicability in all relevant jurisdictions, even in the event of insolvency or bankruptcy of the counterparty;
- possibility for the lender to identify the assets and liabilities that fall under these agreements;
- surveillance and control of the risks associated with termination of protection;
- supervision and control of significant exposures on a net basis;

B) TYPICAL OFF-SETTING AGREEMENTS

Requisites:

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

C) REAL FINANCIAL GUARANTEES

Requisites:

- absence of a significant correlation between the creditworthiness of the debtor and the value of the collateral. For example, the securities issued by the debtor or by another associated entity of the group are not admitted as collateral;
- applicability of contracts in all relevant jurisdictions.

Entities are also required to:

- document the contract in the due forms and provide for an appropriate procedure for the prompt enforcement of the warranty;
- check the risks arising from the use of guarantees;
- have documented policies and practices regarding the types of guarantees accepted and the relative amount;
- calculate the market value of the guarantees and re-evaluate them at least every six months and whenever they believe that a significant drop in market value has occurred;
- if the collateral is held by a third party, make sure that the holder separates it from its assets;
- dedicate sufficient resources to control and monitor all the risks associated with the management of guarantees (e.g. risk of concentration towards particular types of activities used as collateral).

D) REAL ESTATE GUARANTEES

Requisites:

- legal certainty and enforceability in all relevant jurisdictions and registration in the prescribed form;
- compliance with the requirements for completing the warranty;
- structure of the contract and the underlying legal documents such as to allow the prompt enforcement of the guarantee;
- verification - by the institution - of the value of the property 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 reduced in relation to the general market prices and this revision is carried out by an expert who has the necessary qualifications;
- institutions clearly document the types of residential and non-residential properties accepted and the associated credit policy;
- institutions have procedures to ascertain that the real estate received as collateral is adequately insured against the risk of damage.

E) COMMERCIAL CREDITS

Requisites:

1. the legal mechanism through which guarantees are provided is solid, clear and effective;
2. the entities have a first-degree right of first refusal on the property pledged as guarantee;
3. applicability of guarantee contracts in all relevant jurisdictions;
4. the institution's internal procedures 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 default by the debtor, the institution has the right to assign trade receivables to other parties without the consent of the debtor concerned;
6. the institution has adequate procedures to assess the credit risk inherent in commercial credits;
7. the difference between the exposure and the value of the loans granted as collateral is able to ensure coverage of additional costs to be paid by the entity;

8. the trade receivables given as collateral by the debtor are diversified and not unduly correlated with the situation of the debtor;
9. the institutions do not use 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

Requisites of deposits with third parties:

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

Requisites of life insurance policies:

1. the life insurance policy is explicitly constituted as a guarantee or given as a pledge in favour of the lender;
2. the insurance company has received notification of the guarantee or assignment as a pledge and, consequently, cannot pay amounts without the consent of the lender;
3. the lender has the right to terminate the policy and to receive the redemption value in the event of the debtor's default;
4. the lender body is informed of the eventual non-execution of policy payments by the owner;
5. credit protection is provided for the entire duration of the loan;
6. the guarantee or assignment as a pledge is legally effective and enforceable in all relevant jurisdictions;
7. the surrender value (i) is declared by the company that provides life insurance and cannot be reduced, (ii) is paid by the company that provides life insurance promptly upon request, (iii) cannot be requested without the prior consent of the institution;
8. the insurance company is subject to Directive 2009/138/EC (on the access 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 existing in the EU.

PERSONAL GUARANTEES

Requisites that are common to personal guarantees and credit derivatives:

- 1) credit protection is direct and its size clearly defined and incontrovertible;
- 2) there are no clauses whose fulfilment is beyond the direct control of the lender which can:
 - allow the protection provider to unilaterally cancel protection;
 - increase the cost of protection following the deterioration of the credit quality of the protected exposure;
 - avoid the obligation of the protection provider to make the payments due in the event of default by the principal debtor;
 - allow the protection provider to shorten 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, resulting from the use of personal guarantees and credit derivatives;
- 5) the entity complies with the contractual and legal provisions relating to personal guarantees.

Additional requisites for personal guarantees:

- 1) the lending institution has the right to immediately take recourse to the guarantor without the obligation of prior enforcement of the principal debtor;
- 2) the guarantee is explicitly documented;
- 3) the guarantee covers all payments to which the main debtor is obliged or, when certain payments are excluded from the personal guarantee, the lender has corrected the value of the guarantee in order to take into account the limitation of the coverage.

COUNTER-GUARANTEES FROM GOVERNMENTS AND OTHER PUBLIC SECTOR BODIES

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

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

3. Impaired credit exposure

Impaired credit exposure are divided into the following categories:

- *Overdue and/or overdrawn impaired exposures*: cash credit exposures which, at the reporting reference date, have been past or overdue for more than 90 days;
- *Probable defaults (Unlikely To Pay)*: credit exposures for which the bank considers it unlikely that, without recourse to actions such as the enforcement of guarantees, the debtor completely fulfils (in principal and/or interest) the credit obligations. This evaluation is carried out independently of the presence of any past due and unpaid amounts (or instalments);
- *Non-performing loans*: the total of cash and off-balance sheet credit exposures to a person in a state of insolvency (even if not ascertained judicially) or in substantially comparable situations, regardless of any loss forecasts formulated by the Bank. Exposures whose anomalous situation is attributable to profiles pertaining to country risk are excluded.

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

3.1 Management strategies and policies

The units responsible for the management of non-performing loans implement the actions defined by the internal policy in the presence of deterioration of the risk position with regard to: "i) type of executive procedure activated following the already experienced phases; ii) ready value 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 transition to the non-performing position which may lead, in the event of a change to non-performing loans, also the revocation of the credit lines and the consequent forfeiture of the debtor from the benefit of the termination (where possible) of the relationships contracts with the customer.

These activities are aimed at protecting and recovering the Bank's credit positions, both through inter-judicial interventions internally conducted and with the use of judicial procedures activated through external lawyers.

The different stages of the process are remitted to the Legal Service with regard to positions classified as UTP or non-performing, and to the Credit Trend Control Service in the case of past due positions.

In particular, the Legal Service, in its capacity as "manager" of non-performing positions (with the exception of past due positions), will be responsible for following the various management phases with the support of the other structures involved (Credit Investigation Analysis Service, Commercial Area, Credit Performance Control Service); it will also be responsible for preparing periodic reports for top management bodies.

Dealing with expired positions and/or over-running and impaired positions

The individual exposures are identified as past due and/or over-running:

- other than those classified as bad debts and/or probable defaults;
- expired or past due for more than 90 days on the reporting date, the higher of the following two values is equal to or greater than a materiality threshold of 5%:
 - average of the past due and/or overdue portions over the entire exposure recorded on a daily basis in the previous quarter;
 - past due and/or overdue portion of the entire exposure referring to the reporting reference date;
- expired or past due for over 180 days at the reporting reference date. All positions in this state will be placed in a state of probable default unless adequate formalised reasons are given.

Overdue and/or overdrawn impaired exposures are monitored by the Credit Performance Control 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 account the minimum write-down percentages defined by the Bank.

The assessments relating to classification and provisions are sent to the deliberating body.

Dealing with “unlikely to pay” positions

As required by law, for the classification among probable defaults it is not necessary to wait for the explicit symptom of anomaly (failure to repay) where there are elements that imply a risk of default by the debtor. The aggregate of cash and off- balance sheet exposures to the same debtor who is in the above situation is called “probable default”, unless the conditions for classifying the debtor among bad debts do not exist.

The condition of “improbability that, without recourse to actions such as the enforcement of the guarantee, the debtor completely fulfils the obligations” is deemed satisfied when events specifically required by law occur, or events subject to internal assessment by the Bank.

The positions classified as UTP are monitored by the Legal Department, which proposes their classification (also on the advice of the Commercial Department) and the provision to be made based also on the technical analyses provided by SAIF and taking into account the minimum write-down percentages defined by the Bank.

Dealing with impaired positions

The category of bad debts includes all receivables from customers who face serious and non-transitory economic and financial difficulties. The necessity of the transfer may also derive from extrajudicial and prejudicial events towards the customer and/or the guarantors, from the risk of consolidation of mortgages registered by other credit institutions, from judicial actions aimed at decreasing the capital guarantee provided by the Customer and/or by the guarantors.

For the purposes of non-performing classification, therefore, the existence of any guarantees, real or personal, placed in defence of the loans is disregarded.

The identification of the positions that must be “possibly” included in the “bad debts” sector involves the following aspects:

- The Sales Department / Sector operator who owns the report on the basis of first- level performance monitoring activity;
- the Legal Department, on the basis of reports of anomalies and as part of the monitoring activities carried out on non-performing positions.

Once the position to be classified as non-performing has been identified, the Credit Performance Control Department carries out a prior assessment of the opportunity and the presence of the minimum requirements for a change of status.

Once the file to be classified as non-performing has been identified, the Legal Service shall carry out a prior assessment of the appropriateness and presence of the minimum requirements for the possible change of status.

The proposal for classification as non-performing, containing the reasons for the change in status of the position and the indication of the minimum provision to be made, is submitted to the General Manager on the proposal of the Head of the Legal Service.

3.2 Write-Offs

As specified by IFRS9, the write-off constitutes an event of partial or full cancellation of the credit exposure and may or may not entail the legal waiver of credit recovery.

After a resolution by the Board of Directors, the Bank proceeds to the removal of credit exposures if valid and objective elements are identified to support the assessment of the irrecoverable nature of the credit and/or of the economic non- convenience to carry out the recovery steps. The partial excerpt can be justified if there are elements to demonstrate the debtor’s inability to repay the full amount of the debt.

3.3 Impaired financial assets, acquired or originated

Impaired financial assets acquired or originated are those exposures that have deteriorated on the initial recognition date.

In its business model, the Bank does not envisage the acquisition of exposures of this kind, while, after internal analysis, the disbursement of “new finance” to impaired counterparties is permitted as part of restructuring agreements between the debtor and a pool of banks.

In this case, the Legal Sector, duly assisted by internal structures, follows the restructuring agreements and prepares any proposal for the disbursement of “new financing” to be submitted to the Board of Directors for approval. These exposures will be classified as non-performing in accordance with the classification assigned to the debtor and will be subject to the impairment rules of the assigned impairment class.

4. Financial assets subject to commercial renegotiations and exposures subject to concessions

The Bank identifies and classifies, pursuant to Banca d'Italia provisions, forbore exposures, that is, the loans (performing or impaired) subject to concessions (forbearance) by the Bank. The forbearance measures constitute changes to the original contractual conditions of the credit line that the bank grants to the corporate customer.

These forbearance measures may concern performing customers in financial difficulty (forborne performing exposures) or customers classified in a deteriorating state (non performing exposures with forbearance measures).

With reference to the time spent within a class and/or leaving it:

Forbearance non performing: the exposure must remain for at least a year (“cure period”) after which it is released from the status of non performing;

Forbearance performing: exposure deriving from the previous class, from which the exposure can exit towards performing status after 2 years (“probation period”).

Agreements are not considered concessions – reached between the debtor and a pool of creditor banks – thanks to which the existing credit lines are temporarily “frozen” prior to formal restructuring.

The timing in the state of forbore and the exit mechanisms are carefully regulated. If a customer becomes a “non-performing forbore”, 36 months (12 months for the so-called “cure period” and 24 months for the so-called “probation period”) are required before returning to performing status without reserve. In other cases of performing forbore, the application of the above or the definition of a permanence in the classification may be for a shorter period.

From an accounting standpoint, IFRS9 requires that if a forbearance measure relating to a performing credit line is approved, this credit line is allocated to Stage 2.

In the process of managing and classifying problematic credit to customers involving several banks in the presence of a request for a moratorium and/or **restructuring of credit**, internal information is prepared in order to acknowledge it by the appropriate commercial department or sector. Subsequently, the Credit Performance Control Department will propose the reclassification “under observation” and the immediate blocking of operations (the credit line is made inoperative) to the General Manager, pending a deeper analysis.

Until the restructuring agreements are formalised, subject to the resolution 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 and Risk Area (within credit analysis and investigation and in the legal field).

Once the relative proposal has been submitted (in the usual way) and approved by the decision-making bodies, the management of the position will be handed over solely to the Commercial Development Area.

QUANTITATIVE INFORMATION

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 DETERIORATED	MATURED EXPOSURES NOT DETERIORATED	OTHER EXPOSURES NOT DETERIORATED	TOTAL
1	FINANCIAL ASSETS VALUED AT AMORTISED COST	1,914	24,202		692	1,463,175	1,489,983
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY		959			2,794	3,753
3	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE						
4	OTHER FINANCIAL ASSETS NECESSARILY MEASURED AT FAIR VALUE						
5	FINANCIAL ASSETS IN THE PROCESS OF BEING SOLD						
TOTAL (31.12.2020)		1,914	25,161		692	1,465,969	1,493,736
TOTAL (31.12.2019)		4,209	32,631	363	4	1,704,508	1,741,715

At 31 December 2020, past-due unimpaired exposures amounted to a total of Euro 0,6 million relating to positions that were correctly returned in the early days of January 2021.

At 31 December 2020, exposures subject to concessionary measures (known as forbearance exposures) amounted to Euro 8,9 million, entirely attributable to the portfolio of "loans to customers"; more information on these exposures can be found in table A.1.7.

A.1.1a Distribution of financing provisions subject to Covid-19 support measures, by portfolios and quality of credit (balance sheet values)

PORTFOLIOS/QUALITY		BAD DEBTS	PROBABLE DEFAULT	OVERDUE IMPAIRED EXPOSURES	OTHER IMPAIRED EXPOSURES	UNIMPAIRED EXPOSURES	TOTAL
A.	FINANCING PROVISIONS VALUED AT AMORTIZED COST						
	A.1 SUBJECT TO CONCESSIONS COMPLIANT WITH GLS					2,483	2,483
	A.2 SUBJECT TO OTHER FORBEARANCE MEASURES						
	A.3 NEW FINANCING						
B.	FINANCING PROVISIONS AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY						
	B.1 SUBJECT TO CONCESSIONS COMPLIANT WITH GLS						
	B.2 SUBJECT TO OTHER FORBEARANCE MEASURES						
	B.3 NEW FINANCING						
TOTAL (31.12.2020)						2,483	2,483
TOTAL (31.12.2019)							

PORTFOLIO/CREDIT QUALITY		ASSETS OF LOW-QUALITY CREDIT		OTHER ASSETS
		MINUS	NET EXPOSURE	NET EXPOSURE
1	FINANCIAL ASSETS HELD FOR TRADING			9,582
2	HEDGING DERIVATIVES			
TOTAL (31.12.2020)				9,582
TOTAL (31.12.2019)				10,268

* 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	692					1			12,423
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY									959
3	FINANCIAL ASSETS HELD FOR SALE									
TOTAL (31.12.2020)		692					1			13,382
TOTAL (31.12.2019)					3	1		2	2,980	18,363

A.1.1.4 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 COMMITMENTS TO DISBURSE FUNDS, AND FINANCIAL GUARANTEES ISSUED			TOTAL
	ASSET'S INCLUDED IN FIRST STAGE					ASSET'S INCLUDED IN SECOND STAGE					ASSETS INCLUDED IN THIRD STAGE								
	FINANCIAL ASSETS VALUED AT AMORTISED COST	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	FINANCIAL ASSETS HELD FOR SALE	OF WHICH: INDIVIDUAL WRITEDOWNS	OF WHICH: COLLECTIVE WRITEDOWNS	FINANCIAL ASSETS VALUED AT AMORTISED COST	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	FINANCIAL ASSETS HELD FOR SALE	OF WHICH: INDIVIDUAL WRITEDOWNS	OF WHICH: COLLECTIVE WRITEDOWNS	FINANCIAL ASSETS VALUED AT AMORTISED COST	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	FINANCIAL ASSETS HELD FOR SALE	OF WHICH: INDIVIDUAL WRITEDOWNS	OF WHICH: COLLECTIVE WRITEDOWNS	FIRST STAGE	SECOND STAGE	THIRD STAGE	
INITIAL OVERALL ADJUSTMENTS	(6,261)				(6,261)	(16,416)	(168)			(16,584)	(87,063)	(2,999)			(90,062)	(984)	(628)	(3,495)	(118,014)
CHANGES IN INCREASE FROM FINANCIAL ASSETS ACQUIRED OR ORIGINATED																			
CANCELLATIONS OTHER THAN WRITE-OFFS											38,216			38,216					
NET VALUE ADJUSTMENTS/ WRITE-BACK FOR CREDIT RISK (+/-)	2,293				2,293	10,642	44			10,686	(45,282)	2,032		(43,250)	(147)	(49)	291	(30,176)	(30,176)
CONTRACTUAL CHANGES WITHOUT CANCELLATIONS																			
CHANGES IN THE ESTIMATION METHODOLOGY																			
WRITE-OFF NOT DIRECTLY RECOGNIZED IN THE INCOME STATEMENT																			
OTHER CHANGES																			
FINAL OVERALL ADJUSTMENTS	(3,968)				(3,968)	(5,774)	(124)			(5,898)	(94,129)	(967)		(95,096)	(1,131)	(677)	(3,204)	(109,974)	(109,974)
RECUPIERATION RECOVERIES ON FINANCIAL ASSETS SUBJECT TO WRITE-OFF																			
WRITE-OFFS RECORDED DIRECTLY IN THE INCOME STATEMENT																			

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	37,354	455	729,833			
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY						
3	FINANCIAL ASSETS HELD FOR SALE						
4	COMMITMENTS TO DISBURSE FUNDS, AND FINANCIAL GUARANTEES ISSUED	113,148	83,934				
TOTAL		150,502	84,389	729,833			

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 PROVISIONS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS*
		IMPAIRED	NON - IMPAIRED			
A	CREDIT EXPOSURES FOR CASH					
A)	IMPAIRED					
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
B)	PROBABLE DEFAULTS	328		164	164	
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
C)	OVERDUE IMPAIRED EXPOSURES					
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS		694	2	692	
D)	OVERDUE NON-IMPAIRED EXPOSURES					
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
E)	OTHER NON-IMPAIRED EXPOSURES		576,005	8,108	567,897	
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
TOTAL A		328	576,699	8,274	568,753	
B	OFF-BALANCE SHEET CREDIT EXPOSURES					
A)	IMPAIRED					
B)	NON-IMPAIRED		5,544,554	1,248	5,543,306	
TOTAL B			5,544,554	1,248	5,543,306	
TOTAL (A+B)		328	6,121,253	9,522	6,112,059	

* Value to be displayed for information purposes

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 PROVISIONS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS*
		IMPAIRED	NON - IMPAIRED			
A	CREDIT EXPOSURES FOR CASH					
A)	IMPAIRED	32,682		30,767	1,915	
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
B)	PROBABLE DEFAULTS	89,161		64,164	24,997	
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS	18,010		9,074	8,936	
C)	OVERDUE IMPAIRED EXPOSURES					
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
D)	OVERDUE NON- IMPAIRED EXPOSURES					
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
E)	OTHER NON- IMPAIRED EXPOSURES		903,984	1,755	902,229	
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
TOTAL A		121,843	903,984	96,686	929,141	
B	OFF-BALANCE SHEET CREDIT EXPOSURES					
A)	IMPAIRED	17,921		3,204	14,717	
B)	NON IMPAIRED		825,304	562	824,742	
TOTAL B		17,921	825,304	3,766	839,459	
TOTAL (A+B)		139,764	1,729,288	100,452	1,768,600	

* Value to be displayed for information purposes

A.1.7a Credit and cash exposures of customers subject to Covid-19 support measures: gross and net values

TYPE OF EXPOSURES/ VALUES		GROSS EXPOSURE	OVERALL VALUE ADJUSTMENT AND TOTAL PROVISIONS	NET EXPOSURE	TOTAL PARTIAL WRITE-OFFS*
A	NON-PERFORMING CREDIT EXPOSURES				
A)	SUBJECT TO CONCESSIONS COMPLIANT WITH GLS				
B)	SUBJECT OF OTHER FORBEARANCE MEASURES				
C)	NEW FINANCING				
B	CREDIT EXPOSURES IN PROBABLE DEFAULT				
A)	SUBJECT TO CONCESSIONS COMPLIANT WITH GLS				
B)	SUBJECT TO OTHER FORBEARANCE MEASURES				
C)	NEW FINANCING				
C	IMPAIRED OVERDUE CREDIT EXPOSURES				
A)	SUBJECT TO CONCESSIONS COMPLIANT WITH GLS				
B)	SUBJECT TO OTHER FORBEARANCE MEASURES				
C)	NEW FINANCING				
D	UNIMPAIRED OVERDUE EXPOSURES				
A)	SUBJECT TO CONCESSIONS COMPLIANT WITH GLS	2,485	2	2,483	
B)	SUBJECT TO OTHER FORBEARANCE MEASURES				
C)	NEW FINANCING				
E	OTHER UNIMPAIRED EXPOSURES				
A)	SUBJECT TO CONCESSIONS COMPLIANT WITH GLS				
B)	SUBJECT TO OTHER FORBEARANCE MEASURES				
C)	NEW FINANCING				
TOTAL (A+B+C+D+E)		2,485	2	2,483	

* 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	4,554		452
	OF WHICH: SOLD EXPOSURES NOT CANCELLED			
B	INCREASING CHANGES	1,079	452	
B1	RE-ENTRY OF NON-IMPAIRED EXPOSURES			
B2	RE-ENTRY OF IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED			
B3	TRANSFERS FROM OTHER CATEGORIES OF IMPAIRED EXPOSURES		452	
B4	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS			
B5	OTHER INCREASING CHANGES	1,079		
C	DECREASING CHANGES	5,633	124	452
C1	EXITS TO NON-IMPAIRED EXPOSURES			
C2	WRITE-OFFS			
C3	RECEIPTS	1,079		
C4	INCOME FROM SALES	4,369		
C5	LOSSES FROM SALES			
C6	TRANSFER TO OTHER CATEGORIES OF IMPAIRED EXPOSURES			452
C7	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS			
C8	OTHER DECREASING CHANGES	185	124	
D	FINAL GROSS EXPOSURE		328	
	OF WHICH: 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	42,102	80,156	2
	OF WHICH: SOLD EXPOSURES NOT CANCELLED			
B	INCREASING CHANGES	5,915	50,390	
B1	RE-ENTRY OF NON-IMPAIRED EXPOSURES		46,731	
B2	RE-ENTRY OF IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED			
B3	TRANSFERS FROM OTHER CATEGORIES OF IMPAIRED EXPOSURES	5,853		
B4	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS			
B5	OTHER INCREASING CHANGES	62	3,659	
C	DECREASING CHANGES	15,335	41,385	2
C1	EXIT TOWARDS NON-IMPAIRED EXPOSURES			2
C2	WRITE-OFFS			
C3	RECEIPTS	25	4,021	
C4	INCOME FROM SALES	12,473		
C5	LOSSES FROM SALES			
C6	TRANSFERS TO OTHER CATEGORIES OF IMPAIRED EXPOSURES		5,851	
C7	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS			
C8	OTHER DECREASING CHANGES	2,837	31,513	
D	GROSS FINAL EXPOSURE	32,682	89,161	
	OF WHICH: 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 EXPOSURE	23,887	
	OF WHICH: SOLD EXPOSURES NOT CANCELLED		
B	INCREASING CHANGES	3,361	
B1	RE-ENTRY OF UNIMPAIRED EXPOSURES NOT SUBJECT TO CONCESSIONS		
B2	RE-ENTRY OF UNIMPAIRED EXPOSURES SUBJECT TO CONCESSIONS		
B3	RE-ENTRY OF EXPOSURES SUBJECT TO IMPAIRED CONCESSIONS		
B4	RE-ENTRY OF IMPAIRED EXPOSURES NOT SUBJECT TO CONCESSIONS		
B5	OTHER INCREASING CHANGES	3,361	
C	DECREASING CHANGES	9,238	
C1	EXIT TOWARDS UNIMPAIRED EXPOSURES NOT SUBJECT TO CONCESSIONS		
C2	EXIT TOWARDS UNIMPAIRED EXPOSURES SUBJECT TO CONCESSIONS		
C3	EXIT TOWARDS EXPOSURES SUBJECT TO IMPAIRED CONCESSIONS		
C4	WRITE-OFFS		
C5	RECEIPTS	4,021	
C6	INCOME FROM SALES		
C7	LOSSES FROM SALES		
C8	OTHER DECREASING CHANGES	5,217	
D	GROSS FINAL EXPOSURE	18,010	
	OF WHICH: 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 WHICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS
A	OVERALL INITIAL ADJUSTMENTS	4,187				90	
	OF WHICH: SOLD EXPOSURES NOT CANCELLED						
B	INCREASING CHANGES			164			
B1	VALUE ADJUSTMENTS ON IMPAIRED ASSETS ACQUIRED OR ORIGINATED						
B2	OTHER VALUE ADJUSTMENTS						
B3	LOSSES FROM SALES						
B4	TRANSFERS FROM OTHER CATEGORIES OF IMPAIRED EXPOSURES			90			
B5	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS						
B6	OTHER INCREASING CHANGES			74			
C	DECREASING CHANGES	4,187				90	
C1	VALUE GAINS DUE TO RE-VALUATION						
C2	VALUE RECOVERIES						
C3	PROFIT FROM SALES						
C4	WRITE-OFFS						
C5	TRANSFERS TO OTHER CATEGORIES OF IMPAIRED EXPOSURES					90	
C6	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS						
C7	OTHER DECREASING CHANGES	4,187					
D	OVERALL FINAL ADJUSTMENTS			164			
	OF WHICH: 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 WHICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS
A	OVERALL INITIAL ADJUSTMENTS	38,259		47,526	12,241		
	OF WHICH: SOLD EXPOSURES NOT CANCELLED						
B	INCREASING CHANGES	7,455		45,102	1,805		
	B1 VALUE ADJUSTMENTS OF IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED						
	B2 OTHER VALUE ADJUSTMENTS						
	B3 LOSSES ON SALES						
	B4 TRANSFERS FROM OTHER CATEGORIES OF IMPAIRED EXPOSURES	5,188					
	B5 CONTRACTUAL CHANGES WITHOUT CANCELLATIONS						
	B6 OTHER INCREASING CHANGES	2,267		45,102	1,805		
C	DECREASING CHANGES	14,947		28,464	4,972		
	C1 VALUE RECOVERY FROM RE-VALUATION						
	C2 VALUE RECOVERY FROM RECEIPTS			2,256	2,256		
	C3 PROFITS ON SALES						
	C4 WRITE-OFFS						
	C5 TRANSFERS TO OTHER CATEGORIES OF IMPAIRED EXPOSURES			4,343			
	C6 CONTRACTUAL CHANGES WITHOUT CANCELLATIONS						
	C7 OTHER DECREASING CHANGES	14,947		21,865	2,716		
D	OVERALL FINAL ADJUSTMENTS	30,767		64,164	9,074		
	OF WHICH: SOLD EXPOSURES NOT CANCELLED						

A.2 Classification of financial assets, of commitments to disburse funds, financial guarantees issued on the basis of external and internal ratings

A.2.1 Distribution of financial assets, commitments to disburse funds, 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	8,724	94,743	638,171	304,480	118,131	48,899	380,703	1,593,851
	FIRST STAGE	8,691	94,743	638,171	279,925	111,172	2,343	259,323	1,394,368
	SECOND STAGE	33			24,555	6,959		47,692	79,239
	THIRD STAGE						46,556	73,688	120,244
B	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH AN IMPACT ON TOTAL PROFITABILITY					2,917		1,926	4,843
	FIRST STAGE								
	SECOND STAGE					2,917			2,917
	THIRD STAGE							1,926	1,926
C	FINANCIAL ASSETS HELD FOR SALE								
	FIRST STAGE								
	SECOND STAGE								
	THIRD STAGE								
TOTAL (A+B+C)		8,724	94,743	638,171	304,480	121,048	48,899	382,629	1,598,694
D	COMMITMENTS TO DISBURSE FUNDS; FINANCIAL GUARANTEES ISSUED	555,000	1,196,265	1,099,644	679,649	388,137	16,657	2,452,427	6,387,779
	FIRST STAGE	555,000	1,196,265	1,099,644	679,649	380,487	16,657	2,038,138	5,965,840
	SECOND STAGE					7,650		396,368	404,018
	THIRD STAGE							17,921	17,921
TOTAL D		555,000	1,196,265	1,099,644	679,649	388,137	16,657	2,452,427	6,387,779
TOTAL (A+B+C+D)		563,724	1,291,008	1,737,815	984,129	509,185	65,556	2,835,056	7,986,473

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

EXTERNAL RATINGS BANDS	MOODY'S	S&P	FITCH
CLASS 1	Aaa/Aa3		AAA/AA-
CLASS 2	A1/A3		A+/A-
CLASS 3	Baa1/Baa3		BBB+/BBB-
CLASS 4	Ba1/Ba3		BB+/BB-
CLASS 5	B1/B3		B+/B-
CLASS 6	Caa and below		CCC and below

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Cash and off-balance sheet exposures to guaranteed banks

		GROSS EXPOSURE	NET EXPOSURE	REAL GUARANTEES				PERSONAL GUARANTEES (2)										TOTAL (1+2)	
				PROPERTIES, MORTGAGES	PROPERTIES, LEASING	SECURITIES	OTHER REAL GUARANTEES	CREDIT DERIVATIVES						SIGNATURE CREDITS					
								COUNTER PARTIS	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES	PUBLIC ADMINISTRATIONS	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES				
1	GUARANTEED CREDIT EXPOSURES:	6,395	6,395				6,395												6,395
	1.1	6,395	6,395				6,395												6,395
	- OF WHICH : IMPAIRED																		
	1.2																		
	- OF WHICH : IMPAIRED																		
2	GUARANTEED OFF- BALANCE SHEET CREDIT	66,402	66,402				66,402												66,402
	2.1	66,402	66,402				66,402												66,402
	- OF WHICH : IMPAIRED																		
	2.2																		
	- OF WHICH : IMPAIRED																		

A.3.2 Cash and off-balance sheet exposures to guaranteed customers

[illegible]

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 WHICH: 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										
A1	NON-PERFORMING LOANS							1,800	30,607	114	161
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS										
A2	PROBABLE DEFAULTS	13,978	46,854					11,019	17,310		
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS							8,935	9,074		
A3	EXPIRED IMPAIRED EXPOSURES										
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS										
A4	NON-DETERIARED EXPOSURES	685,748	1,397	1,558				201,455	357	13,468	1
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS										
TOTAL A		699,726	48,251	1,558				214,274	48,274	13,582	162
B	OFF-BALANCE- SHEET CREDIT EXPOSURES										
B1	IMPAIRED EXPOSURES							14,716	3,204		
B2	NON- DETERMINATED EXPOSURES	25,000		117,714	3			680,660	559	1,369	
TOTAL B		25,000		117,714	3			695,376	3,763	1,369	
TOTAL (A+B) 31.12.2020		724,726	48,251	119,272	3			909,650	52,037	14,951	162
TOTAL (A+B) 31.12.2019		636,805	21,707	224,115	30			1,305,200	85,538	15,022	239

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	1,914	29,209		1,118				441		
	A2 PROBABLE DEFAULTS	11,019	17,310					6,840	39,716	7,138	7,138
	A3 EXPIRED IMPAIRED EXPOSURES										
	A4 OTHER ASSETS/ IN BONIS	594,486	187	108,795	467	31,659	66	89,179	746	78,111	290
	TOTAL (A)	607,419	46,706	108,795	1,585	31,659	66	96,019	40,903	85,249	7,428
B OFF-BALANCE SHEET EXPOSURES	B1 PAST DUE POSITIONS	14,717	1,981						1,222		
	B2 NO-PAST DUE POSITIONS	447,074	421	151,292	10	69,772		61,960	3	94,644	128
	TOTAL (B)	461,791	2,402	151,292	10	69,772		61,960	1,225	94,644	128
	TOTAL (A+B) (31.12.2020)	1,069,210	49,108	260,087	1,595	101,431	66	157,979	42,128	179,893	7,556
	TOTAL (A+B) (31.12.2019)	1,069,030	78,923	400,803	5,340	297,759	43	252,812	18,125	160,738	5,081

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

EXPOSURES / GEOGRAPHICAL AREA		ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
		NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS	NET EXPOSURE	TOTAL WRITE-DOWNS
A	CASH CREDIT EXPOSURES										
	A1										
	A2									164	164
	A3										
	A4	311,272	1,589	62,943	432	11,028	25	142,989	5,517	40,357	546
	TOTAL (A)	311,272	1,589	62,943	432	11,028	25	142,989	5,517	40,521	710
B	OFF-BALANCE SHEET EXPOSURES										
	B1										
	B2	1,519,926	342	1,880,107	278	116,000		777,771	60	1,249,502	568
	TOTAL (B)	1,519,926	342	1,880,107	278	116,000		777,771	60	1,249,502	568
	TOTAL (A+B) (31.12.2020)	1,831,198	1,931	1,943,050	710	127,028	25	920,760	5,577	1,290,023	1,278
	TOTAL (A+B) (31.12.2019)	2,170,908	1,196	2,180,033	763	129,977	5	1,465,756	7,336	1,801,581	1,615

B.4 Large Exposures

AMOUNT (BALANCE SHEET VALUE)	1,364,838
AMOUNT (WEIGHTED VALUE)	828,655
NUMBER OF BALANCE POSITIONS	104
NUMBER OF WEIGHTED POSITIONS	21

The provisions contained in EC Regulation no. 575/2013 establish that large exposure means the exposure of an entity to a customer or a group of connected customers having a value equal to or greater than 10% of the entity's eligible capital.

The same provisions establish that the amount of an entity's exposure to a single customer or group of connected customers or to banks resident in non-equivalent countries (Shadow Banking Entities - SBE) cannot exceed 25% of the eligible capital of the entity itself. The amount of 25% obviously takes into account the credit risk mitigation techniques, the type of collateral acquired and the debtor counterparty.

With reference to SBEs, the Bank has adopted a system of internal operating limits differentiated by cluster, by country and by individual banking counterparty, in the latter case the internal lending limit is differentiated according to the internal score assigned and includes the regulatory limit as a cap.

The internal units involved periodically check the overall exposure of customers or groups of connected customers that fall into the category of large exposures, providing adequate information to the corporate bodies and preparing the related reporting flows to the Oversight Body.

C. Securitization and disposal of assets

No data to report.

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

No data to report.

E. Transfer operations

No data to report.

F. Credit risk measurement models

At the moment, the Bank has a tool that enables the attribution to each counterparty of an internal score and a Probability of Default (PD) built on an external sample of observations observed over a ten-year period. On the basis of the score provided by the Credit Analysis and Preliminary Investigation Sector, 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 ECL (expected credit loss) value that can be used for management purposes as an indication at the pricing stage (including the opportunity cost connected to the capital provisions - unexpected credit loss - UCL) from the viewpoint of a 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 (investigation, credit granting, performance control, analysis of the risk profile, evaluation of company activities), strengthening the first and second levels. This project found its finalization in the definition of the policy governing the credit risk management process, and approved by the Board of Directors in the second half of 2018. The policy was revised in 2020 in order to implement the guidelines regarding the strategy and the NPL plan, accepting the operational peculiarities that emerged during the application and guarantee its integration with the Bank's Recovery Plan.

The corporate project to adapt to the IFRS9 accounting standard was closely connected to this project, which in 2017 the project enabled the Bank to define the new system for devaluing and staging performing positions, as well as the new classification and valuation criteria, also through the definition of the Business Model.

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 book, corresponding to the economic capital that the Bank is willing to allocate to cover the assumption of the risk itself.

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

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

The transactions of the Finance Department are in fact recorded in the ObjFin application integrated into the Bank's IT-accounting system where the system of internal operating limits has been replicated to allow monitoring by the competent structures in real time. The reporting system has also been implemented within the application which allows for automatic reports that enable the various corporate functions to be informed, based on the frequencies established on the situation relating to positions, risks and exceeding operating limits.

The application manages the following financial instruments:

- traditional Forex and OTC derivatives;
- traditional and derivative money markets (FRA, IRS, OIS);
- bonds and derivatives;
- equity and derivatives (index futures, stock futures, ETFs 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 method of the current value of the positions in OTC derivatives;
- the interest rate risk is expressed in terms of sensitivity to shifts in the interest rate curve (duration).

In outlining the required regulation, the Board of Directors drew inspiration from two fundamental principles:

- each type of operation must correspond to a portfolio of financial instruments;
- each type of risk identified in relation to the types of operations must correspond to a specific system of limits on assuming risks and a system for quantifying the Bank's exposure.

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

B. Managing processes and methods for measuring interest rate risk and price risk

The intermediation activity between the market and customers, banking and corporate entities, relating to interest rate and exchange rate derivatives can generate daily misalignments in the related portfolio and therefore a temporary increase in exposure to generic position risk, both for the Treasury & Securities sector, and the Financial Markets Sector.

Trading positions in interest rate and exchange rate derivatives, both regulated and OTC, are recorded on the front office system, which also supports the daily pricing of the instruments and the calculation of unrealised gains and losses. The risk of each open position 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 the quantitative limits proposed by the Risk Committee, approved by the Board of Directors and periodically monitored by the Risk Management Sector. Approaching the limits involves the activation of verification procedures and possibly the return of the exposure.

The Bank has an internal policy governing the market risk management process, defining the methods for identifying, assessing, measuring and monitoring the risk and dividing tasks and responsibilities among the internal structures.

The Risk Management Sector prepares a periodic report containing the results of the analyses conducted and intended for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

As part of the Risk Appetite Framework, the Risk Management Sector, on a quarterly basis, monitors compliance with the macro risk limit and risk tolerance for market risks; the results of the analyses conducted are subject to periodic reporting for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

QUANTITATIVE INFORMATION

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					2,032			
	1.1 DEBT SECURITIES					2,032			
	- WITH OPTION OF EARLY REPAYMENT								
	- OTHERS					2,032			
	1.2 OTHER ASSETS								
2	LIABILITIES FOR CASH								
	2.1 P.C.T. LIABILITIES								
	2.2 OTHER LIABILITIES								
3	FINANCIAL DERIVATIVES		552,503	135,333		134,834			
	3.1 WITH UNDERLYING SECURITY								
	- OPTIONS								
	+ LONG POSITIONS								
	+ SHORT POSITIONS								
	- OTHER DERIVATIVES								
	+ LONG POSITIONS								
	+ SHORT POSITIONS								
	3.2 WITHOUT UNDERLYING SECURITY		552,503	135,333		134,834			
	- OPTIONS								
	+ LONG POSITIONS								
	+ SHORT POSITIONS								
	- OTHER DERIVATIVES		552,503	135,333		134,834			
	+ LONG POSITIONS		396,704	30,000					
	+ SHORT POSITIONS		155,799	105,333		134,834			

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					2,060			
	1.1 DEBT SECURITIES					2,060			
	- WITH OPTION OF EARLY REPAYMENT					1,237			
	- OTHERS					823			
2	1.2 OTHER ASSETS								
	LIABILITIES FOR CASH								
	2.1 P.C.T. LIABILITIES								
	2.2 OTHER LIABILITIES								
3	FINANCIAL DERIVATIVES		165,395						
	3.1 WITH UNDERLYING SECURITY								
	- OPTIONS								
	+ LONG POSITIONS								
	+ SHORT POSITIONS								
	- OTHER DERIVATIVES								
	+ LONG POSITIONS								
	+ SHORT POSITIONS								
	3.2 WITHOUT UNDERLYING SECURITY		165,395						
	- OPTIONS								
	+ LONG POSITIONS								
	+ SHORT POSITIONS								
	- OTHER DERIVATIVES		165,395						
	+ LONG POSITIONS		150,964						
	+ SHORT POSITIONS		14,431						

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
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 DERIVATIVES		14,932	
3.1	WITH UNDERLYING SECURITY			
	- OPTIONS			
	+ LONG POSITIONS			
	+ SHORT POSITIONS			
	- OTHER DERIVATIVES			
	+ LONG POSITIONS			
	+ SHORT POSITIONS			
3.2	WITHOUT UNDERLYING SECURITY		14,932	
	- OPTIONS			
	+ LONG POSITIONS			
	+ SHORT POSITIONS			
	- OTHER DERIVATIVES		14,932	
	+ LONG POSITIONS		1,666	
	+ SHORT POSITIONS		13,266	

The distribution by residual duration of financial assets and liabilities relating to other currencies reaches up to three months.

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

TYPES OF OPERATIONS/LISTING INDEX		LISTED	UNLISTED
		ITALY	
A)	CAPITAL SECURITIES	5,342	
	- LONG-TERM POSITIONS	5,342	
	- SHORT-TERM POSITIONS		
B)	SALES NOT YET SETTLED ON EQUITY SECURITIES		
	- LONG-TERM POSITIONS		
	- SHORT-TERM POSITIONS		
C)	OTHER DERIVATIVES ON EQUITY SECURITIES		
	- LONG-TERM POSITIONS		
	- SHORT-TERM POSITIONS		
D)	DERIVATIVES ON EQUITY INDICES		
	- LONG-TERM POSITIONS		
	- SHORT-TERM POSITIONS		

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

The prudential regulation (Pillar II) provides for the calculation of an additional capital requirement for the interest rate risk on the banking book and requires banks to continuously monitor the size of this risk, through the calculation of a “risk indicator”, corresponding to a shock that contemplates a parallel shift in the interest 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 detected by Banca UBAE, which is more contained due to the high concentration of deposits and loans over a time period of 12 months and the presence of derivative instruments that mitigate the risk.

From the management point of view, the internal regulations set an internal limit lower than the regulatory threshold and equal to 3.69%⁶ of Own Funds, as it is more consistent with the Bank’s actual risk exposure.

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

The Sector also conducts, on a quarterly basis, exposure stress testing activities assuming parallel and non-parallel shifts in the interest rate curve. Furthermore, in compliance with the new regulatory requirements, it assesses the exposure to risk also in terms of potential change in the interest margin following a parallel shift in the interest rate curve.

The Bank has an internal policy governing the process of managing this risk, defining the methods for identifying, assessing, measuring and monitoring the risk and dividing tasks and responsibilities among the internal structures.

The Risk Management Sector prepares a periodic report containing the results of the analyses conducted and intended for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

As part of the Risk Appetite Framework, the Risk Management Sector, on a quarterly basis, monitors compliance with the macro risk limit and risk 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 internal operating limits are subject to periodic reporting for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

1) This percentage is configured within the Risk Appetite Framework as a specific risk tolerance for the interest rate risk on the banking book. It should be noted that this risk tolerance has been recently revised and has been increased to 6% of Own Funds (as per the resolution of the 275th BoD on 26 November 2020).

B. Hedging activities for fair value

Banca UBAE does not hold derivative instruments for hedging assets and liabilities at fair value in its portfolio.

C. Hedging activities for financial flows

Banca UBAE holds interest rate derivative instruments in its portfolio (IRS and OIS) aimed at offering macro-coverage of the implicit interest margin in financial flows deriving from banking activities (securities and loans). The hedging and trading of derivative instruments is entrusted to the Treasury Unit of the Finance Sector.

The distribution by residual duration of financial assets and liabilities referring to other currencies reaches from 3 months up to 6 months.

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 YEARS TO 10 YEARS	OVER 10 YEARS	INDETERMINATE DURATION
1	CASH ASSETS	69,780	610,472	149,208	8,868	83,460	7,550	3,424	
	1.1 DEBT SECURITIES		381,075	115,532		79,023			
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS		381,075	115,532		79,023			
	1.2 FINANCING TO BANKS	32,130	107,288	5,329	8,261				
	1.3 FINANCING TO CUSTOMERS	37,650	122,109	28,347	607	4,437	7,550	3,424	
	- CURRENT ACCOUNTS	13,823					1		
	- OTHER FINANCINGS	23,827	122,109	28,347	607	4,437	7,549	3,424	
	- WITH EARLY REPAYMENT OPTION	98	204	306	607	4,437	3,659	3,424	
	- OTHERS	23,729	121,905	28,041			3,890		
2	CASH LIABILITIES	164,015	339,070	57	200,352	94			
	2.1 PAYABLES TO CUSTOMERS	64,084	161	23	35	94			
	- CURRENT ACCOUNTS	62,215	149						
	- OTHER PAYABLES	1,869	12	23	35	94			
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS	1,869	12	23	35	94			
	2.2 PAYABLES TO BANKS	99,931	338,909	34	200,317				
	- CURRENT ACCOUNTS	97,817							
	- OTHER PAYABLES	2,114	338,909	34	200,317				
	2.3 DEBT SECURITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
	2.4 OTHER LIABILITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
3	FINANCIAL DERIVATIVES								
	3.1 WITH UNDERLYING SECURITY								
	- OPTIONS								
	+ LONG POSITIONS								
	+ SHORT POSITIONS								
	- OTHER DERIVATIVES								
	+ LONG POSITIONS								
	+ SHORT POSITIONS								
	3.2 WITHOUT UNDERLYING SECURITY								
	- OPTIONS								
	+ LONG POSITIONS								
	+ SHORT POSITIONS								
	- OTHER DERIVATIVES								
	+ 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	UP TO 3 MONTHS	OVER 3 MONTHS TO 6 MONTHS	OVER 6 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS TO 10 YEARS	OVER 10 YEARS	INDETERMINATE DURATION
1	CASH ASSETS	62,329	261,535	87,459	36,311	115,883			
	1.1 DEBT SECURITIES		3,887	24,408		103,265			
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS		3,887	24,408		103,265			
	1.2 FINANCING TO BANKS	55,062	214,005	62,051	35,720	12,071			
	1.3 FINANCING TO CUSTOMERS	7,267	43,643	1,000	591	547			
	- CURRENT ACCOUNTS	1							
	- OTHER FINANCINGS	7,266	43,643	1,000	591	547			
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS	7,266	43,643	1,000	591	547			
2	CASH LIABILITIES	187,447	549,895	895	8,170				
	2.1 PAYABLES TO CUSTOMERS	73,495	13,685						
	- CURRENT ACCOUNTS	73,495	13,685						
	- OTHER PAYABLES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
	2.2 PAYABLES TO BANKS	113,952	536,210	895	8,170				
	- CURRENT ACCOUNTS	106,574							
	- OTHER PAYABLES	7,378	536,210	895	8,170				
	2.3 DEBT SECURITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
	2.4 OTHER LIABILITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
3	FINANCIAL DERIVATIVES								
	3.1 WITH UNDERLYING SECURITY								
	- OPTIONS								
	+ LONG POSITIONS								
	+ SHORT POSITIONS								
	- OTHER DERIVATIVES								
	+ LONG POSITIONS								
	+ SHORT POSITIONS								
	3.2 WITHOUT UNDERLYING SECURITY								
	- OPTIONS								
	+ LONG POSITIONS								
	+ SHORT POSITIONS								
	- OTHER DERIVATIVES								
	+ LONG POSITIONS								
	+ SHORT POSITIONS								
4	OTHER OFF-BALANCE-SHEET TRANSACTIONS	66,592							
	+ LONG POSITIONS	33,296							
	+ SHORT POSITIONS	33,296							

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
1	CASH ASSETS	1,929	11,381	
	1.1 DEBT SECURITIES			
	- WITH EARLY REPAYMENT OPTION			
	- OTHERS			
	1.2 FINANCING TO BANKS	1,922	21	
	1.3 FINANCING TO CUSTOMERS	7	11,360	
	- CURRENT ACCOUNTS			
	- OTHER FINANCINGS	7	11,360	
	- WITH EARLY REPAYMENT OPTION			
	- OTHERS	7	11,360	
2	CASH LIABILITIES	1,477	93	
	2.1 PAYABLES TO CUSTOMERS	308	93	
	- CURRENT ACCOUNTS	308	93	
	- OTHER PAYABLES			
	- WITH EARLY REPAYMENT OPTION			
	- OTHERS			
	2.2 PAYABLES TO BANKS	1,169		
	- CURRENT ACCOUNTS	1,169		
	- OTHER PAYABLES			
	2.3 DEBT SECURITIES			
	- WITH EARLY REPAYMENT OPTION			
	- OTHERS			
	2.4 OTHER LIABILITIES			
	- WITH EARLY REPAYMENT OPTION			
	- OTHERS			
3	FINANCIAL DERIVATIVES			
	3.1 WITH UNDERLYING SECURITY			
	- OPTIONS			
	- LONG POSITIONS			
	- SHORT POSITIONS			
	- OTHER DERIVATIVES			
	- LONG POSITIONS			
	- SHORT POSITIONS			
	3.2 WITHOUT UNDERLYING SECURITY			
	- OPTIONS			
	- LONG POSITIONS			
	- SHORT POSITIONS			
	- OTHER DERIVATIVES			
	- 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

A. General aspects, processes and methods of measuring exchange risk

In the banking book, Banca UBAE's equity structure is characterised by deposits in dollars and euros balanced by loans denominated in the same currencies.

Brokerage of foreign exchange and forward derivative instruments may result in an increase in the Bank's overall exposure to exchange rate risk, resulting from the holding of assets and liabilities denominated in foreign currencies.

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

B. Hedging activities for exchange rate risk

The Finance Sector of Banca UBAE manages the macro-hedging of financial flows in foreign currency by holding exchange derivative instruments (currency swaps), based on its own view of the market.

QUANTITATIVE INFORMATION

1. Distribution by currency of denomination of assets, liabilities and derivatives

ITEMS	CURRENCY					
	US DOLLARS	CANADIAN DOLLARS	SWISS FRANC	POUNDS STERLING	YEN	OTHER CURRENCIES
A. FINANCIAL ASSETS	613,712	11,623	310	819	162	393
A.1 DEBT SECURITIES	140,497					
A.2 CAPITAL SECURITIES	4					6
A.3 FINANCING FOR BANKS	420,011	252	310	818	162	380
A.4 FINANCING FOR CUSTOMERS	53,200	11,371		1		7
A.5 OTHER FINANCING ASSETS						
B. OTHER ASSETS	59	2		11		1
C. FINANCIAL LIABILITIES	746,219		420	919	186	45
C.1 DEBTS TOWARDS BANKS	659,039		243	701	186	39
C.2 DEBTS TOWARDS CUSTOMERS	87,180		177	218		6
C.3 DEBT SECURITIES						
C.4 OTHER FINANCIAL LIABILITIES						
D. OTHER LIABILITIES						
E. FINANCIAL DERIVATIVES	165,395	11,578	3,332			22
- OPTIONS						
+ LONG POSITIONS						
+ SHORT POSITIONS						
- OTHER DERIVATIVES	165,395	11,578	3,332			22
+ LONG POSITIONS	150,964		1,666			
+ SHORT POSITIONS	14,431	11,578	1,666			22
TOTAL ASSETS	764,735	11,625	1,976	830	162	394
TOTAL LIABILITIES	760,650	11,578	2,086	919	186	67
IMBALANCE (+/-)	4,085	47	(110)	(89)	(24)	327

SECTION 3 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING POLICIES

3.1 Derivative trading instruments

A. Financial derivatives

In the financial year 2020, Banca UBAE did not carry out trading of derivative financial products on behalf of third parties, limiting its own account activities to hedging instruments for risks associated with the trading book and the banking book.

Banca UBAE mainly uses derivatives aimed at hedging its exposures on interest rates (IRS) and in particular on exchange rates (Currency SWAP) in order to mitigate, from a management point of view, the exposure of the same.

Market risk mitigation is made possible through the use of derivative instruments intended for management purposes to hedge the Bank's loans.

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

Unlike foreign exchange derivatives, which make it possible to take precautions, by fixing the economic component generated by Forex operations, interest rate derivatives are used by the Bank to mitigate the effect of possible and adverse fluctuations in returns, with respect to the value of portfolio assets (securities and loans) and minimising the time period of risk exposure. The results of the analyses conducted periodically by the Risk Management Sector are subject to reporting to the Risk Committee, the Audit & Risk Committee and to the Board of Directors.

Furthermore, similarly to what has been described for market risks, derivative instruments (IRS) are used to put in place the management hedging of HTC loans and securities, thus mitigating the Bank's exposure to interest rate risk on the banking book. The limited exposure to the latter risk, also resulting from the levels of the risk indicator constantly below the regulatory threshold, is also a consequence of the prudential strategic guidelines set out by the Board of Directors.

A.1 Financial derivatives for trading: notional values at end of period

UNDERLYING ASSETS/TYPES OF DERIVATIVES		TOTAL (31.12.2020)				TOTAL (31.12.2019)			
		CENTRAL COUNTERPARTIES		OVER THE COUNTER		CENTRAL COUNTERPARTIES	OVER THE COUNTER		ORGANISED MARKETS
				WITH COMPENSATION AGREEMENTS	WITHOUT CENTRAL COMPENSATION AGREEMENTS		WITH COMPENSATION AGREEMENTS	WITHOUT CENTRAL COMPENSATION AGREEMENTS	
1	DEBT SECURITIES AND INTEREST RATES			412,127			326,527		
	A) OPTIONS								
	B) SWAP			412,127			326,527		
	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				11,536			37,778	
	A) OPTIONS								
	B) SWAP								
	C) FORWARD				11,536			37,778	
	D) FUTURES								
	E) OTHERS								
4	GOODS								
5	OTHERS								
TOTAL				412,127	11,536		326,527	37,778	

A.2 Financial derivatives for trading: positive and negative gross fair value - composition by product

		31.12.2020			31.12.2019		
		OVER THE COUNTER			OVER THE COUNTER		
		CENTRAL COUNTERPARTIES	WITH COMPENSATION AGREEMENTS	WITHOUT CENTRAL COMPENSATION AGREEMENTS	CENTRAL COUNTERPARTIES	WITH COMPENSATION AGREEMENTS	WITHOUT CENTRAL COMPENSATION AGREEMENTS
1	FAIR POSITIVE VALUE						
	A) OPTIONS		72			781	
	B) INTEREST RATE SWAP						
	C) CROSS CURRENCY SWAP						
	D) EQUITY SWAP						
	E) FORWARD			11			407
	F) FUTURES						
	G) OTHERS						
TOTAL			72	11		781	407
2	FAIR NEGATIVE VALUE						
	A) OPTIONS						
	B) INTEREST RATE SWAP		4,014			2,023	
	C) CROSS CURRENCY SWAP						
	D) EQUITY SWAP						
	E) FORWARD			64			412
	F) FUTURES						
	G) OTHERS						
TOTAL			4,014	64		2,023	412

UNDERLYING ASSETS/TYPES OF DERIVATIVES

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		11,611		
	- NOTIONAL VALUE		11,536		
	- FAIR POSITIVE VALUE		11		
	- FAIR NEGATIVE VALUE		64		
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		416,213		
	- NOTIONAL VALUE		412,127		
	- FAIR POSITIVE VALUE		72		
	- FAIR NEGATIVE VALUE		4,014		
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 DERIVATIVES ON DEBT SECURITIES AND INTEREST RATES	121,631	290,496		412,127
A2	FINANCIAL DERIVATIVES ON EQUITIES AND EQUITY INDICES				
A3	FINANCIAL DERIVATIVES ON CURRENCIES AND GOLD	11,536			11,536
A4	FINANCIAL DERIVATIVES ON GOODS				
A5	OTHER FINANCIAL DERIVATIVES				
TOTAL 31.12.2020		133,167	290,496		423,663
TOTAL 31.12.2019		121,452	242,853		364,305

B. Credit derivatives

No data to report.

3.2 Accounting coverage

The Bank does not carry out hedging transactions pursuant to current legislation.

3.3 Further information on derivative trading and hedging instruments

A.1 OTC financial and credit derivatives: net fair value for counterparties

		CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES
FINANCIAL DERIVATIVES					
1	DEBT SECURITIES AND INTEREST RATES		416,213		
	- NOTIONAL VALUE		412,127		
	- POSITIVE FAIR VALUE		72		
	- NEGATIVE FAIR VALUE		4,014		
2	CAPITAL SECURITIES AND SHARE INDICES				
	- NOTIONAL VALUE				
	- POSITIVE FAIR VALUE				
	- NEGATIVE FAIR VALUE				
3	CURRENCIES AND GOLD		11,611		
	- NOTIONAL VALUE		11,536		
	- POSITIVE FAIR VALUE		11		
	- NEGATIVE FAIR VALUE		64		
4	GOODS				
	- NOTIONAL VALUE				
	- POSITIVE FAIR VALUE				
	- NEGATIVE FAIR VALUE				
5	OTHERS				
	- NOTIONAL VALUE				
	- POSITIVE FAIR VALUE				
	- NEGATIVE FAIR VALUE				
CREDIT DERIVATIVES					
1	ACQUISITION AND PROTECTION				
	- NOTIONAL VALUE				
	- POSITIVE FAIR VALUE				
	- NEGATIVE FAIR VALUE				
2	SALE AND PROTECTION				
	- NOTIONAL VALUE				
	- POSITIVE FAIR VALUE				
	- NEGATIVE FAIR VALUE				

SECTION 4 – LIQUIDITY RISK

QUALITATIVE INFORMATION

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

Regarding the liquidity risk, defined as the Bank's inability to meet its payment obligations due to sudden difficulties in finding funds on the market and/or promptly liquidating positions on financial instruments, banks admitted to the simplified methods are required to calculate an additional capital requirement (Pillar II); however, they must provide for 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). An ILAAP (Internal Liquidity Assessment Process) must also be provided to evaluate the adequacy of the liquidity risk management system. ILAAP includes analysis and monitoring of the liquidity situation, periodic internal and external reporting and adequate stress testing ensuring its integration with the ICAAP and with the Bank's Recovery Plan. The description of this process and the management results are included in the ICAAP/ILAAP reports annually intended for the Oversight Authority.

Banca UBAE's financial sources are represented by its own funds and by deposits made mainly on the interbank market.

Taking into account the composition of the Bank's assets, the type of activity carried out, the strategies defined by the Board of Directors and oriented mainly towards short-term investments, the liquidity risk for Banca UBAE does not represent an element of particular criticality under normal financial market conditions.

Furthermore, in consideration of interbank relations, to support the majority shareholder and to establish an "eligible" bond portfolio that can be used in repurchase agreements with the central bank, as well as the type and quality of its assets, Banca UBAE holds financial resources appropriate to its needs.

In any case, the Bank is constantly committed to seeking diversification of its sources of financing with particular attention to volumes and costs.

The corporate functions of the Bank responsible for ensuring the correct application of the liquidity policy are the Treasury, which deals with the direct management of liquidity, the Risk Management Sector, which is responsible for identifying the most appropriate risk indicators and monitoring their progress in relation to the pre-established limits, and to support the activities of the Risk Committee which is responsible for proposing funding and liquidity risk management policies annually to the Board of Directors and suggesting any appropriate interventions to ensure the performance of full harmony with approved risk policies.

Banca UBAE's policy, in addition to outlining the management guidelines, allocates roles and responsibilities among the internal structures involved, while the contingency funding plan, connected to a system of early-warning indicators highlights any crisis situations, defines the intervention in the event of liquidity tensions, providing for the extraordinary procedures to be activated to ensure the Bank's survival even under conditions of stress. In this context, the escalation procedure envisaged by the Recovery Plan is inserted for which, also with reference to the liquidity indicator, alarm thresholds and activation thresholds of the Plan with the related recovery options are established.

The policy also provides for the integration of internal processes with the stress testing defined for ILAAP purposes and with the Risk Appetite Framework, for the purposes of the latter, for liquidity risk, periodic monitoring and reporting of the risk appetite and risk tolerance expressed not in terms of capital requirement but in terms of attention thresholds for the LCR indicator in line with the Bank's Recovery Plan.

The Risk Management Sector, in compliance with the provisions of the liquidity risk management policy, monitors the warning thresholds for early-warning indicators and the LCR and periodically conducts stress tests. It also produces weekly liquidity reporting (in standard format) for Banca d'Italia for reporting purposes, while for internal purposes it produces a report on monitoring activities intended for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

In particular, the Risk Management Sector on a weekly basis builds the maturity ladder (on the basis of the outflows and inflows distributed by time band of expiry) and monitors the trend of the early-warning indicators. Then, on a monthly basis, the Sector calculates the ratios relating to the concentration of the collection and the monitoring tools in order to evaluate the time trend. As regards 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 a specific management tool, and reports it to Banca d'Italia on a monthly basis.

The monitoring of this ratio shows compliance with the regulatory limit in force (100%), and the 2020 average was over 450%.

QUANTITATIVE INFORMATION

1.A Time distribution for residual contract duration of financial assets and liabilities - EUR

[illegible]

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 7 DAYS 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	1,992			2,507		8,864				
	A1 GOVERNMENT BONDS										
	A2 OTHER DEBT SECURITIES										
	A3 O.I.C.R. PORTIONS										
	A4 FINANCINGS	1,992			2,507		8,864				
	- BANKS	1,985									
	- CUSTOMERS	7			2,507		8,864				
B	CASH LIABILITIES	1,477				93					
	B1 DEPOSITS AND CURRENT ACCOUNTS	1,477				93					
	- BANKS	1,168									
	- CUSTOMERS	309				93					
	B2 DEBT SECURITIES										
	B3 OTHER LIABILITIES										
	C	"OFF-BALANCE-SHEET" OPERATIONS		3,332	22	11,578					
C1 FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE			3,332	22	11,578						
- LONG-TERM POSITIONS			1,666								
- SHORT-TERM POSITIONS			1,666	22	11,578						
C2 FINANCIAL DERIVATIVES 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-TERM POSITIONS											
- SHORT-TERM POSITIONS											
C5 FINANCIAL GUARANTEES ISSUED											
C6 FINANCIAL GUARANTEES RECEIVED											
C7 CREDIT DERIVATIVES WITH CAPITAL EXCHANGE											
- LONG-TERM POSITIONS											
- SHORT-TERM POSITIONS											
C8 CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE											
- LONG-TERM POSITIONS											
- SHORT-TERM 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, the Bank does not intend to require the 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 exposure to operational risks over time and the extent of the losses that may arise. In this sense, on the one hand, a review project of all processes has been launched, and on the other, an internal project is underway to implement a “transversal” tool aimed at risk assessment and loss data collection activities.

The Finance Department, on the occasion of the start of operations on new products or services, in collaboration with the Organisation and IT Department, the Compliance Sector, the Risk Management Sector and the Internal Auditing Sector, submits to the General Management a complete analysis of the risks associated with new operations.

The calculation of the capital requirement on operational risk as at 31 December 2020 was determined by taking as a reference the indicator referred to in article 316 of CRR.

As part of the Risk Appetite Framework, the Risk Management Sector, on a quarterly basis, monitors compliance with the macro risk limit and risk tolerance for operational risks; the results of the analyses are subject to periodic reporting for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

QUANTITATIVE INFORMATION

		TOTAL (31.12.2020)	TOTAL (31.12.2019)
OPERATIONAL RISK		4,187	5,945
1	BASIC METHOD	4,187	5,945
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

Brokerage activities in OTC interest rate and exchange rate derivatives generates the risk that, upon maturity, the counterparty will not meet the payment obligations deriving from the stipulated contracts (counterparty risk), after this contractual deadline, in case of failure settlement, the counterparty risk is transformed into settlement risk.

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

Each counterparty, both banking and corporate, authorised to trade derivative instruments, is entrusted by the Board of Directors, the Credit Committee or other competent body of the Bank, through the granting of specific ad hoc credit lines. The limits are controlled by the Middle Office through the front office system which carries out a daily recalculation of all outstanding positions, based on updated prices. The Risk Management Sector, on the basis of the results deriving from the internal analyses, produces periodic reporting for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

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

As part of the Risk Appetite Framework, the Risk Management Sector, on a quarterly basis, monitors compliance with the macro risk limit and risk tolerance for counterparty risk (including Credit Valuation Adjustment); the results of the analyses are subject to periodic reporting for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

B. General aspects, managing processes and methods for measuring settlement risks

With the exception of operations in OTC derivatives, which generate counterparty risk, Banca UBAE trades financial and foreign exchange instruments, both listed and unlisted, exclusively with a payment-versus-delivery clause, limiting exposure to settlement risk to a minimum.

SECTION 7 - CONCENTRATION RISK

QUALITATIVE INFORMATION

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

In order to limit the overall concentration level of exposures, the Bank operates in compliance with the legislation on Large Exposures, identifies and reports the exposures with a weighted amount exceeding 10% of the eligible capital and monitors compliance with the lending limit by providing for possible reporting of overriding positions to the Oversight Authority.

In order to reduce the risk of possible overruns of the lending limit, the Bank has equipped itself with an automatic calculation tool that enables business units to continuously monitor the percentage of absorption of said limit.

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

In addition to conducting analyses of capital adequacy, the Risk Management Sector conducts quarterly stress testing by simulating, with equal corporate exposures, an increase in the level of concentration of the portfolio.

In addition, the analyses in terms of capital adequacy are integrated with the capital absorption expected for the Geo-Sectoral Concentration risk; to this end, the quantitative methodology developed by the trade association is applied for the determination of an equity add-on for exposures to corporate entities resident in Italy.

As part of the Risk Appetite Framework, the Risk Management Sector, on a quarterly basis, monitors compliance with the macro risk limit and risk tolerance for both single name concentration risk and Geo-Sectoral concentration risk; the results of the analyses are subject to periodic reporting to the Risk Committee, the Audit & Risk Committee and the Board of Directors.

The concentration related to exposures to banking counterparties does not fall within the calculation perimeter of capital absorption, although in line with regulatory provisions, the Bank has established a system of internal operating limits aimed at containing exposure to this risk. The limits are monitored quarterly by the Risk Management Sector and are subject to periodic reporting to the corporate bodies.

In order to contain the concentration risk with corporate counterparties, the Bank has introduced an internal lending limit that is prudentially lower than the regulatory limit and equal to the threshold identifying the "Major Risks".

In addition, the Risk Management Sector conducts quarterly portfolio composition analyses according to the economic sector in which the counterparty operates and the geographical area in which it resides. This information integrates and completes the analysis on the Bank's concentration profiles and is preparatory to conducting stress tests in the credit risk area.

As part of the Risk Appetite Framework, the Risk Management Sector, on a quarterly basis, monitors compliance with the macro risk limit and risk tolerance for single name concentration risk and geo-sectoral concentration risk; the results of the analyses are subject to periodic reporting for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

Lastly, the Bank has defined 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 system of internal operating limits, as well as the reports and reporting process. During 2020, following the implementation of the monitoring tool, the policy was fully activated and both the monitoring and reporting processes became operational.

SECTION 8 – COUNTRY RISK AND TRANSFER RISK

QUALITATIVE INFORMATION

A. General aspects, processes for managing and measuring country risk

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

From the management point of view, the granting of a ceiling or plafond for each country is envisaged, which is the responsibility of the Board of Directors, and which regulates loans to countries that have a rating below BBB or which are unrated.

The internal policy, on the other hand, governs the methods for identifying, assessing, measuring and monitoring the country risk and the transfer risk. This policy has been revised in the past in order to implement the decisions of the European Commission on banks resident in non-equivalent countries (SBE).

With regard to the transfer risk, the Bank has decided to include, from a quantitative point of view, this risk in the broader context of the country risk; while from a qualitative point of view, the periodic assessment of the materiality of this risk is envisaged through the analysis of the composition of the loan portfolio and the determination of the relevance of the exposures to countries belonging to the transfer risk classes provided by the trade association.

Starting from the ICAAP/ILAAP Report as at 31 December 2019, the Bank, in compliance with the Oversight Body guidelines on the subject, has also included country risk within the category of risks subjected to stress testing. This approach is relevant both for the purposes of the capital adequacy process and for the purposes of the risk appetite framework.

The Risk Management Sector prepares a periodic report containing the results of the analyses and intended for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

As part of the Risk Appetite Framework, the Risk Management Sector, on a quarterly basis, monitors compliance with the macro risk limit and risk tolerance for country risk; the results of the analyses are subject to periodic reporting for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

SECTION 9 – STRATEGIC RISK

QUALITATIVE INFORMATION

A. General aspects, processes for managing and measuring strategic risk

Banca UBAE measures the capital requirement against strategic risk by applying an internal calculation method aimed at determining an additional capital absorption that completes the internal analyses in terms of capital adequacy. The rationale of this additional requirement, although not prescribed by law, is attributable to the relevance of the strategic planning process and the economic effects associated with potential changes in the operational and regulatory contexts and/or non-timely processes for adapting the strategic lines to such changes.

As part of the Risk Appetite Framework, the Risk Management Sector, on a quarterly basis, monitors compliance with the macro risk limit and risk tolerance for strategic risk; the results of the analyses are subject to periodic reporting for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

SECTION 10 – RISK OF EXCESSIVE FINANCIAL LEVERAGE

QUALITATIVE INFORMATION

A. General aspects, processes and methods for measuring the risk of excessive financial leverage

The prudential regulations in force require banks (in line with the principle of proportionality) to monitor the risk of excessive financial leverage, including it among the risks to be subjected to assessment in the ICAAP framework and introducing a representative indicator of financial leverage (Leverage Ratio), calculated as the ratio between the Tier 1 Capital and the Bank's overall exposure. The ratio, currently being monitored by the authorities, is expressed as a percentage and is subject to a minimum regulatory limit of 3% (reference value of the Basel Committee).

The Bank has an internal policy governing the process of managing this risk, defining the methods for identifying, assessing, measuring and monitoring the risk and dividing tasks and responsibilities among the internal structures.

The Risk Management Sector prepares a periodic report containing the results of the analyses and intended for 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

Managing the assets concerns the set of policies and choices necessary to establish the size of the assets in order 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 European regulators (CRR/CRD IV) and in particular the capitalisation objectives that the Oversight Authority sets within the SREP (Supervisory Review and Evaluation Process).

Verifying compliance with the minimum supervisory requirements and the consequent adequacy of the capital is a function of the objectives set in the planning stage, which take into account the possible evolution of the risk, and the elements governed at the level of the Risk Appetite Framework (RAF).

Also in accordance with the recommendations of the European Central Bank of 28 January 2017, compliance with capital adequacy is also ensured by the observance of a dividend distribution policy related to the achievement of the minimum capital requirements mentioned above.

On a quarterly basis, the Risk Management Sector monitors compliance with the Oversight coefficients, draws up prospective estimates of the ratios and verifies the adequacy with respect to the provisions of the RAF.

A further phase of analysis and preventive control of the Bank's capital adequacy takes place whenever exceptional transactions are planned (transactions of major importance). In this case, the impact on the system of risk limits is estimated and an opinion of consistency with the RAF is formulated by the Risk Manager.

Lastly, with the aim of ensuring integration between the core business processes, a prospective analysis of the capital ratios is carried out as part of the strategic planning process and on the basis of budgeting data, in order to verify the capital sustainability of the strategic guidelines outlined by the management bodies.

B. QUANTITATIVE INFORMATION

B.1 Shareholders' equity: breakdown

ITEMS/VALUES		AMOUNT 31.12.2020	AMOUNT 31.12.2019
1	CAPITAL	261,186	159,861
2	ISSUE SURCHARGES	870	870
3	RESERVES	(20,103)	107,366
	- OF PROFITS:	6,041	6,041
	A) LEGAL	13,494	13,494
	B) STATUTORY		
	C) OWN ACTIONS		
	D) OTHERS	(7,453)	(7,453)
	- MISCELLANEOUS	(26,144)	101,325
3.5	ADVANCES ON DIVIDENDS (-)		
4	CAPITAL INSTRUMENTS		
5	(OWN ACTIONS)		
6	VALUATION RESERVES	617	834
	- EQUITY SECURITIES DESIGNATED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY		
	- 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	835	1.055
	- 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	(218)	(221)
	- SHARES OF VALUATION RESERVES RELATING TO SUBSIDIARIES VALUED AT NET EQUITY		
	- SPECIAL REVALUATION LEGISLATION		
7	PROFIT (LOSS) FOR YEAR	(57,767)	(26,144)
TOTAL		184,803	242,787

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

ASSETS/VALUES		TOTAL (31.12.2020)		TOTAL (31.12.2019)	
		POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1	DEBIT SECURITIES	835		1,055	
2	CAPITAL SECURITIES				
3	FINANCINGS				
TOTAL		835		1,055	

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

DEBT SECURITIES			DEBT SECURITIES	CAPITAL SECURITIES	FINANCINGS
1	OPENING BALANCE		1,055		
2	POSITIVE CHANGES				
	2.1	FAIR VALUE INCREASES			
	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		221		
	3.1	REDUCTIONS IN FAIR VALUE	221		
	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)			
	3.4	OTHER VARIATIONS			
4	CLOSING BALANCE		834		

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 2020 were determined 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.

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:

- 261.2 million Euro in paid-up capital instruments;
- 0.8 million Euro in share premium;
- accumulated other comprehensive income, positive to the tune of 0.6 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;
 - 0.8 million Euro in positive reserves for HTC&S;
- accumulated negative retained earnings/ losses as at 31 12 2020 73.5 million euro.

D) Items to be deducted from CET1

This item includes the following main aggregates:

- 0.1 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 4.5 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.

No data to report.

B. QUANTITATIVE INFORMATION

	TOTAL (31.12.2020)	TOTAL (31.12.2019)
COMMON EQUITY TIER 1 (CET1) BEFORE APPLICATION OF PRUDENTIAL FILTERS	184,803	242,787
OF WHICH CET1 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS		
CET1 PRUDENTIAL FILTERS (+/-)		
CET1 GROSS OF ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL REGIME (A+/- B)	184,803	242,787
ITEMS TO BE DEDUCTED FROM CET1	(264)	(127)
TRANSITIONAL REGIME - IMPACT ON CET1 (+/-)	4,616	5,605
TOTAL COMMON EQUITY TIER 1 (CET1) (C-D+/-E)	189,155	248,265
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		
ITEMS TO BE DEDUCTED FROM AT1		
TRANSITIONAL REGIME - IMPACT ON AT1 (+/-)		
TOTAL ADDITIONAL TIER 1 CAPITAL (AT1) (G-H+/-I)		
TIER 2 CAPITAL (T2) GROSS OF ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL REGIME		100,000
OF WHICH T2 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS		
ITEMS TO BE DEDUCTED FROM T2		
TRANSITIONAL REGIME - IMPACT ON T2 (+/-)		
TOTAL TIER 2 CAPITAL (T2) (M-N+/-O)		100,000
TOTAL OWN FUNDS (F+L+P)	189,155	348,265

A.2 CAPITAL ADEQUACY

A. QUALITATIVE INFORMATION

The self-assessment process of Banca UBAE's overall capital adequacy was defined by applying the principle of proportionality (according to the approach allowed by the Oversight Body for Class 3 banks). It aims to continuously ensure compliance with the capital requirements (with reference to the risks considered in Pillar I and the quantifiable risks considered in Pillar II, according to the simplified methods), and to provide the Board of Directors and General Management the information necessary to set up the Bank's capital strengthening policies in an efficient and effective manner.

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

- the total internal capital, given by the sum of the minimum capital requirements required for the different risk categories of Pillar I (credit risk, counterparty risk, market risk and operational risk), of Pillar II (concentration risk by counterparty or groups of connected counterparties and interest rate risk on the banking book) and of the risk categories considered by the Bank to be relevant (country risk, geo-sectoral concentration risk and strategic risk), with reference to the specific date;
- the total internal capital under stress conditions, given by the total internal capital at the specific date, modified to take into account the stress assumptions envisaged for credit risk, concentration risk (single name), interest rate risk on banking book and country risk;
- the prospective total internal capital, given by the total internal capital calculated on the approved balance sheet figures as a result of the planning and budgeting process and having an impact on credit risk, operational risk, concentration risk and country risk;
- the total capital, given by the sum of the capital resources and the hybrid capitalization instruments available to the Bank to cover the internal capital and therefore the unexpected losses connected to the various risks.

The Risk Management Sector assesses the adequacy of capital resources with reference to Pillar I and Pillar II risks on a quarterly basis and on the basis of supervisory reporting data and according to three analysis perspectives: under ordinary conditions and under stress. The Sector prepares a periodic report containing the results of the analyses and intended for the Risk Committee, the Audit & Risk Committee and the Board of Directors; while every year it prepares the annual report submitted to the attention of the Oversight Authority, subject to the Board's approval.

B. QUANTITATIVE INFORMATION

CATEGORIES/VALUES			NON-WEIGHTED AMOUNT		WEIGHTED AMOUNT	
			31.12.2020	31.12.2019	31.12.2020	31.12.2019
A	RISK ASSETS					
A1	CREDIT AND COUNTERPARTY RISK					
	1	STANDARD METHODOLOGY	1,861,838	2,369,477	832,548	1,291,784
	2	METHODOLOGY BASED ON INTERNAL RATINGS				
	2.1	BASED				
	2.2	ADVANCED				
	3	SECURITIZATION				
B	REGULATORY CAPITAL REQUIREMENTS					
B1	CREDIT AND COUNTERPARTY RISK				66,604	103,343
B2	CAPITAL REQUIREMENTS				74	2
B3	CAPITAL REQUIREMENTS					
B4	MARKET RISK				8,310	5,662
	1	STANDARD METHODOLOGY			8,310	4,765
	2	INTERNAL MODELS				
	3	CREDIT CONCENTRATION RISK				
B5	OPERATIONAL RISK				4,187	6,553
	1	BASIC INDICATOR APPROACH			4,187	5,945
	2	STANDARDIZED APPROACH				
	3	ADVANCED METHOD				
B6	OTHER CALCULATION FACTORS					
B7	TOTAL PRUDENTIAL REQUIREMENTS				79,175	114,055
C	RISK ASSETS AND CAPITAL REQUIREMENT RATIOS					
C1	RISK-WEIGHTED ASSETS				988,765	1,425,685
C2	COMMON EQUITY TIER 1 CAPITAL/RISK-WEIGHTED ASSETS (CET 1 CAPITAL RATIO)				19.13%	17.41%
C3	CAPITAL /RISK-WEIGHTED ASSETS (TIER 1 CAPITAL RATIO)				19.13%	17.41%
C4	TOTAL OWN FUNDS/ RISK-WEIGHTED ASSETS (TOTAL CAPITAL RATIO)				19.13%	24.43%

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 2020.

1. COMPENSATION OF DIRECTORS, AUDITORS AND MANAGEMENT

Compensation during 2020 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	EUR/000	
		TOTAL
SHORT-TERM BENEFITS (1)		3,299
- DIRECTORS	1,400	
- AUDITORS	102	
- MANAGEMENT	1,797	
POST-SEVERANCE BENEFITS (2)		95
OTHER BENEFITS (3)		249

(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	114		114
FINANCIAL LIABILITIES	405		405

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).

Dealings with the majority shareholder Libyan Foreign Bank (LFB) and its 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	706	7,095	7,802
FINANCIAL LIABILITIES	810,673	292,591	1,103,264
ISSUED COMMITMENTS	1,461	63,398	64,859

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

COSTS

DESCRIPTION	LFB	CONNECTED	TOTAL
COMM. ON LETTERS OF CREDITS	7	177	184
COMM. ON LETTERS OF GUARANTEES	564	1,445	2,009
INTEREST	737	8,956	9,694
SUBORDINATED LOANS	632		632
TOTAL	1,940	10,579	12,518

REVENUES

DESCRIPTION	LFB	CONNECTED	TOTAL
COMM. ON LETTERS OF CREDITS	221	1,957	2,179
COMM. ON LETTERS OF GUARANTEES	310	427	737
INTEREST	2	304	306
TOTAL	533	2,689	3,222

Transactions and operations with related parties do not present any critical elements, as they relate to ordinary credit or service activities.

During the financial year, no atypical or unusual transactions were carried out with related parties that, due to their significance or amount, might have given rise to doubts regarding the safeguarding of the bank's assets.

Transactions with related parties are regularly carried out at market conditions and, in any case, on the basis of assessments of economic convenience carried out in compliance with current regulations, providing adequate justification for the reasons and convenience of concluding them.

For the purposes of the 2020 financial statements, only collective write-downs were applied to exposures with related parties, as there were no grounds for analytical write-downs or losses.

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

No data to report.

PART L: SEGMENT REPORTING

No data to report.

PART M: LEASING INFORMATION

No data to report.

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

To all shareholders,

in the year ended 31 December 2020, the Board of Statutory Auditors of Banca UBAE S.p.A. (hereinafter also the Bank), carried out its duties in accordance with the provisions of the civil code, the bylaws and the regulatory legislation on banks issued by the Supervisory Authorities, as well as the principles of conduct of the Board of Statutory Auditors recommended by the National Council of Chartered Accountants and the Accounting Experts.

The Board of Statutory Auditors therefore supervised compliance with the law, the statute and applicable regulations and compliance with the principles of proper administration. It also supervised the adequacy of the Bank's organizational, administrative and accounting structure and its effective functioning.

To this end, the Board:

- participated in the Shareholders' Meetings and the meetings of the Board of Directors, which were held in compliance with the bylaws, rules and regulations, being able to verify that the actions resolved were compliant with the law and the bylaws and not manifestly imprudent, not risking potential conflicts of interest or such as to compromise the integrity of the corporate assets;
- monitored the adequacy and functioning of the internal control system in order to verify its functionality, reliability and the reference framework for monitoring the risks of the Bank's business. To this end, the Board held constant meetings and discussions with the heads of the Bank's Control Functions, referred to in the previous point, sharing the content of the business plans as well as acquiring and analysing the reports relating to the checks, analyses and the feedback made by the units involved, as well as the main issues in terms of regulatory changes, controls and processes. The assessment of the Bank's internal control system, expressed by these units with reference to the assessments and verifications carried out, reveals a substantially satisfactory picture regarding the quality of the existing controls and a context of substantial operational regularity, while areas for improvement emerge in some areas;
- acquired information, to the extent of their competence, on the adequacy and functioning of the administrative-accounting system as well as on the reliability of the latter in correctly representing management events, by obtaining information from the heads of the offices and the accounting firm BDO S.p.A. in charge of the legal audit of the Bank's accounts, as well as the examination of corporate documents;
- verified that contacts with related parties fall within the ordinary operations of the Bank and have been regulated at market conditions, also supervising the application of the specific regulatory discipline;

- maintained relations with the aforesaid company in charge of the statutory audit for the reciprocal exchange of data and information relevant to the performance of their respective duties, pursuant to article 2409-septies of the Italian Civil Code, and took cognizance of the periodic checks on the regular keeping of the accounts and on the proper recording of management facts in the accounting records, without any critical issues emerging that need to be highlighted in this report;
- requested and obtained, also in the capacity of Oversight Body as per legislative decree no. 231/2001, from the Bank's General Management information about the presence of health and safety conditions in the workplace and the operating methods adopted in order to comply with the provisions of current legislation to combat the spread of the Covid pandemic, considering that banking activities are allowed to continue under the current emergency legislation. In this regard, the current national context of health emergency is underlined in the Report on Operations which has led to the issuing, by the authorities, of measures to limit business activities, work and freedom of movement, with presumable negative repercussions also on the economic context in which the Bank will operate in the immediate future.

No complaints have been received by the Board of Statutory Auditors pursuant to article 2408 of the Civil Code or complaints of any other nature.

Concerning the requirements of article 19, paragraph 2, of legislative decree no. 39/2010, we have:

- monitored the financial reporting process, in relation to the financial statements;
- checked the effectiveness of the internal control and risk management systems with regard to the Bank's financial reporting;
- supervised the statutory audit of the financial statements and discussed the results of the activity carried out with the appointed firm, receiving **information that no negative findings have emerged from this activity**;
- monitored the independence of the firm in charge of the statutory audit, in particular with regard to the provision of non-audit services;
- examined the publication, on the BDO S.p.A. website, of the transparency report pursuant to article 11 of Regulation (EU) no. 537/2014.

It should be noted that the firm in charge of the statutory audit – BDO S.p.A. – submitted to the Board of Statutory Auditors the additional report pursuant to article 11 of Regulation (EU) no. 537/2014, which in particular:

- confirmed its own declaration of independence as per article 6, paragraph 2, letter (a), of Regulation (EU) no. 537/2014;

- did not find significant deficiencies in the internal control system in relation to the financial information process and/or in the accounting system;
- has not identified significant issues regarding cases of actual or presumed non-compliance with laws or regulations or statutory provisions;
- did not find significant difficulties encountered during the audit or issues of particular importance to be reported to the Committee.

Therefore, the Board of Statutory Auditors acknowledges, in relation to what has been described, that no reprehensible facts, irregularities or criticalities have arisen from its supervisory activity such as to require specific reporting.

The Bank's financial statements for the year ended 31 December 2020, which are submitted to this Shareholders' Meeting for the consequent resolutions, were approved by the Board of Directors at the meeting on 30 March 2021 and sent on the same date to the Board of Statutory Auditors, who examined them.

The financial statements – consisting of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and the Explanatory Note – were drawn up in compliance with the provisions contained in Banca d'Italia's circular no. 262/2005 and subsequent amendments and additions, in accordance with the IAS / IFRS international accounting standards approved by the European Union and in force at the closing date of the reference year, as well as the related IFRIC interpretations.

These financial statements, subjected to statutory audit by BDO S.p.A. as per legislative decree no. 39/2010, show the following summarised results:

BALANCE SHEET	
ASSETS	Euro 1,688,638,188
LIABILITIES	Euro 1,503,834,730
NET EQUITY (EXCLUDING PROFIT FOR YEAR)	Euro 242,570,099
RESULT FOR THE YEAR	Euro (57,766,641)
INCOME STATEMENT	
RESULT FROM CURRENT OPERATIONS BEFORE TAXES	Euro (57,766,641)
INCOME TAXES FOR THE YEAR OF CURRENT OPERATIONS	-
RESULT FOR THE YEAR	Euro (57,766,641)

The Explanatory Note provides useful information for the representation of corporate events and the understanding of financial statement data, and has been drawn up in compliance with the provisions of the law and secondary regulations. It also provides indications on the classification of impaired financial assets, aligned with the definitions of non-performing exposures and forbearance measures indicated by the Supervisory Authorities.

The Directors' Report on Operations provides information on the situation of the Bank as a whole, on the performance of the 2020 financial year, on the most significant events that occurred during the year and also on the foreseeable evolution of management.

With regard to the latter aspect, it is highlighted that:

- in 2021 there will be negative repercussions on families and businesses deriving from the health emergency linked to the Covid-19 pandemic in Italy, the extent and scope of which make it particularly difficult to imagine the timing of its resolution and therefore to evaluate the actual impacts on the real economy and, consequently, on business evolution;

As the legal audit of the Bank's accounts (and, therefore, also the analytical control of the financial statements) was delegated to BDO S.p.A., the Board of Statutory Auditors supervised the general approach given to the financial statements and its overall compliance with legislation, as regards training and structure; in carrying out its activities, the Board referred to the rules governing the preparation of the financial statements, or the provisions of the Civil Code, the IAS / IFRS international accounting standards, the instructions contained in Banca d'Italia's Circular no. 262/2005 as well as the applicable documents issued by the Italian Accounting Body (*Organismo Italiano di Contabilità - OIC*).

From these checks no significant discrepancies emerged with respect to the rules governing the preparation of the financial statements. As shown in the Explanatory Note, consistently with the interpretations issued by the main accounting bodies, the aforesaid Covid-19 pandemic developed in 2020 and the consequent provisions issued by the Government and local authorities are to be considered, pursuant to IAS 10, as events that do not involve adjustments to be reflected in the financial statements for the year ended 31 December 2020, as they do not represent situations existing at the end of that year.

To the best of our knowledge, the Directors did not derogate from the law and the provisions of the IAS / IFRS accounting standards in the preparation of the financial statements.

On 15 April 2021, pursuant to article 14 of legislative decree no. 39/2010 and article 10 of Regulation (EU) no. 537/2014, the auditing firm BDO S.p.A. issued its report on the financial statements submitted for examination by this Assembly. This report acknowledged the fact that *"the financial statements provide a true and fair view of the equity and financial situation of the Bank as at 31 December 2020, the economic result and cash flows for the year ended on that date in compliance the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in implementation of article 43 of legislative decree no. 136/2015"*.

The following disclosure notice has also been made:

“Disclosure notice

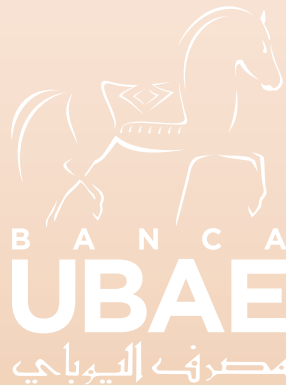
Reference is made to what was described by the directors in the report on operations and in the explanatory notes regarding a significant residual credit exposure to a Lebanese bank and the related subsequent events. In particular, the directors report that in the financial statements at 31 December 2020 a receivable from the bank “Société Générale de Banque au Liban” is recorded for a gross amount of 64.3 million US dollars maturing on 21 June 2021. The directors stated that the restrictions imposed by the Lebanese Central Bank on transfers abroad of sums denominated in foreign currencies, also in consideration of the economic, financial and social crisis in Lebanon, prevent the full and prompt repayment of this credit on the due date. Subsequent to the balance sheet date, a repayment plan was therefore agreed between the parties which will be completed by the end of the financial year 2022 and which does not involve waivers by Banca UBAE S.p.A. with respect to the principal exposure. The financial statements of Banca UBAE S.p.A. at 31 December 2020 include a 10% write-down of the nominal exposure on this credit while also taking into account the duration and economic conditions of the agreed repayment plan. Our reaction is that such a situation is not entirely satisfactory”.

In consideration of the above, the Board of Statutory Auditors expressed a favourable opinion on the approval by the Shareholders’ Meeting of the financial statements for the year ended 31 December 2020, as prepared by the Board of Directors, and on the proposal made by the latter regarding the allocation of the result for the year.

The Board stated that with the approval of the financial statements for the year ended 31 December 2020, the mandate given to it expires and invites the Shareholders to resolve on the reconstitution of the control body.

**The Board of Statutory Auditors
Mr Fabio Gallassi – Chairman**

**OUR
“MISSION”:
CREATE VALUE
ADDED
FOR OUR CUSTOMERS,
SHAREHOLDERS
AND EMPLOYEES**



LEGAL AUDITORS' REPORT



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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, 2020, 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, 2020 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 Independent 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.

Emphasis of Matter

We draw attention to what was described by the Directors in the Management Report and in the Financial Statements Notes regarding a significant residual credit exposure to a Lebanese bank and the related subsequent events. In details, the Directors report that in the financial statements as at December 31, 2020 there is a receivable from the bank "Société Générale de Banque au Liban" for a gross amount of 64.3 million US Dollars expiring on June 21, 2021. The Directors report that the restrictions imposed by the Lebanese Central Bank on the transfer abroad of amounts denominated in hard currency prevent full and timely repayment. After the balance sheet date a reimbursement plan was therefore agreed between the parties will be completed by the end of the 2022 financial year which does not include any reduction in the principal exposure. The Bank's balance sheet reflects a write-down of 10% of the nominal exposure on this position, taking into account also the duration and economic conditions of the agreed repayment plan. Our opinion is not modified in respect of this matter.

Bari, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Roma, Torino, Verona

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Iscritta al Registro dei Revisori Legali al n. 167911 con D.M. del 15/03/2013 G.U. n. 26 del 02/04/2013

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Key audit matters

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

Key audit matters	Audit responses
<p>Valuation of Financial assets measured at amortized cost</p> <p>Disclosure reported in the following parts and sections of notes:</p> <p><i>Part A - Accounting policies (A.2 - paragraph 3 - Financial assets measured at amortised cost)</i></p> <p><i>Part B - Information on the balance sheet (Section 4 - Financial assets measured at amortised cost - item 40)</i></p> <p><i>Part C - Information on the income statement - (Section 8 - Net impairment adjustments - item 130)</i></p> <p><i>Part E - Risks (Section 1 - Credit risk)</i></p> <p>Financial assets measured at amortised cost (item 40 of Assets) as at December 31, 2020 amount to Euro 1,490 million, corresponding to 88% of total assets.</p> <p>This item is a key audit matter 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, identification of parameters in the ECL impairment model.</p>	<p>Our main audit procedures performed in response to the key audit matter regarding the valuation of Financial assets measured at amortised cost, included the following:</p> <ul style="list-style-type: none"> - analysis of the procedures and processes related to classification and valuation of Financial assets; - procedures for reconciling data between management systems and information reported in the financial statements; - comparative analysis procedures and analysis of credit risk coverage ratios and the results with the management involved; - analysis of the criteria and methods for the classification and valuation of Financial assets measured at amortised cost and verification on a sample basis of the reasonableness of the assumptions and of the components used for the classification and analytical and collective assessment and the relative results; - examination of the disclosures provided in the notes.

Responsibilities of directors and board of statutory auditors for the Financial Statements

Directors are 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. 43 of Legislative Decree no. 136/15 and, within the terms provided by the law, for such internal control as directors determine 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, directors are 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 directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing the Company's financial reporting process.

Independent Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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



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

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

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

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

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

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

Report on other legal and regulatory requirements

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

The directors of Banca UBAE S.p.A. are responsible for the preparation of the report on operations of Banca UBAE S.p.A. as at December 31, 2020, 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, 2020 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, 2020 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, 2021

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

Emmanuele Berselli
Partner

Banca UBAE S.p.A. | 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

RESOLUTIONS PASSED BY SHAREHOLDERS' ORDINARY GENERAL MEETING HELD ON 18.05.2021

1. Review and approval of the accounts for the financial year ended 31 December 2020 and of the Annual Report on operations
2. Statutory Auditors' report
3. Legal Auditors' report
4. Proposal to cover the loss for the 2020 financial year and resolutions pertaining thereto
5. Appointment of a Director and resolutions pertaining thereto
6. Appointment of the Board of Auditors for the period 2021-2023 and determination of their yearly emoluments in accordance with art. 28 of the Articles of Association
7. Appointment of the Bank's Legal Auditors under the terms of Legislative Decree 39/2010 and resolutions pertaining thereto
8. Approval of the 2021 remuneration-and-incentives policy for Directors, Auditors, salaried staff and personnel not in the Bank's direct employment (ref. Banca d'Italia's circular directive 285/2013, containing supervisory provisions on remuneration-and-incentives policies and practices for banks and banking groups) and approval of the policy on identifying significant personnel.

Having taken cognizance of the Directors' Annual Report, the Statutory Auditors' report and the Legal Auditors' report accompanying the financial statements for the year to 31 December 2020, the AGM unanimously resolved:

- to approve Banca UBAE's financial statements as of 31 December 2020, accompanied by the Board's Report on Operations, which shows a loss for the year of Euro 57,766,641;
- to approve the proposal to postpone settlement and to cover the loss for the year at 31 December 2020 with profits from future years.

If the following scheme is approved, Shareholders' Equity will amount to EUR 184,803,458 and will be composed as follows:

SHARE CAPITAL	Euro 261,185,870
LEGAL RESERVE	Euro 13,494,100
SHARE PREMIUM ACCOUNT	Euro 870,226
IFRS9 FTA RESERVE FROM 2018 LOSS	Euro (7,757,798)
IAS FTA RESERVE FROM 2005 IAS PROFIT	Euro 305,239
REVALUATION RESERVES	Euro 616,887
NET LOSS 2019	Euro (26,144,425)
NET LOSS 2020	Euro (57,766,641)
	Euro 184,803,458

ANNEX A

COUNTRY-BY-COUNTRY REPORTING AS AT 31 DECEMBER 2020

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 2020.

a) Denomination and nature of activity

Denomination: Banca UBAE SpA

Registered office: Roma, Via Quintino Sella 2

Milan branch: Piazza A. Diaz, 7

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

Corporate capital: EUR 261,185,870 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 - Milan, Banque Centrale Populaire and Bank of Africa - BMCE Group - Casablanca, Intesa Sanpaolo - Turin, and leading Italian companies: Sansedoni Siena (Monte dei Paschi di Siena Foundation) - Siena, ENI S.p.A. (ENI Group) - Rome, and Telecom Italia - Milan.

The mission is to develop industrial and economic trading relations between Italy and the countries of North Africa and sub-Saharan Africa, the Middle East, the Indian sub-continent and the countries of Southeast Europe. The main services offered to customers who work with foreign countries are: export financing, letters of credit, standby letters of credit, risk sharing, guarantees, finance, trading and financial syndications, as well as professional assistance in foreign countries through a network of local consultants. The Banca UBAE currently operates in fifty countries with the support of 500 correspondent banks occupying a position of reference and reliability in the foreign trade sector. The bank does not have branches abroad.

b) Turnover¹ = Eur 17.674.474

c) Number of employees on equivalent full-time basis² = 179

d) Economic Result (before tax) = Eur (57.766.641)

e) Income tax on year's result = -

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 PUBLIC DISCLOSURE

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.



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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