ANNUAL REPORT 2022

Fiftieth financial year

	%
Libyan Foreign Bank, Tripoli	80.15
UniCredit S.p.A., Milan	6.60
Eni S.p.A. (Eni Group), Rome	3.30
Banque Centrale Populaire, Casablanca	2.85
Bank of Africa – BMCE Group, Casablanca	*2.65*
Sansedoni Siena S.p.A., Siena	2.25
Intesa Sanpaolo S.p.A., Turin	1.10
Telecom Italia S.p.A., Milan	1.10

Head Office and Operational Units

HEAD OFFICE - ROME

Address	Via Quintino Sella, 2 00187 Rome, Italy
P.O. Box	290
Telephone	+39 06 423771
Cable	UBAE ROMA
Swift	UBAI IT RR
Web	**www.bancaubae.it**

MILAN BRANCH

Address	Piazza A. Diaz, 7 20123 Milan, Italy
Telephone	+39 02 7252191
Cable	UBAE MILANO
Swift	UBAI IT RR MIL

TRIPOLI (Libya)
REPRESENTATIVE OFFICE (Libya)

Address	Omar Mukhtar Street – Omar Mukhtar Investment Complex
Telephone	+218 21 4446598 / 4447639
Fax	+218 21 3340352

BOARD OF DIRECTORS 2022-2024
Appointed by Shareholders' Meeting on 10 May 2022

Chairman: **Othoman Mohamed Alnouseri**

Vice Chairman: **Antonio Piras**

Directors
Sharef S. Alwan
Saleh A. M. Edbayaa
Karima Munir Elguel*
Amal A. Khalifa Eshater*
Rauf Ibrahim Gritli
Abdalkhalig Mohamed M. Ibrahim
Paul Henry Jennings
Alaeddin Mokhtar Salim Msellati
Abdulmonam Geat Ali Tbigha

Secretary of the Board of Directors

Lavinia Callegari

BOARD OF STATUTORY AUDITORS (**)
Appointed by Shareholders' Meeting on 18 May 2021

Chair:	Statutory auditors:	Alternate auditors:
Ersilia Bartolomucci	Angelo Pappadà	*Sergio Montedoro*
	Michele Testa	*Carlotta Fasani****

(**) Members of the Oversight Body as per legislative decree no. 231/2001
The 282nd Board of Directors on 7 June 2021 nominated the members of the Board of Statutory Auditors as members of the Oversight Body as per legislative decree no. 231/2001

(*) Appointed by the General Meeting of Shareholders on 20.07.2022

(***) Appointed by the General Meeting of Shareholders on 10.05.2022

GENERAL MANAGEMENT

General Manager	Maurizio Valfrè
Deputy General Manager	Esam Elrayas

Executive Directors

Global Head of Business Development Area	Massimo Castellucci
Head of Tripoli Representation Office	Tariq Mohammed Saed Alajeeli

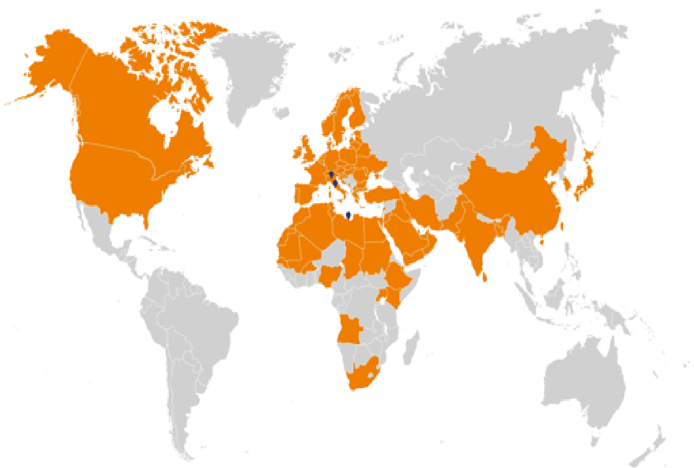
SUMMARY OF DATA, ECONOMIC AND FINANCIAL INDICES, AND CORPORATE GRAPHS

The Bank operates in 50 countries with the support of about 500 correspondent banks

Countries we do business with

Algeria
Angola
Bahrain
Bangladesh
Burkina Faso
Canada
Chad
China
Djibouti
Egypt
Ethiopia
EU Countries
Gambia
India
Iraq
Italy
Kenya
Kuwait
Japan
Jordan
Lebanon
Libya
Mali
Mauritania
Morocco
Nigeria
Oman
Pakistan
Qatar
Saudi Arabia
Senegal
Singapore
South Africa
South Korea
Sri Lanka
Sudan*
Tunisia
Turkey
UAE
Uganda
USA
Vietnam
Yemen*

* Only case by case



	31 Dec 2020	31 Dec 2021	31 Dec 2022
Financial Assets	€ 295,784,028	€ 285,911,965	€ 138,713,795
Banks Financing	€ 200,198,141	€ 239,144,189	€ 255,762,158
Deposits to banks	€ 201,738,372	€ 143,275,837	€ 58,545,497
Customer Financing	€ 925,548,514	€ 973,874,511	€ 1,116,143,384
Earning assets	€ 1,623,269,055	€ 1,642,206,502	€ 1,569,164,834
Total Assets	€ 1,688,638,188	€ 1,701,828,808	€ 1,638,782,341
Deposits from banks and a/c with banks	€ 1,299,586,598	€ 1,363,206,277	€ 1,253,506,124
Customer funding	€ 152,189,246	€ 117,007,479	€ 144,440,873
Total funding	€ 1,451,775,843	€ 1,480,213,756	€ 1,397,946,997
Reserves	€ (18,615,772)	€ (76,347,000)	€ (74,266,292)
Share capital	€ 261,185,870	€ 261,185,870	€ 261,185,870
Net Profit / Loss	€ (57,766,641)	€ 1,392,729	€ 11,752,052
Gross worth	€ 184,803,457	€ 186,231,599	€ 198,671,629
Net interest income	€ 11,919,677	€ 18,789,882	€ 27,236,691
Net Commissions	€ 10,328,134	€ 13,304,779	€ 14,070,361
Net financial income	€ (4,573,337)	€ 2,138,472	€ 11,078,712
Net trading income	€ 17,674,474	€ 34,233,132	€ 52,385,765
Operating charges	€ (36,312,444)	€ (25,919,916)	€ (26,900,900)
Net operating profit	€ (18,637,970)	€ 8,313,216	€ 25,484,865
Net profit	€ (57,766,641)	€ 1,392,729	€ 11,752,052
no cash asset (L/C)	€ 216,176,643	€ 395,533,347	€ 220,504,547
no cash asset (L/G)	€ 314,053,387	€ 282,619,050	€ 253,791,953
Turnover letters of credit oil	€ 75,686,477	€ 84,960,572	€ 42,230,660
Turnover letters of credit non-oil	€ 699,034,321	€ 1,293,394,575	€ 1,386,613,493
Turnover guarantees	€ 27,367,400	€ 45,435,261	€ 80,668,878
Outstanding guarantees	€ 315,597,234	€ 297,937,690	€ 268,913,409
NPL	€ 142,764,769	€ 166,953,246	€ 184,311,019
Gross worth/Total assets	10.94%	10.94%	12.12%
Loans/Deposits ratio	86.62%	88.98%	109.45%
Interbank Ratio	30.93%	28.05%	25.07%
NPL/total cash & no cash assets	6.27%	6.83%	8.50%
TEXAS Ratio	21.95%	30.62%	31.47%
ROE net profit/paid capital	-22.12%	0.53%	4.50%
ROE net profit/gross worth	-31.26%	0.75%	5.92%
ROA net profit/total assets (*)	-3.42%	0.08%	0.72%
Operating charges/net trading income	251.83%	71.47%	59.16%
Net profit/number of employees	€ (328,220)	€ 8,928	€ 78,347
Number of employees (Fixed and not Fixed tern	176	156	150
LCR (Liquidity Coverage Ratio)		321.00%	540.50%
NSFR (Net Stable Funding Ratio)		183.99%	123.38%
Total Capital ratio (Capital Adequacy Ratio)	19.13%	19.11%	19.08%
Cet1/Tier I capital ratio (Equity Asset Ratio)	19.13%	19.11%	19.08%
Banking Own Funds	€ 189,155,060	€ 213,077,966	€ 206,507,983

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

ANNUAL REPORT
1 January - 31 December 2022

Chairman's Statement

To all shareholders,

Although in 2022 the general conditions of the international and national markets in which the Bank is active improved slightly compared to the previous pandemic period, world economic growth was severely limited by the repercussions of the conflict in Ukraine.
Furthermore, the 2022 financial year was marked by record levels of inflation, sharply rising interest rates in general, widening of spreads and some phenomena of political and economic tension that continued to swirl around in some regional and local contexts.

World GDP growth is expected to be around 3.0% for 2022 and 3.3% for the Euro Area in both cases with a significant slowdown in the last quarter due to the Chinese health crisis s well as the Russia-Ukraine conflict. The surge in inflation in the Eurozone was particularly worrying mainly due to the rising cost of energy and some raw materials; overall inflation reached nearly 12%, triggering a sharp reaction in terms of restrictive monetary policy by the European Central Bank.

In Italy, despite the aforesaid difficulties in the international context, GDP growth was particularly good and higher than expected, reaching +4% partly fuelled by the effects of the National Recovery and Resilience Plan (PNRR); at the end of 2022, the level of Italian GDP returned to the values prior to the outbreak of the Covid pandemic.

As regards the economies of the countries with which the Bank traditionally operates, they were able to count on a marked growth (expected at around 5.7%) supported – in particular for exporting countries – by the increase in the prices of energy and raw materials as well as the increase in their production volumes.

In the year that has just ended, Banca UBAE succeeded in achieving tangible added value for its shareholders, customers and employees. It was a very busy year, full of initiatives but also with a return to important results.

The Bank has been able to seize business opportunities on international and domestic markets, correctly assessing the prospective risks at the level of individual countries, particularly in some geographical areas such as the Middle East and North Africa, which represent its historical vocation.

Despite the regulatory capital restrictions, the Bank's 2022 financial statements returned to showing excellent results and still exceeding expectations, testifying to the correctness of the strategic decisions and operational interventions made. The tier 1 ratio and total capital ratio, which stood at 19.08% at the end of the year, are well above the regulatory minimums; the cost income ratio returned to target (59.17%), confirming the attention paid by management to operational efficiency.

The strategic decisions assessed and taken by the Board of Directors during 2022 were numerous, and of significant importance, also for their future implications, aimed at consolidating corporate profitability and pursuing medium/long-term stability between technical and organisational development, internal control structure and business strategies.

The most significant confirmation of the validity of the decisions taken came from the Fitch rating agency, which in October changed the Bank's "outlook" from "negative" to "stable", albeit in an extremely uncertain general context; the rating agency recognized the tangible progress made in terms of risk control, cost optimization and a return to stable profitability.

The economic projections for 2023 continue to reflect objective elements of uncertainty deriving primarily from the continuation of the conflict in Ukraine, from the persistent supply difficulties of some raw materials, from the multiple situations of political and institutional instability. The growth forecasts for the world economy are estimated downwards at +2.9%, while those relating to the Euro Area and Italy, also expected to decrease, are respectively +0.5% and +0.6%. In addition to the elements of uncertainty mentioned above, inflationary dynamics are expected to reach 6.3% in 2023.

On the other hand, for 2023 the growth prospects of the Bank’s main core countries, i.e. those of the MENA area and in particular Libya, are confirmed as very positive, where the International Monetary Fund estimates a GDP growth of approximately 17%.

To all shareholders and other stakeholders,

we are proud that 2022, which represented the 50th year of the Bank's operations starting from its constitution, was a year in which your Bank returned to expressing its potential, even more so if the general macroeconomic context is taken into consideration. Although in a scenario characterized by many external elements of uncertainty, both political and economic, we are confident that, also in 2023, the Bank – with the strong support of the strategic indications of its governance bodies and thanks to the financial support offered by its shareholders, in particular the Libyan Foreign Bank, will be able to consolidate its role as a Bank with an international vocation by confirming, and also improving, the commercial and economic results achieved in the year just ended, to the benefit of all stakeholders.

Lastly, I would like to extend a special and heartfelt gratitude to all those – directors, statutory auditors, general management and the Bank's personnel – who, collaborating profitably and sharing a difficult work path, have contributed to reaching the strategic objectives that the Bank has set itself to achieve in the shortest possible time, also for the future, in the certainty of being able to count on your commitment to face the arduous challenges that await us in the coming years.

Othoman Mohamed Alnouseri
Chairman of the Board of Directors

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

EUR/mln

COUNTRIES	2022		2021		2020	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS
LIBYA	9,146	1,939	5,570	1,201	1,725	879
BANGLADESH	1,882	629	1,287	516	1,213	401
ALGERIA	15,820	2,070	5,579	1,763	3,142	1,941
PAKISTAN	1,115	627	764	754	625	509
TUNISIA	2,827	3,691	2,618	2,856	2,088	2,384
EGYPT	2,596	3,251	2,011	3,800	1,605	3,080
BAHRAIN	285	267	228	318	140	422
JORDAN	73	538	46	497	34	415
ANGOLA	1,471	270	119	279	248	189
ETHIOPIA	91	155	58	177	68	192
MAURITANIA	128	28	174	31	128	22
TURKEY	11,351	12,109	9,850	9,533	7,456	7,727
OMAN	370	330	116	397	51	493
YEMEN	73	66	12	71	6	76
SRI-LANKA	544	218	473	249	376	215
DJIBOUTI	4.2	30	0.2	16	0.1	17
SPAIN	28,012	29,623	24,177	25,542	19,596	20,429
QATAR	5,255	2,574	2,049	2,007	1,025	1,050
UNITED KINGDOM	7,588	25,430	8,068	23,450	8,417	22,420
MOROCCO	1,487	2,544	1,292	2,205	1,044	1,711
MALAYSIA	1,808	1,381	1,594	1,121	1,154	1,112
SUDAN	434	86	171	83	143	83
HONG KONG	315	4,160	295	4,815	304	4,278
CHINA	54,070	14,682	38,525	15,691	32,144	12,887
SAUDI ARABIA	6,625	3,617	4,849	3,339	2,959	3,217
UAE	2,010	5,438	2,073	4,821	4,550	3,867
KENYA	49	167	44	162	25	319
TAIWAN	3,244	2,337	2,354	1,619	1,622	1,456
FRANCE	44,754	57,517	39,186	52,766	31,316	44,660
TOTAL	**203,427**	**175,773**	**153,581**	**160,081**	**123,202**	**136,452**
UBAE'S SHARE	**25**	**1,392**	**24**	**1,373**	**20**	**553**
%	0.01	0.79	0.02	0.86	0.02	0.41

The BANK'S ACTIVITIES: BRIEF SUMMARY

BANKING OPERATIONS IN 2022

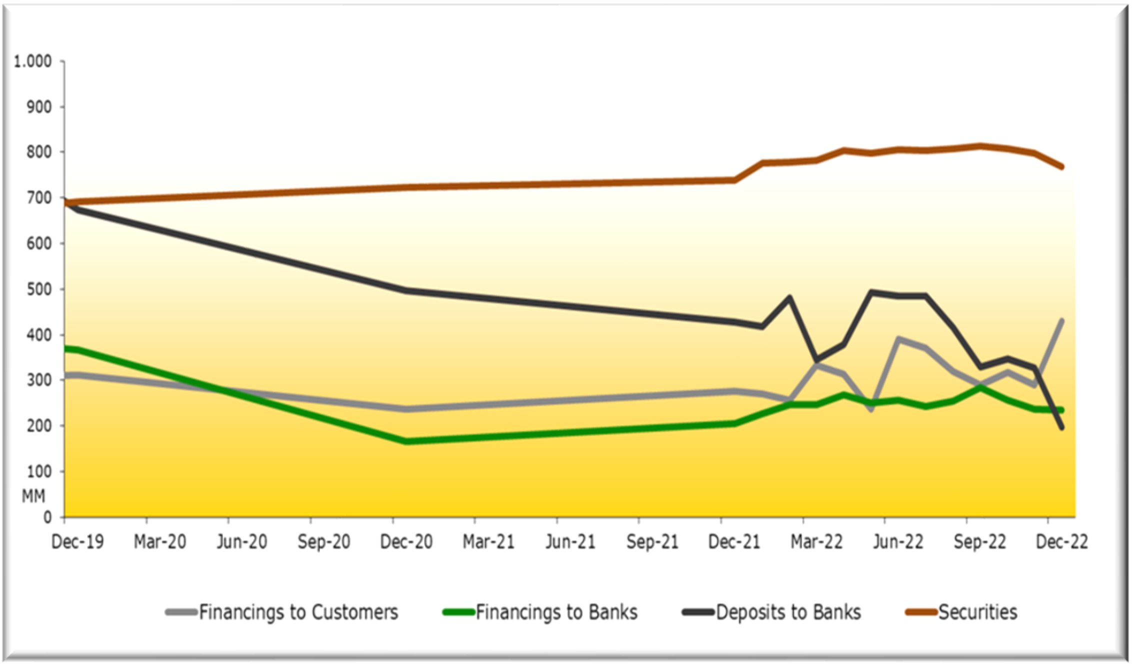
COMMERCIAL ACTIVITIES

Commitments (Loans and Advances)

The Bank's activity is mainly aimed at facilitating financial intermediation interventions in support of commercial transactions with counterparties that carry out import/export activities or works for the construction of infrastructures in the reference countries, in particular those of the MENA area.

In the year under review, despite the difficulties associated with the well-known war events and adverse economic conditions that characterized world markets, overall loans remained in line with those of the previous year; more specifically, the decrease seen in the banking sector (-19.45%) was offset by the growth in corporate loans at a national and international level (+ 49.68%).

The graph below reflects the pursuit of a policy of repositioning of overall loans, the structure of which has thus been rebalanced:



Short, medium and long-term bilateral loans, of an exclusively financial nature, to corporate counterparties, in consideration of a specific strategic decision by the Bank to concentrate on activities with a better risk/return profile, were confirmed to be limited in volume and limited to customers to whom UBAE already offers its assistance for commercial operations.

▶ Operations on foreign markets

In 2022, commercial and financial activity with countries historically of interest to the Bank, although impacted by the repercussions of the war crisis and the economic consequences it entailed, settled at good levels of profitability for the Bank.

The repercussions of the Russia-Ukraine conflict had an impact on the growth of the global economy, which, at the end of the year, was also affected by the consequences of the further worsening of the health crisis in China.
On the basis of the most recent estimates available, in 2022 production activity would have slowed down above all in advanced countries, whose economies were strongly impacted by inflation, which reached high values in 2022 (+approx. 12%) a situation not seen for many years.

The growth of global international trade slowed down to 5.6 per cent in 2022, although it remained at high values by historical comparison. The most recent forecasts by international institutions envisage a sharp deceleration in world product and trade also for the current year, despite the expected Chinese recovery, due to still high energy prices, the consequent weakness in household disposable income and the launch of more restrictive monetary policies in advanced countries.
In general, the world economy is expected to slow down in the near future; uncertainty remains very high even if the latest indicators for the early months of 2023 bode well. Despite the expected recovery in China, according to the latest projections by the International Monetary Fund, the rate of expansion of world product should be 2.9% this year (expected 3.4% and reached 3.4%).

The situation in 2022 and the estimates for 2023:

In Italy, the final estimate of GDP growth in 2022 stands at 3.9%, higher than the European average; based on the available evidence, it benefited from the investment programmes envisaged by the PNRR and from the recovery of services, which returned to significant growth in August 2022.

In 2023, expected economic growth – undoubtedly influenced by the uncertainties of international politics and by widespread inflation – should settle at 0.6% of GDP, with a recovery over the following two years thanks to the reduction in inflationary pressures and above all to the relaunch of exports.
More specifically, average annual inflation should gradually retrace from 8.7% to 6% in 2023 and then settle at 2% in 2025.

In Europe, gross domestic product growth should reach 3.5% by the end of 2022, with highly heterogeneous values between the various countries.
In 2023, GDP growth should be limited to around 0.5% and then reach 2% in 2024.

The economy of the Eurozone also felt the effects of the consolidation of the effects of war tensions and inflationary pressure, which reached a peak of 10.6%, in particular due to the exceptional increases in the energy component.
According to expert projections, the inflation rate in 2023 should be around 5% at the European level.

As far as the world economy is concerned, forecasts envisage a picture of generalized weakening; uncertainty remains very high in a scenario that forecasts real GDP growth of 2.9% in 2022 and then settling at 1.7% in 2023.

Compared to previous projections, both 2022 and 2023 have been revised downwards. This reflects the impact of the prices of energy raw materials, and in particular of gas, an impact which in 2023 is expected to be more limited following the policy of increasing storage widely adopted, with positive repercussions on prices.

In emerging countries, the overall financial perspectives lead to an estimate of GDP growth equal to 3.4 for 2022.
After 12 difficult months, characterized by political-institutional fragility, suffering currencies and double-digit losses on the stock and bond markets, many international observers predict a rebound as early as 2023.
Indeed, such markets could benefit from both players in the global economy: the USA, where interest rates could peak, weakening a historically strong dollar, and China, which is recovering after a period of slower growth in the decades and which represents about a third of some emerging market indices.

In the countries of traditional interest to the Bank, those of the MENA area, the economic impact will differ from country to country; those that export their energy commodity reserves, especially those characterized by high export levels and small population sizes, could sustain high government spending, thanks to strong financial cushions maintained by relatively stable export earnings and thereby benefit by way of a sharp rise in GDP. According to the IMF, average economic growth in MENA countries is expected to be around 3.6% in 2023, higher than the world average, assuming that the prices of hydrocarbon resources remain high compared to historical averages.
Some countries in the area have faced, and are still facing, difficult times due to the consequences of the conflict in Ukraine, in particular the difficulties (and increased costs) of importing food and raw materials.

Also the impact of inflation will be felt to varying degrees across the region. The most severe inflation surge could hit oil-importing economies, namely Jordan, Egypt and Lebanon, where the economic challenges and currency depreciation of 2022 will persist.
Another critical factor – given the strong dependence of the region on imports of wheat and food in general – is the impact of inflation which could hit the markets in the agri-food sector.
In this context, for the Bank's most important reference country – Libya – the IMF forecasts a very auspicious economic growth of 17% for 2023.

In the banking sector, despite the general slowdown in the international economy, the main efficiency indicators on the state of health of the sector remain positive. Credit quality remains at acceptable levels, as do liquidity margins, which still stand at satisfactory levels and above historical averages.
Profitability remains buoyant, as does capitalisation. In this context, forecasts indicate that the generalized increase in (lending) rates should favour banks with more traditional operations.

During 2022, the Bank revised its objectives by adapting them to the new international economic and financial scenarios, with the aim of defining the most suitable commercial and operating strategies with respect to the changed context in terms of markets, products, volumes and profitability.

The strategy, already declared in the 2021-2024 Business Plan and recently updated, sees, for 2023, the substantial confirmation of the objectives relating to trade finance activity and the stabilization of loan volumes in the geographical areas of historical interest to the Bank; objectives certainly always guided by the logic of prudence in terms of creditworthiness and particular attention to maximizing the return/risk ratio.
Despite an objectively complicated economic context, the Bank has continued, with a good commercial drive, the actions to strengthen its international business, confirming its high standing position in this market segment and its historic mission of supporting trade flows, in particular towards Libya and the other countries of the MENA area.

Revenues from commercial activities amounted, in 2022, to Euro 25 million (previously Euro 22.5 million), of which 53% deriving from commissions on letters of credit and guarantees, 42% from financing transactions and commercial discounts and 5% from Factoring Desk activities.

With particular reference to geographical origin, it should be noted that 85% of revenues were generated abroad and 15% in Italy.

At the end of 2022, there were a total of 406 counterparties, of which 230 banks (Italian and foreign) and 176 companies with an international vocation.

Following the issue of the Relaunch Decree (legislative decree no. 34/2020), which introduced some measures to support the construction sector and raised the tax deduction due to energy redevelopment and seismic interventions to 110% (so-called 110% Superbonus introduced by article no. 119), the Bank proceeded to acquire a portfolio of tax credits for a total of Euro 20 million, an amount in line with the current tax capacity.

The operation was effectively launched in July 2022 and concluded in December; in the preliminary assessment process, the Bank made use of the support of a consultancy firm and envisaged a series of detailed checks in order to be able to demonstrate, if necessary, that the checks had been carried out with an adequate level of diligence.

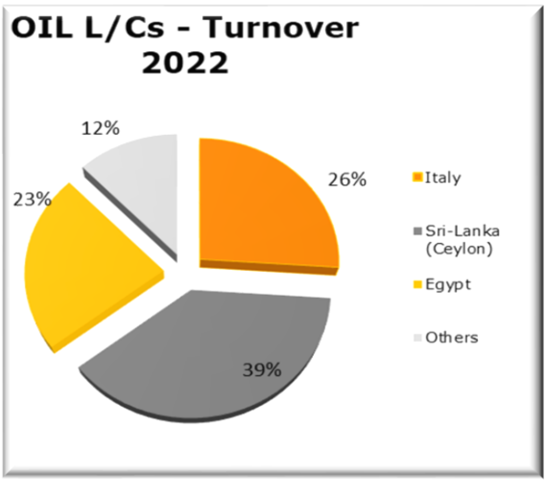
Below is the main qualitative and quantitative information on the Bank's operations during 2022; for further details, however, please refer to the information contained in the Explanatory Notes.

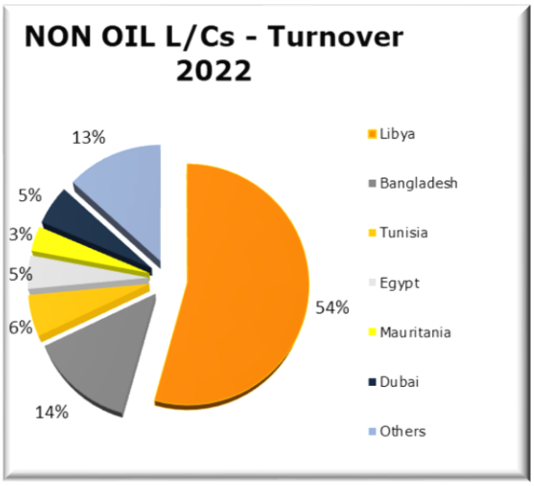
●∞●

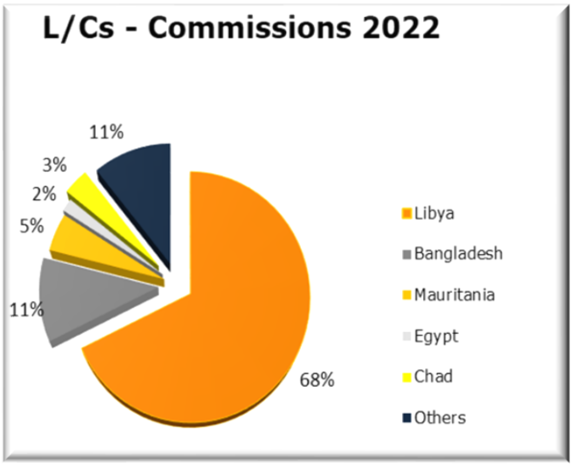
In 2022, the turnover of Letters of Credit (see Table) reached the amount of Euro 1.4 billion, with a significant increase both compared to 2021 (+10.5%) and to the budget (+36%).
The stock of the Letters of Guarantee issued by the Bank as at 31 December 2022 amounted to Euro 269 million, higher than the forecast data albeit slightly down on the 2021 data.

The analysis of letters of credit received and intermediated by country of origin of the business is as follows:

<u>Geographic analysis</u>







Detailed analysis of the annual data shows the following evolution:

EUR/000

	2022		2021		2020	
	Value / no.	+/- %	Value / no.	+/- %	Value / no.	+/- %
Letters of credit: Number	2,243	(15.07)	2,641	41.46	1,867	(35.84)
Non Oil Letters of Credit: turnover	1,428,840	10.47	1,293,390	85.03	699,030	(38.90)
Oil Letters of credit: turnover	42,230	(50.29)	84,960	12.25	75,690	(81.37)
Commissions accrued	10,513	5.79	9,938	45.53	6,829	(32.84)

The values recorded in 2022 confirm the effects of the renewed commercial drive expressed by the Bank, with an increase in the value of Letters of Credit especially in the markets where Banca UBAE has historically operated; this increase had positive effects on commission income, which grew by 5.8%.

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Detailed analysis of the guarantee data shows the following trend:

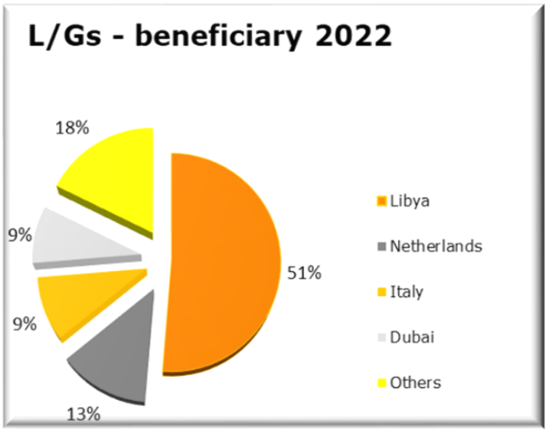
EUR/000

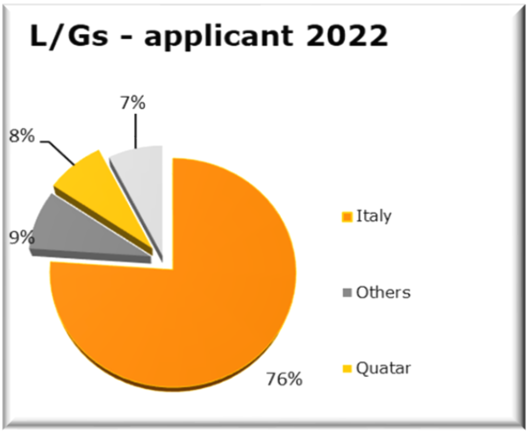
	2022		2021		2020	
	Value	+/- %	Value	+/- %	Value	+/- %
Guarantees issued in year	80,669	77.55	45,435	66.02	27,367	(47.02)
Guarantees: Outstanding at EoY	268,913	(9.74)	297,939	(5.60)	315,597	(16.06)
Commissions received	2,665	19.95	2,221	(22.19)	2,855	(10.50)

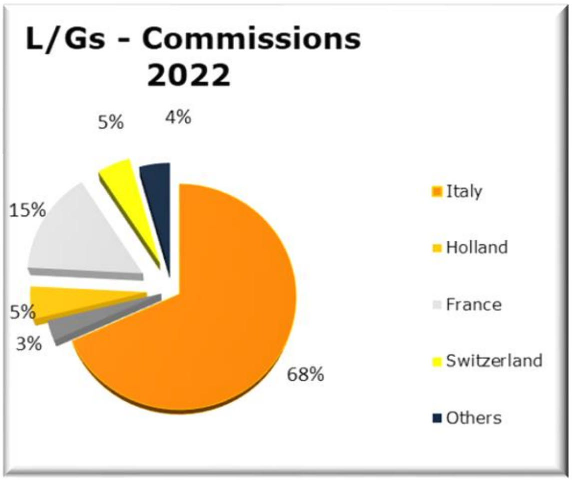
The guarantees – mainly issued on behalf of Italian companies with high credit standings against exports and/or significant orders in the foreign markets of

interest – showed a marked increase in turnover (+78%) against an exposure substantially in line with the data of the previous year.
The increase in volumes produced good economic returns at the end of 2022, recovering the heavy contraction in the infrastructure works segment – linked to international contracts – recorded in the previous year, as a consequence of the pandemic events.
Income settled on satisfactory values (+20%) compared to the previous year.

Geographic analysis







▶Activities on financial markets

The average volumes of financial assets managed by the Bank during the year settled at completely satisfactory levels and higher than those of the previous period.

In a financial year, the one that has just ended, which was very complex and characterized by significant changes in the tone of the financial markets, which returned to expressing positive interest rates as a consequence of the repeated interventions of the Central Banks to counter the intense inflationary phenomena, the Bank was able to anticipate trends and assume, from time to time, the right positioning in terms of risk/return profile of its portfolio of assets and derivative instruments.

Funding, during the 2022 financial year, had a fairly regular trend, remaining at values adequate for the planned investments and uses; this dynamic is the confirmation of the trust placed in the Bank and in its newfound ability to manage its funds efficiently and effectively, by the reference shareholder Libyan Foreign Bank.

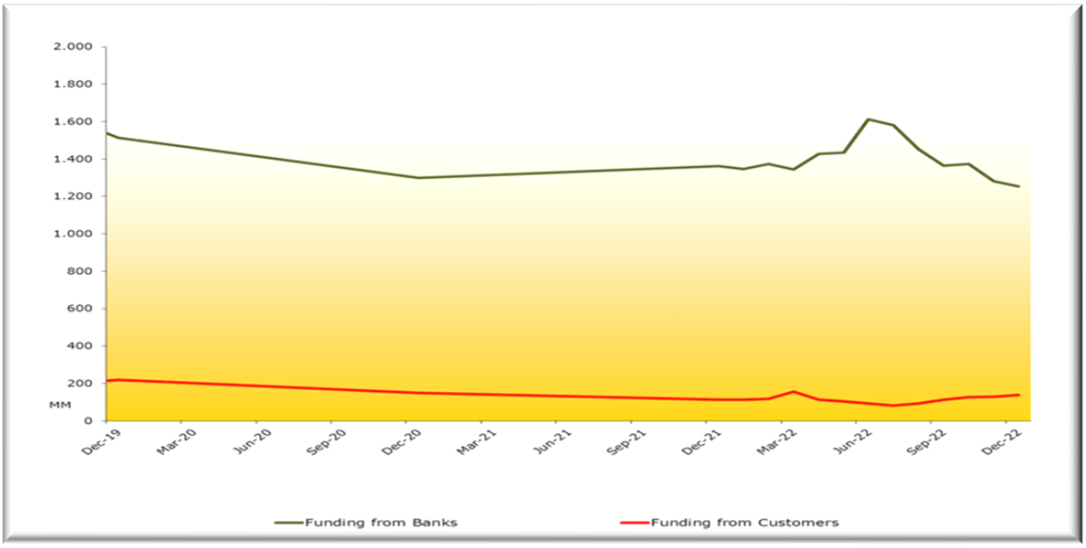
Witness – in this sense – the "Security Agreement" under which the Libyan Foreign Bank (LFB) continued to guarantee two deposits, respectively of USD 300 million and EUR 100 million, with an annual duration, with the dual objective to consolidate the Bank's funding as well as to support the business aimed at "related" counterparties attributable to the Libya Foreign Bank itself.

The average balance of total deposits (due to banks and customers) in the period under review and the percentage changes compared to the previous quarter are summarized in the following table:

EUR/000

FUNDING 2022							
First quarter		Second quarter		Third quarter		Fourth quarter	
Value	+/- %	Value	+/- %	Value	+/- %	Value	+/- %
1,483,770	2.23	**1,595,371**	7.52	**1,561,539**	(2.12)	**1,433,640**	(8.19)

The performance of the main funding items in the last three years (2020-2022) is shown below:



▶Managing financial activities

The securities portfolio owned by the Bank mainly consists of Government Securities, in particular issued by the Italian State; it supports the management of liquidity commitments and follows a logical approach based mainly on medium/long-term time horizons.

During the 2022 financial year, the Bank confirmed its propensity towards stable loans, capable of generating returns assessed as adequate in a medium-long term scenario, and at the same time guaranteeing an asset quality compatible with an adequate level of LCR - Liquidity Coverage Ratio, which has always remained well above the minimum level required by current legislation on the matter.
The increase in financial investments in Italian government bonds, partly financed by REPO operations, scheduled for 2023 is expected to feed and strengthen revenue sources.

In 2022, there was a good recovery in trading activities, which led to the achievement of good financial results, well beyond the budget expectations.

Also in 2022, the bank took advantage of the trend in the financial markets to sell interest rate derivatives - held in the trading portfolio - achieving a very positive result.

The composition of the portfolio at the end of the year reflects the investments made, with a very low risk profile logic, in Italian government bonds and securities issued by foreign governments or central institutions – including non-EU ones – with an average residual life of 2.92 years (duration average 1.01 years) for the investment portfolio and 2.85 years (average duration 2.19 years) for the residual trading portfolio. The use of derivative products, aimed at operationally mitigating interest rate risk, brought the average duration to 0.56 years for the investment portfolio.

The Bank's policy, always taking into account the limited propensity for risk, was to limit investments on the stock market, favouring investments in the fixed-income segment, both in floating-rate and fixed-rate issues, linking the latter to derivative instruments suitable for limiting the risks deriving from the volatility of interest rates. In more detail:

a) Investment portfolio:
- floating rate issues with attractive profitability, to be held in the portfolio until maturity, mainly originated by the Italian government, with the primary objective of ensuring compliance with the regulatory threshold established for the LCR (Liquidity Coverage Ratio);

- fixed rate issues, with maturities mostly attributable to the short/medium term and issued by sovereign countries (also by the Italian State), in part with the primary objective of guaranteeing compliance with the regulatory threshold envisaged for the LCR (Liquidity Coverage Ratio) and partly with the aim of increasing the average return of this portfolio cluster.

The Bank has chosen not to use, to date, new and additional technical forms of investment or proprietary portfolio management tools, such as harmonized products and collective investment undertakings (UCITs).

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▶Interbank activities

Activity in this area continued to be strongly influenced by the monetary policies dictated by the ECB during the year.

The decisions of the Governing Council of the ECB implemented since the end of 2021 were aimed at countering the danger that high inflation would be transferred to prices and wages, starting a particularly dangerous spiral with respect to economies made fragile – albeit with different levels of intensity – from pandemic effects. In this regard, it is expected that this action will continue in 2023 on the thin line between full control of inflationary impulses and an adequate level of economic growth, avoiding the consequences of negative effects on income and employment.

The main refinancing rate of the ECB, at the end of 2022, rose to 2.50%, with a similar trend with respect to that on bank deposits, which reached 2.00%, and that of marginal refinancing, which rose to 2.75%.

In the second half of 2022, the ECB also launched a progressive and gradual reduction in the stocks of securities held by the Eurosystem, an action that will continue in 2023 at a fixed rate of Euro 15 billion per month until June 2023, to then be rescheduled in the second half of 2023 based on the contextual situation; the ECB's medium-term objective of ensuring that inflation returns to the always declared target of 2% remains unchanged.

The result of the Bank's Finance Area, despite being affected at least in the first half of the year by the still reduced margins typical of the interbank deposits segment, reached very satisfactory levels and well above the budget estimates, always in compliance with the regulatory limits (NSFR and LCR).

The total amount administered by the Treasury Sector in the various currencies remained around Euro 1.7 billion on average.

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▶The main results achieved during the year.

The **net economic result** for the year under consideration, equal to circa **Euro 11.7 million**, shows a strong increase compared to 2021 (Euro 1.4 million).

In more detail:

- the **"interest margin**" amounted to circa **Euro 27 million**, with an increase of 44% compared to 2021; this increase is due to the significant return achieved on commercial loans and financial investments as well as the careful and timely positioning of the Bank with respect to the actual dynamics of Italian inflation and of the interest rate and exchange rate market;

- **brokerage income** amounted to approximately **Euro 25 million** (previously Euro 15 million); the increase is attributable to the good result deriving from the intermediation of letters of credit and the management of international guarantees, where, thanks to the strong commitment of the commercial structure and the operating units, it was possible to capitalize on the recovery of international trade and especially the recovery of activity in the Bank's core countries; moreover, the capital gains generated by the rebalancing of interest rate risks carried out in the second half of the year were of particular significance;

- the item **"value adjustments and provisions for risks**" reflects the extremely prudential approach in the assessment of the effective repayment expectations of non-performing positions, in accordance with the current credit policy. Write-downs in the period in question amounted to circa **Euro 12.9 million,** as the combined effect of new net analytical write-downs for approximately **Euro 19.9 million** on positions classified as non-performing (stage 3) and a write-back of approximately **Euro 7 million** deriving from the application of the international accounting standard IFRS9 on loans and securities classified as performing (stages 1 and 2). Both values are affected (with an opposite sign evidently) for approximately Euro 4.5 million by the reclassification of the write-downs relating to a foreign banking counterparty which in 2021 was classified among performing loans (stage 2);

- **personnel costs**, amounting to circa **Euro 16 million**, increased by 4% as a net effect of the streamlining of the organizational structure and the allocation of the bonus due to personnel, in the light of the excellent income results achieved by the Bank, in compliance with the current remuneration policies.

The result also incorporated the effects of Banca d'Italia's decision, reiterated in the first half of 2022, to ask the entire national credit sector for economic contributions – ordinary – to be paid to the Single Resolution Fund (SRF). The total amount of these mandatory contributions, allocated to administrative expenses, was approximately **Euro 1.1 million**.

The Bank, in agreement with the independent auditors, has prudentially deferred to future years the recognition in the financial statements of the "deferred tax assets" from tax losses, potentially equal to circa **Euro 27 million**.

1. ORGANIZATION AND PERSONNEL

a. Foreword

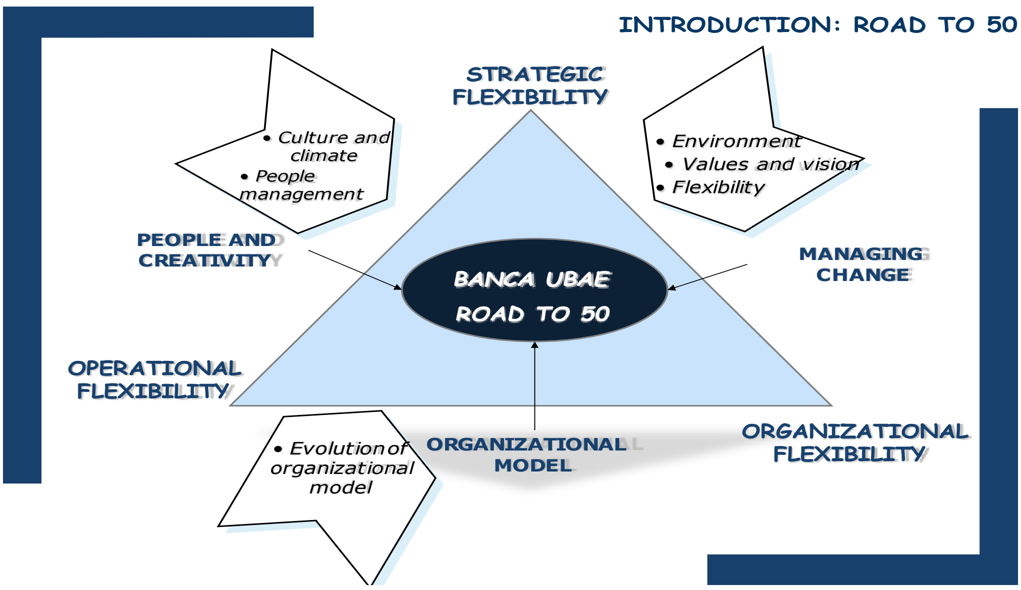
During 2022, the Bank continued to build, progressively over time, a reality based on people (and for people), on their professional skills and qualifications, on their spirit of collaboration and on their corporate identity, with the aim of maximizing the benefits for stakeholders, and in particular of offering customers adequate levels of service and thus ensuring satisfactory profitability also in the medium-long term. Within this framework, the strategic drivers that make Banca UBAE are oriented towards, and committed to, enhancing its human capital.

The path undertaken therefore sees the Bank's management responsible for a process of continuous change based on the close interdependence existing between environment-strategy-structure, through the activation of all the levers necessary for the care and development of its employees, in order to create added value for the Bank as a whole and for its shareholders.

b. Main initiatives for 2022

Qualifying aspect of the year 2022, in addition to the conclusion of the trade union information and consultation procedure pursuant to art. 20 of the **National Collective Bargaining Agreement** for executives and personnel in the professional areas dependent on credit companies ("CCNL"), was the launch of an **integrated project for the management and enhancement of its human capital**, based on the following strategic dimensions:

- Organisational model
- People
- Managing change



The Bank has, in fact, completed the adaptation of the organizational structure, aimed at reducing the fragmentation of the units and at the same time improving the efficiency of the processes. The underlying objective was to streamline the organizational structure, operating some reasoned unifications of interdependent units.

With reference, however, to the development of its human capital, the Bank has structured an action plan, based on:

• **segmentation of the corporate population** on the basis of performance and potential assessment;
• **coverage of professional needs** through the activation of all levers of the reward system (vertical and horizontal career paths, replacement tables);
• **differentiated training courses** aimed at supporting career paths and improving the professionalism already existing.

In this context, training has represented (and still represents) a lever considered strategic for the achievement of business objectives: the management has, in fact, launched a diversified training plan to develop the behavioural and managerial skills of the entire corporate population, contributing to implementation of organizational change. The first initiative of the project was the Top Lead Lab, which involved the Bank's front lines in classroom sessions and coaching sessions, with the aim of strengthening the managerial capacity of Resource Managers, promoting the valorisation and development of all personnel by enhancing leadership styles oriented towards delegation, feedback, motivation and employee engagement. Moreover, it represented a fundamental moment for generating a comparison and an alignment on managerial styles, providing stimuli for the continuous improvement of skills and performance.

The path also envisaged the holding (still in progress) of training sessions devoted to communication, team working and group management for the entire workforce.

Lastly, with particular reference to managing change and the creation of a corporate culture devoted to enhancing inclusion and "common feeling", the Bank has organized an initiative dedicated to the celebration of the fiftieth anniversary of its foundation. In fact, to give the right emphasis to the "Road to 50" milestone and to lay the foundations for future years, the Bank organized a corporate event for all employees aimed at sharing an interesting experience of conviviality and individual growth, also to be seen as part of the long and articulated training course on soft skills launched.

The objectives of this intervention were to:

a) create an opportunity **to get to know each other in a different way**;
b) promote integration, collaboration and trust, beyond the sector to which they belong;
c) regenerate resources in people, in a context of challenge first of all with oneself;
d) train some key skills, such as communication, planning, creative problem-solving, focus on individual and general results;
e) trigger a path of continuous improvement, which will be fed into the training modules to be carried out in a subsequent period.

c. More initiatives and projects

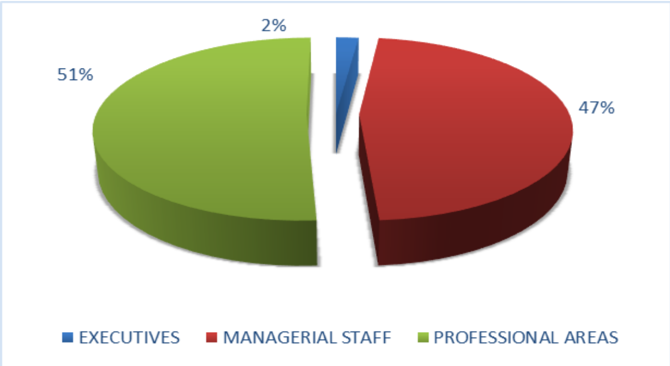
Furthermore, the Management has been involved in organizing the following activities:

1. **Maintenance and updating of the performance management system**, aimed at a better understanding and evaluation of professional performances; the focus was on directing the action of Management towards the objectives and behaviours that directly govern the business of Banca UBAE (identifying the critical factors of the Bank's success and translating them into objectives and organizational behaviours to be managed);
2. **Promotion of the culture of safety at work** through training and information initiatives, in addition to the activities governed by legislative decree 81/2009 (for example, annual meetings, risk assessment, etc). The Bank has also implemented all the necessary measures to combat the spread of the Covid pandemic, described in the specific corporate protocol;
3. **Strengthening of the "Corporate Welfare**" system aimed at making available to employees goods and services related to the needs of their working, personal and family life. This initiative has set itself, as qualifying objectives, the improvement of the corporate climate, the increase in productivity, the increase in satisfaction and motivation of the personnel;
4. **Maintaining an integrated training system**. Banca UBAE, for some years now, has started the definition and implementation of training actions aimed at the growth of its internal resources. These interventions were activated in order to strengthen the individual knowledge and skills necessary to implement the quality of the relationship with customers, to optimize internal operating processes as well as to respond to more recent regulatory interventions. Specifically, training activities were carried out linked both to the so-called "mandatory" training (inherent, i.e., to the necessary update relating to the regulations on the management of personal data, safety in the working environment, privacy, anti-money laundering), and to more specialized topics (balance sheet, credit process).
5. **Launch of initiatives aimed at enhancing the diversity** existing and/or potentially present within the company. The diversification of skills, abilities, cultural and social backgrounds, as well as the creation of an inclusive space, which favours constructive comparison between the multiple experiences, represent an opportunity for Banca UBAE to enrich its business with new perspectives and to generate organizational solutions and innovative management. The Bank considers inclusion, i.e. feeling part of the institution, an essential value for promoting organizational well-being and a corporate climate based on fairness and transparency.
6. Also in 2022, the Bank had to continue **to manage the Covid pandemic** emergency, reinforcing all the safeguards and taking the appropriate measures to combat the spread of the virus, including the use of smart working. The choices made from time to time were inspired by the protection of the health of the Bank's personnel, sometimes following approaches that were even more prudent than what is required by law.

d. Quantitative data

At the end of 2022, the workforce stood at 150 people (ex 156) , distributed as follows with regard to the positions held:

- 2.0 % executives
- 46.7% cadres
- 51.3% professional areas



The table below shows the dynamics of composition by posts held in the years 2021 and 2022.

	31/12/2021		**31/12/2022**	
	N°	Incidence	N°	Incidence
EXECUTIVES	3	1.9%	3	2.0%
CADRES	75	48.1%	70	46.7%
PROFESSIONAL AREAS	78	50.0%	77	51.3%
	156		**150**	

2. Organization, IT Systems, Security and Privacy

The Organization and IT Systems Sector is entrusted with activities aimed at improving business functioning, organizational structures, ICT security, regulations and corporate processes.

As regards the procedural developments on significant management aspects, the impact deriving from the adjustments of the IT systems to the new regulations and IT security will continue, also for the year 2023.

During 2022, the Bank, in compliance with the provisions of Circular 285 (Part One, Title IV, Chapter IV "The information system"), monitored the main outsourced services (to Cedacri and Arcares) carefully following the updates of the respective IT systems and of the Arcares Factoring platform, continuously monitoring the quality of the IT solutions released.

In this regard, following receipt of Banca d’Italia communication regarding the inspections carried out at Cedacri (see Banca d’Italia communication dated 11 October 2021 ref. no. 1445055/21), in collaboration with the consultancy firm Mazars, specialized in IT Audit activities, the periodic monitoring activities on the adequacy of the intervention plan prepared in the Recovery Plan drawn up by the outsourcer Cedacri.

In the early months of 2022, the Organization & IT Sector also launched an assessment activity aimed at evaluating, in view of the forthcoming expiry of the outsourcing contract with Cedacri (May 2023), any alternative solutions with respect to the supply of IT outsourcing services.
The results of the assessment confirmed, from an architectural, infrastructural, economic and risk point of view, a better quality of the services offered by Cedacri.

The periodic analyses of the performance indicators have continuously highlighted service levels in line with the contractual terms (SLA). During 2022, two incidents with a critical impact on the IT System were identified, duly reported to the Bank’s Board and, in compliance with current regulatory provisions, to the Regulators (Banca d’Italia and Privacy Guarantor).

As regards the development and maintenance of business applications, several projects were completed in 2022, including the one relating to the new definition of default, LOM-Loan & Origination Monitoring, payment traceability, PSD2 anti-fraud and payment cards, T2T2s Consolidation, Third Party Regulations, FATCA and Anti-Money Laundering.

In the Factoring area, the Marketplace fintech platform called Polaris was released, used for marketplace Factoring and Reverse Factoring operations and “WOF-Web Online Factoring”, an application that allows factoring customers to interact with the Bank via an internet portal, through which being able to manage the portfolio of transferred invoices.

On the Trade Finance front, the fintech platform marketed by the company Traydstream was launched, through which the management of dematerialisation (digitalisation) and analysis of the conformity of the documentation relating to import/export credit letters was activated, through the combined use of OCR and Machine Learning technologies.

Another project completed in the field of technological innovation is that of the development of the first RPA-Robot Process Automation process, through which it was possible to optimize certain data acquisition activities and/or interact with IT applications in order to perform more automatically a series of repetitive operations related to the assessment of market valuations of interest rate derivative instruments traded over the counter.

Furthermore, in conjunction with the activities related to the renewal of the contract with the outsourcer Cedacri, an in-depth analysis was carried out on possible application developments on the Foreign platform, aimed at ensuring a general efficiency improvement of the operating processes and security levels in the Trade Finance and payments areas, and its integration in the following software module related to the dematerialized management of document files and the opening to customers of foreign functions via the Internet.

On the subject of Anti-Money Laundering, the transition into production of the new Gianos4D platform was completed with which the new regulatory requirements introduced by the IV Anti-Money Laundering Directive were implemented.Among the various functions, the tool involves a customer assessment workflow for the purpose of due diligence.

In terms of transparency, together with the Compliance function, the document structure of the Information Sheets and Summary Documents was reviewed and, in compliance with the PSD2 regulation, information letters were sent to customers with the news regarding the possibility for third parties to access account information and issue new tokens in accordance with the introduction of "strong customer authentication".

In terms of network messaging, note the continuation of the T2-T2S Consolidation project, which will be completed in November 2023 and will have among the most significant innovations the use and implementation of RNI messaging to the ISO 20022 communication standard, abandoning consequently the RNI messages (820 and 331). This solution, which will impact the BE, PREMIA and Bank wire transfer subsystems, as well as making the management of such messages more efficient, will introduce important security mechanisms on a par with those already adopted for the SWIFT component.

In terms of IT architecture and infrastructure, during 2022 the Bank consolidated the activities carried out in the previous year, which led to greater resilience of the systems in highly reliable architecture. In the wake of the simplification of its infrastructure, revision was carried out of the printer fleet, the replacement of the network switches and the strengthening of the passive security on the backup infrastructure through the adoption of an innovative system for saving encrypted data and with a “immutable” backup to ransom-ware.

In terms **of Disaster Recovery and Business Continuity**, the tests indicated in the annual plan were performed, without encountering any significant critical issues.

In the **Governance** area, in the area of IT risk, the IT register of data processing was updated (EU Reg. 679/16). During 2023, the project to rationalize the ICT operations procedure already envisaged in 2022 will be launched, which includes, among the various components, Change, Asset, Backup, Incident Management.

With regard to IT risks and security of payment services, it should be noted that the result of Cedacri's IT risk assessments was adapted to the indications deriving from the results of the Banca d'Italia inspection to which the outsourcer was subjected during 2020. These results were subsequently integrated with an analysis of the internal infrastructure and processes dedicated to payment systems. Consistently with the regulatory and procedural system set up for the analysis of IT and operational risks, the final results were produced, with the help of IT applications.

In 2022, the periodic vulnerability checks of the IT infrastructures were carried out which will be rescheduled during 2023.

As regards IT security, the PAM Delinea (Privileged Access Management) solution was implemented, replacing the previous Centrify platform.

During 2023, additional network management assets that have reached their end of life will be replaced and the monitors that preside over the asset management and network monitoring functions will be suitably reconfigured.

The Bank continues its collaboration with ABILab on the various open construction sites; in particular, on the subject of safety, it participated in a Table Top Exercise with the CERTFin which made it possible to test the Incident Management procedure used in the two operational incidents that occurred during the year.
For the future, the Bank intends to adopt the TIBER framework in the version that will be released in Italy, as well as proceed with regular tests indicated by the framework.

On the subject **of privacy**, in 2022 the annual review of the electronic processing registers and some DPIAs (Data Protection Impact Analysis) were carried out on specific issues that emerged during the year.

With regard to procedural developments on major management aspects, the impact resulting from adaptations of information systems to new regulations and cybersecurity also remains for the year 2023.

3. External and Institutional Relations

In the area of external relations, the main activities of Corporate Bodies Secretariat and External Relationships are:

- the development and consolidation of institutional relations with Italian and foreign counterparties, such as Embassies, Consulates, Financial Institutes, Associations, Entities and Chambers of Commerce;
- Planning strategic marketing projects, communications and product development.

The objectives underlying the activities of the Sector are aimed at the innovation and quality of the products and services offered to customers, correspondent banks and corporate entities, at the preservation of the corporate reputation and at the correct conveyance of the Bank's image, also through the monitoring and constant updating of the corporate website as well as the development and management of the Bank's social channels.

In particular, the Sector has pursued the achievement of these objectives by enhancing the Bank's corporate identity and aiming at communicative consistency as a key to consolidating and growing the Bank's brand awareness towards the market, customers and, more generally, all stakeholders.

In detail, the main activities carried out by the Sector are:

- writing of press releases and articles;
- creation and production of sales materials;
- content management and graphics of the corporate website;
- development and management of the Bank's social channels, for the sponsorship of internal and external corporate events (on-the-job training, seminars, etc)
- revision and updating of the Bank's forms and documents, also on input from the units involved;
- coordination of the process of graphic layout, printing and compliance control of the financial statements;
- management of membership fees and relations with the Associations and Chambers of Commerce of which Banca UBAE is a member or forms part;
- updates to publications (Bankers' Almanac, ABI Yearbook, etc) also based on input from the offices concerned;
- reception and analysis of advertising and sponsorship proposals;

Furthermore, the Sector participates in Business Development activities in collaboration with the Commercial Area and the Finance Division, aimed at increasing the strategic opportunities of the Bank and at developing and consolidating relationships with the main Italian and foreign customers.

4. Managing Risk

The Bank has continued to apply the procedures and methods for calculating total internal capital, as described in the ICAAP (Internal Capital Adequacy Assessment Process) reports. It also operated in compliance with national and international regulations, maintaining careful monitoring of the Bank's exposure to risks, enhancing, in particular, the liquidity risk management process also in light of the ILAAP (Internal Liquidity Adequacy Assessment Process) and continuing to structure the analyses of capital adequacy on the basis of the various types of risk.

From an organizational point of view, the ICAAP/ILAAP report, in addition to defining the roles and responsibilities of the various internal structures involved in the process, outlines the management phases for each type of risk (measurable and non-measurable) and regulates the calculation methods for quantifiable risks of 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 ratios, thus achieving the integration between ICAAP, ILAAP and RAF.

It should be emphasized 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 into class 3 of intermediaries, characterized 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 prudential requirements are also considered for country risk, geo-sectoral concentration risk and strategic risk. These requirements are not prescribed by law, but have been included in the internal capital adequacy assessments with the aim of considering all the risks deemed particularly significant for the Bank's business. In particular, the country risk, estimated according to an internal calculation method, is considered to take into account the risk exposure generated by the specific operations carried out by the Bank in certain geographical 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 list of risks to be subjected to analysis in the context of ICAAP.

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

The prudential control process has the objective of ensuring, on an ongoing basis, 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 provide the Board of Directors and the General Management with the information necessary to set up, in an efficient and effective way, the Bank's capital strengthening policies.

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

- raise awareness among top management of issues relating to risk and asset planning;
- make the Bank aware of the exposure to the various types of risk deriving from the performance of corporate business;
- introducing additional types of risk into the field of measurement (such as concentration and interest rate risk on the banking book, as well as country, geo-sectoral and strategic concentration risks);
- strengthen organizational safeguards and management tools for other risks (liquidity risk, risk of excessive financial leverage, reputational risk, money laundering risk and IT risk);
- underline the need to adopt ever more efficient and adequate risk measurement and monitoring tools;
- broaden the time horizon of internal analyses (prospective analysis) and the reference scenario (stress testing);
- perfecting the strategic planning process by introducing capital policies closely linked to the Bank's risk profile and therefore to the results emerging from the ICAAP and ILAAP reports, as well as the risk appetite levels established by the strategic supervisory body (Risk Appetite Framework - RAF).

With regard to the change in the regulatory and operational context, the Bank launched studies, impact analyses and internal development projects during the period under review. In particular, the following topics were addressed:

- **IFRS9**: during the year, the implementation project of the new impairment platform made available by the same supplier (Moody's), but with improved functional characteristics, was completed. The new "Impairment Studio" solution has enabled the Bank to replace the custom models with a more "performing" platform. In fact, this platform allows access to more "solid" data from a technical point of view and with a greater frequency of updating and guarantees users both regulatory compliance and process auditing. The new platform was used for the first time, for impairment purposes, for the 2022 half-yearly report.

- **Recovery plan**: in light of the changes in the external regulatory context and the indications provided by the Oversight Body in February 2022, the Bank has reviewed and integrated some aspects of the Recovery Plan. The new version of this plan was approved by the 294th Board of Directors on 20 July 2022.

- **Stress testing**: on the occasion of the ICAAP/ILAAP report as at 31 December 2021, the Bank improved the stress testing techniques by envisaging the expansion of the perimeter and the time horizon, introducing the concept of capital stress testing and also including specific macroeconomic stress scenarios.

- **Shadow Banking Entities**: during the first quarter of the year, the answers provided by the foreign banking counterparties selected following the administration of specific questionnaires were analysed. The revision of the clusters to which the "non-equivalent" countries belong was approved by the Risk Committee and made effective in the second half of the year. This change takes the form of the application of differentiated internal investment limits as prescribed by the concentration risk policy.

- **Credit risk**: during 2022, the process of analysis/renewal of credit lines was revised in order to incorporate – where necessary – the effects of the EBA guidelines on Loan Origination and Monitoring (LOM). The entire process was also subject to analysis and revision, with the aim of introducing the organizational and operational separation between the first and second level activities in the context of performance control; therefore, in September 2022, the Credit Performance Control Desk at 1st level forming part of the Commercial Area was set up, while the Credit Performance Control Desk at 2nd level had already been activated previously as part of the Risk Management Sector. Lastly, the regulatory sources governing the credit process were updated, in particular the new version of the credit policy was approved by the 295th Board of Directors on 31 August 2022. With reference to the implementation of an early-warning system, aimed at making the performance control process more effective, the analysis activities of a specific IT solution are currently underway. The Bank intends to finalize the commercial agreements in the early months of 2023, so as to implement the tool by the first half of the year.

  Concentration risk: the 296th BoD on 28 September 2022 approved the proposal to introduce an internal limit aimed at containing the sectoral concentration of loans. An internal early-warning threshold and a specific internal escalation process have also been defined. Subsequently, the Bank implemented a management monitoring support tool, in order to allow the continuous control of the aforesaid limit by the business units and control functions. The limit became fully effective from 1 January 2023.

- **Risk reporting:** in the second quarter of the year, the periodic reporting managed by the Risk Management Sector was subjected to a review with the dual purpose of streamlining the information flow addressed to the top management bodies and outlining a quarterly tableau de bord for the Oversight Body. A single Risk Dashboard was therefore introduced, fed with quarterly reporting data and including the qualitative-quantitative analyses conducted for the various risk profiles. The first report prepared according to the new format concerned the corporate situation as at 30 June 2022.

- **Strategic planning:** during the year 2022, the Bank identified the planning model on a multi-year basis, the subjects/bodies involved as well as the internal approval processes and, lastly, the time frame of the planning and subsequent monitoring tools. The policy drawn up after this activity was submitted for approval to the 293rd Board of Directors at its meeting on 7 June 2022.

• Managing Credit Risk and Counterparty Risk

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

Counterparty risk, on the other hand, represents the risk that a trading counterparty fails to fulfil its obligations when the contract expires; once the contractual deadline has passed, in the event of non-performance, the counterparty risk is transformed into settlement risk.
The criteria of sound and prudent management of credit risks have an impact on the phases of granting, monitoring and reviewing credit lines.

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

- the systematic release of the entry scores, for banking counterparties and for corporate entities;
- periodic performance monitoring of loans with evidence of internal anomalies (overflows) and external ones (Risk Centre);
- periodic stress testing and prospective analyses.

Exposure to credit and counterparty risk is constantly monitored, in terms of observance of the operating credit limits (performance control) – by a specific first-level organizational unit – and deterioration of the quality of the portfolio in terms of absorption balance sheet (credit risk control), by the Risk Management Sector.

The measurement of internal capital against credit risk is carried out using the standardized method, as required by current prudential legislation.
Furthermore, for ICAAP purposes, the Risk Management Sector carries out scenario analyses with a view to stress testing, simulating the impact on the capital requirement generated by certain shocks, such as the default of sovereign states or certain economic sectors or the deterioration of the domestic or international situation.

With regard to counterparty risk, the Risk Management Sector, in collaboration with the Finance Division, periodically monitors the exposures revalued at the 'mark-to-market', in order to verify compliance with the credit lines granted to each individual counterparty.

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

• Managing market risks

The following risks are included within the market risk category:

- **exchange rate risk**, which represents the risk of incurring losses due to adverse changes in foreign currency rates on all positions held by the Bank, regardless of the allocation portfolio;
- **position risk**, which can derive 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), interest rate risk (on the trading book), or the risk of suffering losses in the value of assets or increases in the scale of liabilities due to adverse movements in market interest rates;
- **settlement risk**: transactions in debt securities, equity securities, derivative contracts, currencies and commodities not yet settled after their expiry date, regardless of the portfolio to which they belong, expose the Bank to the risk of loss deriving from the failure to settle the transaction.

The operations of the Finance Division and compliance with the operating limits established by internal regulations are constantly monitored by the first and second level control functions, through access and use of the ObjFin front office platform.
The reports, produced daily, are broken down by relevant desk and concern the composition of positions, performance and the trend of the various risk/sensitivity indicators (VaR, Stop Loss).
Compliance with internal operating limits is monitored on a daily basis and any anomalies are promptly reported to the structures involved to allow corrective actions to be taken and/or the start of the authorization process governed by internal regulations.
The Risk Management Sector takes care of the information flow to the Risk Committee and the Board bodies concerning the monitoring activities conducted, the exceptions found and the trend analyses carried out.
The measurement of internal capital against market risks is carried out using the standard methods envisaged by current prudential legislation.
The Bank has not requested the recognition of internal models for the purpose of calculating the capital requirement against market risks.

• Managing operational risks

Operational risks represent the risk of losses deriving from the inadequacy or malfunction of procedures, human resources, internal systems or even from external events (this definition includes legal risk but not strategic and reputational risk).
Despite having opted for the basic calculation methodology (Basic Indicator Approach) in determining the capital requirement envisaged by prudential legislation, the Bank has started implementing an operational risk management system capable of assessing and monitoring the actual exposure over time of the operational risks and the extent of the losses that could arise from them. To this end, the Bank continued planning activities aimed at implementing a "transversal" tool which, containing a common mapping of internal processes and rules, 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 timing, due to the inability to raise funds (funding liquidity risk) or limits on the divestment of assets (market liquidity risk).

Exposure to liquidity risk is constantly monitored by the Treasury Desk, while the Risk Management Sector is entrusted with second-level monitoring of compliance with the operating limits established by internal and external regulations, as well as processing the report sent weekly to Banca d'Italia.
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 envisages various attention thresholds (of internal relevance) for the Liquidity Coverage Ratio (LCR) and for the Net Stable Funding Ratio (NSFR), in line with the current Recovery Plan. Performance monitoring is also envisaged regarding early-warning indicators, concentration funding ratios and liquidity monitoring tools.
The internal policy reflects its integration with the Recovery Plan, the escalation process governed by it, and the ILAAP process.
From the point of view of the tools, the Bank uses the JCompass tool, connected to the outsourcer Cedacri's IT system, and an automatic management tool for the daily processing of the LCR.

❖ Concentration risk

Concentration risk derives from exposures to counterparties, groups of connected counterparties and counterparties belonging to the same economic sector or which carry out the same activity or which belong to the same geographical area. In essence, it is the risk of incurring losses due to the correlation existing between the counterparties in question.

Current prudential legislation (Pillar II) provides for a specific capital requirement to take into consideration 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 makes use of a calculation tool fed with data from supervisory reports. With a view to stress testing, the Risk Management Sector conducts internal simulations on a quarterly basis to assess the impacts of any strategic-operational changes.

The Bank has also supplemented the internal measurements by providing for an additional capital requirement against Geo-Sectoral Concentration risk, determined according to the quantitative method developed by ABI and applied to the portfolio of Italian companies.

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

With regard to concentration risk by economic sector and by geographical area, for which the legislation does not prescribe any quantification, the Bank has currently opted for the adoption of a qualitative assessment of the credit portfolio as a whole and has established internal limits of investment by economic sector.

On the other hand, with reference to geographical concentration, and in particular to countries deemed "non-equivalent", the Bank has a system of internal limits established for Shadow Banking Entities (SBE) according to a clustering mechanism and on the basis of the Large Exposures legislation.

Lastly, with the aim of containing the concentration risk towards corporate counterparties, the Bank monitors an internal operating limit prudentially set below 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 losses in the value 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, concerning the quantification of internal capital (according to the calculation algorithm envisaged by the regulation), starting from 2021 the Bank has adapted the quantification processes in line with the new regulatory method. The stress scenarios envisaged by the EBA based on various shocks to the interest rate curve were also implemented; on a quarterly basis, the Risk Management Sector monitors the level of the risk indicator and prepares periodic reporting to the senior management.
Furthermore, in compliance with the relevant regulatory obligations, the measurement of the effects produced by a shift in the interest rate curve takes place not only in terms of the change in the economic value, but also in terms of the change in the interest margin.

Lastly, the internal policy governing the process of managing interest rate risk on the banking book provides, in addition to the regulatory limit (risk indicator) and the limits established from a RAF perspective, specific operating limits for accumulated gaps, the related attention thresholds and any internal authorization thresholds to be activated if the limit is exceeded.

❖ 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, whether they are natural persons, companies, banks or public administrations.
Transfer risk represents the risk that a bank, exposed to a borrower who finances itself in a currency other than the one in which it receives its main sources of income, realizes losses due to the debtor's difficulties in converting its currency into the currency in which the exposure is denominated. For the purposes of internal analysis, this regulatory description has been extended to include the risk associated with restrictions, imposed by the Supervisory Body, on capital movements and on the repatriation of dividends and profits.

In light of the predominantly international nature of the operations carried out by the Bank, the political risk associated with some countries on which the business is concentrated deserved close attention, also in 2022.
From an operational point of view, the granting of a specific plafond for each country is envisaged, as the responsibility of the Board of Directors, which regulates the size of loans to those countries with a rating lower than BBB or without a rating.
From the point of view of quantifying risk exposure, the Risk Management Sector has already introduced an internal estimation methodology several years ago aimed at determining an additional capital absorption against country risk, which integrates internal analyses in terms of capital adequacy. This capital requirement, although not required by law, is calculated according to an internal estimate methodology based on exposure data for supervisory body reporting purposes and on the probabilities of a banking or currency crisis differentiated by country.

In order to take advantage of the guidelines issued by the supervisory body regarding stress testing, the Bank has decided to include in the list of risks subjected to stress tests (credit risk, concentration risk and interest rate risk on the banking book) also country risk. Therefore, on the basis of the internal methodology already in use for quantifying internal capital under ordinary conditions, adverse hypotheses are assumed that are consistent with credit risk stress testing. The inclusion of country risk during stress testing was also reflected in the RAF, with the provision of a risk tolerance suitably calibrated to the new calculation method.

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

- **Risk of Excessive Financial Leverage**

The risk of excessive financial leverage represents the risk that a particularly high level of indebtedness compared to the endowment of its own means makes the Bank vulnerable, so as to require the adoption of corrective measures in its Strategic Plan, including the forced sale of assets with accounting losses that could lead to value adjustments also on the remaining assets.

The risk of excessive financial leverage is included among the risks to be assessed under the ICAAP and Oversight Body provides for a minimum threshold to be respected expressed in terms of Leverage Ratio.
The internal policy governs the procedures 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 Recovery Plan.

- **Strategic risk**

Strategic risk represents the risk of not achieving pre-established objectives in terms of expected economic results due to the volatility of market scenarios (business risk) and errors made when setting up and executing the strategy (pure strategic risk).
Strategic risk has always represented a high level of management complexity and has required qualitative and scenario assessments in order to quantify the possible impacts deriving from changes in the operating and/or regulatory context. The Bank has regulated the internal process, model and planning tools within a specific policy. With reference instead to the capital adequacy analyses, the Bank assumes the variability of the intermediation margin as an approximation of the risk and as a measure of an additional capital requirement which integrates and completes the methodological approach in the ICAAP area. This risk is also included in the scope of risks subject to internal limits within the Risk Appetite Framework.

❖ Reputational risk

Reputational risk represents the current or prospective risk of a decline in profits or capital deriving 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, above all preventive with respect to the occurrence of the prejudicial event.

Although the quantification of a specific capital absorption is not envisaged, the Bank has defined its own internal reputational risk management policy which, in addition to defining roles and responsibilities for the various internal structures involved, outlines the model of prejudicial events, identifies the mitigation policies necessary to contain any negative effects and/or to prevent the harmful event from occurring, and finally establishes the intervention strategies in the event that a "reputational crisis" should actually be faced.

Risk of money laundering and terrorism financing

The risk of money laundering and terrorism financing is subject to constant monitoring and in-depth analysis by the Bank, taking into account the nature, size and complexity of the activities carried out, the type of services provided as well as the countries of reference of the counterparties involved.

Accordingly, in compliance with the general regulatory provisions and the supervisory provisions, specific organizational controls have been set up, as an essential condition for preventing and mitigating the risk factors, described in the corporate policy adopted by the Bank and in the detailed operating procedures.

The main elements that characterize the aforesaid regulatory and organizational system are:

- customer due diligence obligations commensurate with the different degrees of risk of the transaction and the ongoing relationship;
- obligations to apply enhanced measures with regard to customers residing in high-risk third countries, politically exposed persons (PEPs) and transactions characterized by unusually high amounts;
- obligation to report suspicious transactions to the appropriate authorities when there are reasonable grounds to suspect that money laundering or terrorism financing operations are in progress or have been carried out;
- conservation of data and documents to prevent, identify or ascertain any money laundering activities and to enable the execution of analyses by the FIU and other competent authorities, within the scope of their respective powers.

In consideration of the transversal profile of the money-laundering risk, for the purposes of managing it, the role of the corporate bodies and corporate control functions assumes importance, as well as that of the internal business and operational units, whose duties and responsibilities are defined in the money-laundering risk management policy referred to above.

On the other hand, the ongoing verification of the adequacy of the money-laundering risk management process and the suitability of the internal control system and procedures is entrusted to the Anti-Money Laundering Sector, which is independent of the other operating units, located within the compliance and anti-money laundering structure. This Sector is also responsible for carrying out the annual assessment of the money laundering risk to which the Bank is exposed, the results of which are shown in the annual report of the Compliance and Anti-Money Laundering Sector, submitted to the Board of Directors for the related examination of any deficiencies and anomalies found, and to decide on suitable remedial actions.

5. Reporting on corporate management

During the 2022 financial year, the Bank continued to update and implement the internal management reporting systems, with the aim of making a well-defined set of information elements available to the governance bodies, the General Management and the entire structure, complete and with the aim of offering the Bank's current representation (of the financial and economic situation) and enabling real-time monitoring of the corporate situation in order to allow the senior management to make strategic decisions with the best knowledge of cause.

With a view to standardizing and making corporate processes more efficient, the Bank approved a document on strategic planning policies in 2022.

The purpose of this policy is to correctly articulate the process of defining proposals regarding corporate strategies, the actions to be undertaken and the resources to be allocated; the policy provides for the creation of a "strategic committee" made up of the General Management and units involved in various thematic areas, as a proposing body vis-à-vis the Board of Directors.

At the end of 2022, the 2023 budget was revised, with a rather conservative approach that took into account any impacts relating to international and national uncertainties (Russia-Ukraine war, inflation, expected stagnation), as a synthesis of new forecasts for markets, in particular those relating to countries of historical interest to the Bank, as well as new and updated strategies.

6. Logistics

In addition to the normal maintenance activities of its assets, the Bank continued to improve the efficiency of its offices in Rome, Milan (branch) and Morena (archive), with the objective of guaranteeing optimal use of corporate premises, paying particular attention to safety, energy saving, respect for the environment and cost containment. Significant work was carried out during the year to fully comply with the relevant laws and regulations.

In the course of 2022, the Bank completed the procedure to use an external service for the custody and management of paper archives managed by a company of a high standing and specialised in the subject.

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RECLASSIFIED BALANCE SHEET

EUR/000

	Balance as at :		Change	
	31.12.2022	**31.12.2021**	**Amount**	**%**
ASSETS				
Cash and cash equivalents	138,714	285,912	(147,198)	(51.48)
Loans and advances				
- to customers	427,008	285,288	141,720	49.68
- to banks	281,436	349,404	(67,968)	(19.45)
Financial assets held for	6,338	17,353	(11,015)	(63.48)
Fixed assets				
- financial [1]	722,007	721,603	404	0.06
- tangible	20,549	21,181	(632)	(2.98)
- intangible	251	234	17	7.26
Other assets [2]	42,479	20,854	21,625	103.70
Total assets	**1,638,782**	**1,701,829**	**(63,047)**	**(3.70)**
LIABILITIES				
Accounts payable				
-to customers	144,441	117,008	27,433	23.45
-to banks	1,253,506	1,363,206	(109,700)	(8.05)
Earmarked provisions [3]	82	1,804	(1,722)	(95.45)
Derivati di copertura	47			
Financial liabilities held for	13,616	19,114	(5,498)	(28.76)
Other liabilities [4]	28,419	14,466	13,953	96.45
Shareholders' equity				
-Capital and reserves	186,919	184,838	2,081	1.13
-Net profit (Loss) for the year	11,752	1,393	10,359	743.65
Total liabilities	**1,638,782**	**1,701,829**	**(63,094)**	**(3.71)**

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	
	31.12.2022	31.12.2021	Amount	%
Net interest income	27,237	18,790	8,447	44.95
Net non-interest income [1]	25,149	15,443	9,706	62.85
Gross operating income	**52,386**	**34,233**	**18,153**	**53.03**
Personnel expenses	(16,276)	(15,656)	(620)	3.96
Administration Expenses and Other Operating expenses/income	(10,244)	(6,996)	(3,248)	46.43
Gross operating result	**25,866**	**11,581**	**14,285**	**123.35**
Net adjustments to tangible and intangible fixed assets	(1,188)	(1,176)	(12)	1.02
Provisioning, write-downs and write-ups [2]	(15,505)	(8,635)	(6,870)	n.a.
Pre-tax profit (Loss) from continuing operations	**9,173**	**1,770**	**7,403**	**418.25**
Income tax for the year	2,579	(377)		
Net profit (Loss) from continuing operations	**11,752**	**1,393**	**10,359**	**743.65**
Net profit (Loss) for the year	**11,752**	**1,393**	**10,359**	**743.65**

Inclusive:

[1] Of net commissions, dividends, and net income from trading and hedging gains (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 ITEMS

▶ Credits

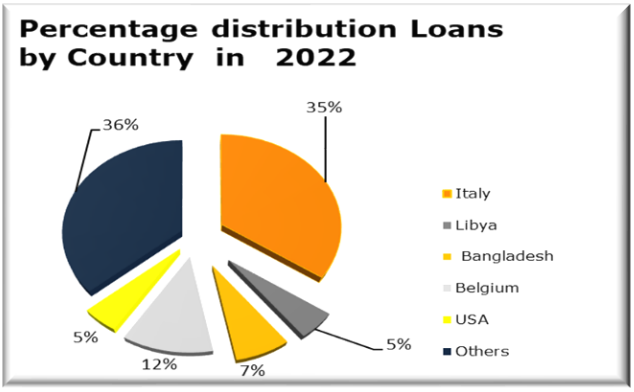
The credit disbursement process is based on the involvement of the structure at various organizational levels, so as to allow the timely processing of requests from counterparties. This process underwent, also during the year 2022, some structural and operational updates, in order to remain pursuant with the regulatory changes on the matter.
From a credit quality point of view, Banca UBAE's loan portfolio confirmed the signs of a newfound stability.
The restrictive procedures for selecting (ex-ante) counterparties and granting loans supported by careful monitoring lead us to expect a modest impact on the credit quality of the portfolio deriving from a possible worsening of the macroeconomic context.

The following table shows the amounts of receivables at the end of the financial year:

EUR/000

	Balance as at :		Variation	
	31.12.2022	31.12.2021	Amount	%
Loans and advances to customers:				
§ In euros	317,765	200,312	117,453	58.64
§ In other currencies	109,244	84,975	24,268	28.56
Loans and advances to banks:				
§ In euros	42,520	55,768	(13,248)	(23.76)
§ In other currencies	238,915	293,636	(54,722)	(18.64)
Total	**708,444**	**634,692**	**73,752**	**11.62**

Below is the graphic representation by country of the loans granted by Banca UBAE as at 31 December 2022:



During the year, the Bank confirmed its inclination especially in the field of trade finance (letters of credit and letters of guarantee) and financing (loans and discounts) to support the commercial activity of its customers, both corporate and banking, in particular those operating from/to the countries historically of interest. The factoring business was also strengthened as planned.

Loans to customers amounted to approximately Euro 427 million as at 31 December 2022, an increase of approximately 50% on the corresponding figure for 2021; this increase is the effect of the commercial strategies put in place and of a more general recovery of international commercial flows.

Thanks to the high liquidity present on the financial markets, above all for short-term loans to customers (to which the Bank has historically referred), loans to banks at the end of the year were, on the other hand, lower (-19%) compared to the previous year, settling at approximately Euro 281 million.

In the meantime, the Bank has continued its credit risk diversification policy with the aim of complying with the concentration limits set by the legislation on large exposures.

In 2022, the Bank also gave a particular boost to the factoring business, which at the end of the year reached the highest level ever achieved.

▶ Activities in securities and derivatives

The amount of financial assets including securities, minority stakes and other financial instruments amounted to approximately Euro 728 million, substantially in line with the previous year (formerly Euro 737 million).

The proprietary portfolio, whose investment is mainly made in securities issued by the Italian Republic and in non-eligible government securities denominated in USD, in addition to supporting the Bank's net interest income in a market context characterized by high inflation and volatility, is also due to support in managing the Bank's liquidity commitments.

During the financial year, in consideration of the current and prospective levels of returns expressed by the market, the Bank preferred to adopt a policy of maintaining the volumes of the HTC portfolio, without proceeding with any further new investments of significant amounts.

As at 31 December 2022, the nominal value of the securities in the HTC&S portfolio amounted to approximately Euro 4.3 million (compared to Euro 3.7 million as at 31 December 2021), while the securities portfolio at amortized cost (HTC) is in line with that of the previous year and stands at Euro 717 million.

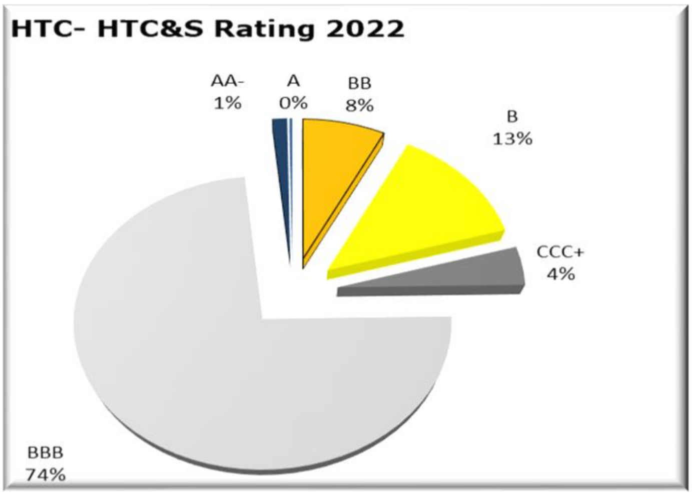
The policy in this sector was based on maintaining the quota of securities in the Held-to-Collect (HTC) portfolio and the volume of High Quality Liquid Assets (HQLA) at optimal levels, and on maintaining an optimal level of securities eligible for possible open-market operations, in case of investment opportunities of particular interest or need.

In 2022, given the particularly high degree of volatility of the financial markets, the Bank adopted a prudent policy with reference to the trading portfolio, which underwent very limited movements.

The table below shows information on the composition of financial assets held:

				EUR/000
	Balance as at :		**Variation**	
	31.12.2022	**31.12.2021**	**Amount**	**%**
Financial assets				
§ Assets held for trading	6,338	17,353	(11,015)	(63.48)
§ Liabilities held for trading	(82)	(1,804)	1,722	(95.45)
§ Assets HTC&S	4,302	3,695	607	16.43
§ Assets HTC	717,705	717,908	(203)	(0.03)
Total	**728,263**	**737,152**	**(8,889)**	**(1.21)**

Below is the graphic representation of the assets to be held to maturity, and of the HTC&S portfolio divided by rating at the end of the financial year.



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)

The tables below provide graphic information on impaired exposures:

EUR/000

	31/12/2022			
	Gross Exposure	Write-downs	Net Exposure	coverage %
Impaired assets	184,311	(119,327)	64,984	64.7%
Bad debts	30,580	(28,819)	1,760	94.2%
Probable impairments	153,731	(90,508)	63,223	58.9%
Non Impaired assets	2,055,288	(6,925)	2,048,363	0.3%
Cash and non cash assets (deposits excluded)	2,239,599	(126,252)	2,113,347	5.6%

EUR/000

	31/12/2021			
	Gross Exposure	Write-downs	Net Exposure	coverage %
Impaired assets	166,946	(101,709)	65,236	60.9%
Bad debts	32,796	(30,668)	2,127	93.5%
Probable impairments	134,150	(71,041)	63,109	53.0%
Non Impaired assets	2,163,483	(13,997)	2,149,486	0.6%
Cash and non cash assets (deposits excluded)	2,330,429	(115,706)	2,214,722	5.0%

Managing non-performing loans involves the activation of appropriate interventions for the level of complexity of each exposure, with the aim of bringing it back to performing status or, where objectively impossible, to activate suitable recovery or sale processes in order to maximize the return flow and to affect the measurement of the NPL ratio.

The overall level of non-performing loans, gross of value adjustments on loans, amounted to Euro 184 million, an increase of Euro 17 million compared to the value of the previous year. This increase represents the effect of the reclassification, among Unlikely-to-Pay situations, of a position referring to banking customers.

During the year, new value adjustments were made for a total of Euro 19 million to cover potential losses on loans to customers and on securities classified as non-performing, gross of the effects deriving from write-backs on previous write-downs.

As part of the prudential write-downs on the performing portfolio (stages 1 and 2, with customers and banks, for cash and signature, as well as with securities classified in the HTC and HTC&S portfolio), accounted for in compliance with the provisions of the IFRS9 standard, write-backs were recorded for a total value of approximately Euro 7 million.

The total amount relating to the write-downs, as already mentioned, is impacted by the reclassification of the provision relating to a banking counterparty which (in 2021) was included among the positions in Stage 2.

The ratio between gross non-performing loans and loans (cash and endorsement) is equal to 1.40% (formerly 1.33%), while that between non-performing loans net of write-downs and loans is equal to 0.09% (previously 0.09%).

The ratio of gross non-performing loans to gross loans (NPL ratios) to customers went from 6.81% to 8.5%, while the percentage of overall coverage of non-performing loans went from 60.92% to 64.66%. The increase is due to the reclassification, in 2022, of a stable position to a position with a foreign banking counterparty which in 2021 was reclassified among performing loans. Both indices are on good levels compared to those of the national banking system. In particular, the NPL ratio at the end of the year was below the threshold for activating the Recovery Plan, as approved by the Bank's Board of Directors and communicated to Banca d'Italia.

A summary of the Bank's impaired loan ratios, both on-balance sheet and unsecured, is contained in the table below:

Hedging of credits by status	**31/12/2022**	**31/12/2021**	**31/12/2020**
bad debts	94.24%	93.51%	93.19%
probable impairments	61.97%	52.96%	63.56%
Overall impairments	64.74%	60.92%	70.92%
"in bonis"	0.34%	0.60%	0.54%
Overall of credits	5.79%	4.70%	4.96%
Percentage composition of credits towards customers (cash and signature)	**31/12/2022**	**31/12/2021**	**31/12/2020**
Credits "in bonis"	99.66%	99.67%	99.46%
Impaired credits:	3.16%	2.78%	1.92%
Bad debts	0.09%	0.09%	0.11%
Probable impairments	**3.08%**	**2.69%**	**1.80%**
Risk ratios	**31/12/2022**	**31/12/2021**	**31/12/2020**
Gross impaired credits/gross credits	8.50%	6.79%	6.27%
Gross bad debts/gross credits	1.40%	1.33%	1.56%
Net impaired credits/net credits	3.16%	2.78%	1.92%
Net bad debts/net credits	0.09%	0.09%	0.11%
Texas ratio	**31/12/2022**	**31/12/2021**	**31/12/2020**
Impaired Credits/ Shareholders' equity	35.02%	33.06%	22.30%

▶ Debts

				EUR/000
	Balance as at :		Variation	
	31.12.2022	31.12.2021	Amount	%
Payable to customers				
§ In euros	98,126	76,121	22,004	28.91
§ In other currencies	46,315	40,886	5,429	13.28
Payable to banks				
§ In euros	613,426	618,216	(4,790)	(0.77)
§ In other currencies	640,080	744,990	(104,910)	(14.08)
Total	**1,397,947**	**1,480,214**	**(82,267)**	**(5.56)**

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

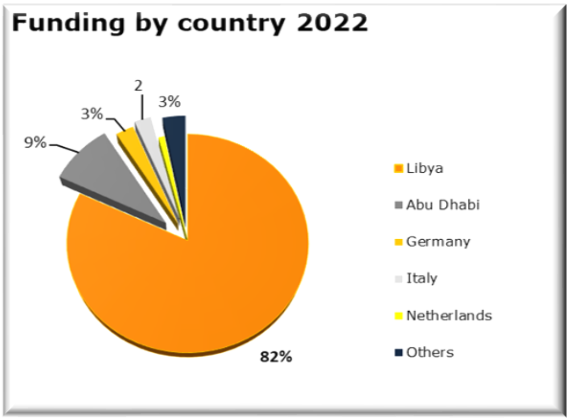
The table above shows the amounts and changes in funding in Euros and foreign currencies from customers and correspondent banks.

During the year, overall deposits remained at levels adequate to support investments and loans, both in terms of amounts and durations; as at 31 December 2022, the exposure was equal to Euro 1,397 million, with a reduction of 5.6% compared to the previous year.

In 2022, deposits from banking counterparties overall showed a substantially stable trend compared to the previous year as regards the Euro component, while a 14% reduction was recorded as regards the component in currencies (USD).

Funding from corporate customers (in foreign currencies and in Euros) from counterparties resident in the countries of interest to the Bank, showed a recovery compared to the previous year.

The chart below shows the division of funding by country



► Net Equity

Net equity is a basic element for assessing the soundness of a financial intermediary, from the perspective of the Supervisory Body and the Rating Agencies and any other stakeholder, as it is useful for measuring the expected stability in the short, medium, long term and to parameterise all the risk requirements (concentration, limits on investments, etc).

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

EUR/000

	Capital	Share premium	Reserves	Net profit	Total
31.12.2021	**261,186**	**870**	**(77,217)**	**1,393**	**186,232**
Change in opening balance					
§ Appropriation of profit: reserves			1,393		**1,393**
dividends					
- Other reserves					
§ Valuation reserve			(688)		**(688)**
§ Net profit				11,752	**11,752**
31.12.2022	**261,186**	**870**	**(76,512)**	**13,145**	**198,689**

Net equity, including the valuation reserves and the result for the period as at 31 December 2022, amounted to approximately Euro 199 million and showed an increase compared to the previous year (Euro 186.2 million), due to the allocations made during the period.
The Shareholders' Ordinary Meeting, when approving the 2021 financial statements, resolved to allocate the profit achieved to a specific reserve.

At the end of the 2022 financial year, Banca UBAE had a Cet1/Tier1 and Total Capital Ratio of 19.08% (compared to 19.11% as at 31 December 2021).

In addition, as a result of Banca d'Italia's Prudential Review and Evaluation Process (SREP), the Supervisory Authority confirmed for 2022 the additional capital requirements set for the Bank and communicated in 2021. The new SREP targets came into effect as of March 2022, and as of 31 December 2022, the OCR limits stood at the following levels:

Coefficient of :	***31/12/2022***	***Limit expected by Banca d'Italia***
Cet 1	***19,59%***	8,75%
Class 1	***19,59%***	10,84%
Total Capital	***19,59%***	13,62%

From September 2021 until 31 December 2022, the Bank made use of the Own Funds calculation option according to the IFRS9 standard, introduced on a transitional basis by the European authorities in response to the Covid pandemic.
During 2022, this methodology had a positive impact on Own Funds of Euro 13 million.

▶ Share

The share capital of the Bank as at 31 December 2021 was equal to Euro 261,185,870 divided into 2,374,417 ordinary shares with a value of Euro 110 each.

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COMMENT ON BALANCE SHEET DATA

▶ Interest margin

EUR/000

	Balance as at :		Variation	
	31.12.2022	31.12.2021	Amount	%
10. Interest income and related revenue	45,488	24,371	21,117	86.65
20. Interest charges	(18,251)	(5,581)	(12,670)	227.02
Net interest income	**27,237**	**18,790**	**8,447**	**44.95**

The net interest margin increased by approximately 45% to Euro 27.2 million (Euro 18.8 million in the previous year).

The 2022 result, in addition to the usual attention in the selection of investments and loans, is the result of a careful and timely positioning of the Bank with respect to the actual dynamics of the interest and exchange rate market as well as inflation.

This approach has made it possible to achieve an objectively positive result, especially when the available capital and the related regulatory and internal constraints are taken into due consideration, in terms of liquidity, transformation of maturities and portfolio diversification.

▶ Brokerage and other incomes

Revenues from brokerage and other sources were as follows:

EUR/000

	Balance as at :		Variation	
	31.12.2022	31.12.2021	Amount	%
30. Dividends and other proceeds	1			
40. Commissions received	16,485	16,374	111	0.68
50. Commissions paid	(2,414)	(3,069)	655	(21.34)
Net commissions	**14,071**	**13,305**	**766**	**5.76**
80. Profits (Losses) on trading	10,967	1,987	8,980	451.94
90. Fair value adjustments in hedge accounting	(61)		(61)	
100. Profits (Losses) on disposal or repurchase HTC&S	171	151	20	n.a.
Net non-interest income	**25,149**	**15,443**	**9,706**	**62.85**

Brokerage and other income increased by 62.84% compared to the previous year, with a rise from Euro 15.4 million to Euro 25.1 million.

In particular, net commissions amounted to Euro 14 million, with an increase of 5.8% compared to the Euro 13.3 million of the previous year, as a consequence of a now regained stabilization in the volumes of Letters of Credit and Letters of Guarantees intermediated in a context of an upswing in international trade.

The result of trading activities amounted to approximately Euro 11 million, a significant increase compared to the previous year (Euro 2 million), thanks primarily to the capital gains generated by the rebalancing of the interest rate risk coverage levels carried out in the second half of the year, against changed expectations in the financial markets.

▶ Administrative expenses and other operating income and charges

EUR/000

	Balance as at :		Variation	
	31.12.2022	31.12.2021	Amount	%
a) Personnel expenses:				
§ wages and salaries	(10,066)	(9,775)	(291)	2.98
§ social security contributions	(2,555)	(2,925)	370	(12.65)
§ staff severance payments	(626)	(690)	64	(9.33)
§ other expenses	(948)	(831)	(117)	14.07
Total employee expenses	**(14,194)**	**(14,221)**	**27**	**(0.19)**
§ Administrators	(1,845)	(1,195)	(650)	54.38
§ Statutory Auditors	(97)	(101)	4	(4.42)
§ Non-staff associates	(141)	(139)	(2)	1.21
Total personnel expenses	**(16,276)**	**(15,656)**	**(620)**	**3.96**
b) other administration expenses	**(10,625)**	**(10,264)**	**(361)**	**3.51**
C) Other operating expenses/ income	**381**	**3,268**	**(2,887)**	**n.a.**
Total	**(26,520)**	**(22,652)**	**(3,868)**	**17.08**

Administrative expenses and other operating income and charges increased by 17% compared to the previous year, going from approximately Euro 22.7 million to approximately Euro 26.5 million.

Personnel expenses, equal to approximately Euro 16.3 million, is slightly (+4%) higher than the value of the previous year, as the net effect of the improved efficiency of the organizational structure and the allocation of the bonus due to personnel, in light of the excellent income results achieved by the Bank, in accordance with current remuneration policies.

Other administrative expenses amounted to Euro 10.6 million (previously Euro 10.3 million). This result includes the cost relating to the compulsory (ordinary) contribution of Euro 1.1 million (formerly Euro 1.5 million) to the Single Resolution Fund.

The figure for administrative expenses, in line with that of the previous year net of its extraordinary components, reflects the attention that the Bank continues to pay to containing costs and seeking operational efficiency.

▶Formation of operating profit

EUR/000

	Balance as at :				Variation	
	31.12.2022		31.12.2021		Amount	%
Gross operating profit		**25,866**		**11,581**	**14,285**	**n.a.**
Net adjustments to tangible and intangible fixed assets		(1,188)		(1,176)	(12)	1.02
Net impairment adjustments:						
§ to loans	(12,549)		(7,201)			
§ to financial assets available for sale	(71)		13			
§ to financial assets held to maturity						
§ to other financial operations	(2,592)		(1,214)			
§ net provisioning for risks and charges	(293)		(233)			
total	0	**(15,505)**	0	**(8,635)**	**(6,870)**	**79.56**
Profit (Loss) before tax		**9,173**		**1,770**	**7,403**	**418.25**
Income tax for the year		2,579		(377)		
Net profit (loss)		**11,752**		**1,393**	**10,359**	**743.65**

In overall terms, write-downs and provisions contributed negatively to the formation of the result for the year for Euro 15.5 million (+79.6%), compared to Euro 8.6 million in 2021. This effect reflects the extremely prudent approach in assessing the effective repayment expectations of non-performing positions, in accordance with the current credit policy. Write-downs in the period in question amounted to approximately Euro 12.9 million, as the combined effect of new net analytical write-downs for approximately Euro 19.9 million on positions classified as non-performing (stage 3) and a write-back of approximately Euro 7 million deriving from the application of the international accounting standard IFRS9 on loans and securities classified as performing (stage 1 and 2). Both values are affected – with an evidently opposite sign – for approximately Euro 4.5 million by the reclassification of the write-downs relating to a foreign banking counterparty which in 2021 was classified among performing loans (stage 2).

The comparison with the respective closing dates shows a positive 2022 result of **Euro 11.7 million**, compared to a profit of approximately Euro 1.4 million achieved in the previous year.

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For further information on the data shown above, please refer to the Explanatory Notes, Part c) Information on the Income Statement.

SIGNIFICANT FACTS ARISING AFTER THE FINANCIAL YEAR

As reported in the management report, the Libyan Foreign Bank renewed, in January 2023, the two Security Agreements, for a value of Euro 100 million and USD 300 million respectively, to guarantee transactions with LFB and with the other Banks /Group companies.

These instruments guarantee the Bank broader levels of business, in full compliance with the stringent regulations issued by the Supervisory Body, both in terms of credit relations with associated parties and compliance with capital ratios.

In March 2023, the contractual agreements governing these Security Agreements were amended, extending their duration to two years, with positive impacts on corporate operations and on the equity and financial structure.

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In January 2023, the Tax Agency audit resumed on the 2017 fiscal year; this inspection had been interrupted in the first months of 2020 due to the consequences deriving from the Covid pandemic.

At the date of this document, the results are not yet known.

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- **The Bank does not carry out research and development activities.**
- **The Bank does not hold treasury shares in its portfolio.**
- **Information regarding related parties is contained in section "H" of the Explanatory Notes.**

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FORESEEABLE EVOLUTION OF OPERATING MANAGEMENT

For some years now, the Bank has embarked on a process of operational efficiency, refocusing its commercial activity with particular attention and caution in the approach to credit and market risk. These actions have placed the Bank in a position to face future challenges with a certain degree of calm, even in a context of national and international markets that present themselves – again for 2023 – uncertain and complex.

In fact, the recovery in economic activity that began in the spring of 2021 and continued into the first half of 2022 is now seeing a generalized slowdown both in terms of gross domestic product and international trade (net of inflationary phenomena).

In this context, the Bank revised the 2022-2024 Business Plan focusing in particular on the 2023 financial year, through an extensive review of the strategies and actions to be implemented, taking into account the most up-to-date market trends and expectations.

The results of the above confirm, also for the future, Banca UBAE in its institutional role of support for business development between Italy (and other European countries) and some African countries (particularly North Africa) and the Middle East.

The main hypotheses adopted are based on a rather conservative approach, considering all the current elements of international uncertainty (Russia-Ukraine war, widespread inflationary phenomena, etc). The Bank does not currently intend to expand its commercial activity in new countries and/or with new products, but rather to focus on selected targets by optimizing the return on loans with a view to efficient allocation of regulatory capital; in this sense, the strong commitment to the commercial development of trade finance products, the historic core activity of the Bank, is reaffirmed.

Also in the finance sector, the objective for 2023 is to consolidate the interest margin in a market context still characterized by high inflation and volatility, through a review of investment choices aimed at a more efficient use of Own Funds and a containment of the overall credit risk of the portfolio.

PROPOSAL TO SHAREHOLDERS

Approval of the financial statements at 31 December 2022 and the allocation of the profit for the year.

To all Shareholders,

- having examined the Bank’s draft financial statements closed on 31 December 2022;
- having viewed the Board of Directors' Management Report;
- bearing in mind the amount of capital resources available at 31 December 2022;

WE PROPOSE

• to approve the financial statements of Banca UBAE at 31 December 2022, accompanied by the Directors' Management Report, which shows a profit for the year of **Euro 11,752,052**;

• to approve the proposal to allocate 5%, amounting to **Euro 587,603** to the legal reserve (article 30 letter A of the Articles of Association) and the remainder, amounting to **Euro 11,164,449** to a reserve "Profit surplus for year 2021 and 2022".

Following this decision, the total assets of the Bank as at 31 December 2022 will amount to Euro 198,671,630 divided as follows:

- Share Capital	Euro	261,185,870
- Legal Reserve	Euro	14,151,339
- 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	1,340,278
- Previous Years' Losses	*Euro*	(83,911,066)
- Profit surplus for year 2021 and 2022.	*Euro*	12,487,542
		198,671,630

Rome, 28 March 2023 **THE CHAIRMAN**

FINANCIAL STATEMENTS 2022
(AMOUNTS IN EUROS)

BALANCE SHEET: ASSETS

	ITEMS	31/12/2022	31/12/2021
10	Cash and cash equivalents	138,713,795	285,911,966
20	Financial assets measured at fair value through profit or loss	6,338,405	17,353,433
	a)financial assets held for trading	6,338,405	17,353,433
30	Financial assets measured at fair value through other comprehensive income	4,301,904	3,694,995
40	Financial assets measured at amortised cost	1,426,149,134	1,352,599,542
	a)due from banks	314,307,654	382,420,026
	b)loans to customers	1,111,841,480	970,179,516
80	Property and equipment	20,549,324	21,180,750
90	Intangible assets	251,035	234,212
100	Tax assets	16,276,249	16,752,912
	a)current	*4,834,100*	*9,276,558*
	b)deferred	*11,442,149*	*7,476,354*
120	Other assets	26,202,495	4,100,999
	Total assets	**1,638,782,341**	**1,701,828,809**

BALANCE SHEET:
LIABILITIES AND SHAREHOLDERS' EQUITY

	ITEMS	31/12/2022	31/12/2021
10	Financial liabilities measured at amortised cost	1,397,946,997	1,480,213,756
	a)due to banks	1,253,506,124	1,363,206,277
	b)due to customers	144,440,873	117,007,479
20	Financial liabilities held for trading	82,535	1,803,328
40	Hedging derivatives	46,772	
60	Tax liabilities	3,117,864	1,856,783
	a)current	*2,393,631*	*1,431,898*
	b)deferred	*724,233*	*424,885*
80	Other liabilities	25,300,711	12,609,200
90	Employee termination indemnities	497,300	575,691
100	Allowances for risks and charges	13,118,532	18,538,451
	a)commitments and guarantees given	*6,520,018*	*6,227,145*
	c)other allowances for risks and charges	*6,598,514*	*12,311,306*
110	Valuation reserves	1,340,278	652,300
140	Reserves	(76,476,796)	(77,869,525)
150	Share premium reserve	870,226	870,226
160	Share capital	261,185,870	261,185,870
180	Net income (loss) (+/-)	11,752,052	1,392,729
	Total liabilities and shareholders' equity	**1,638,782,341**	**1,701,828,809**

INCOME STATEMENT

	ITEMS	31/12/2022	31/12/2021
10	Interest and similar income	45,487,315	24,371,171
	of which: interest income calculated using the effective interest rate method	45,132,329	23,970,430
20	Interest and similar expense	(18,250,623)	(5,581,290)
30	**Interest margin**	**27,236,692**	**18,789,881**
40	Fee and commission income	16,483,907	16,373,472
50	Fee and commission expense	(2,413,546)	(3,068,693)
60	**Net fee and commission income**	**14,070,361**	**13,304,779**
70	Dividend and similar income	1,188	
80	Profits (Losses) on trading	10,967,272	1,987,362
90	Fair value adjustments in hedge accounting	(60,571)	
100	Profits (Losses) on disposal or repurchase of:	170,823	151,110
	b)financial assets measured at fair value through other comprehensive income	*170,823*	151,110
120	**Net interest and other banking income**	**52,385,765**	**34,233,132**
130	Net losses/recoveries for credit risks associated with:	(12,620,336)	(7,188,479)
	a) financial assets measured at amortised cost	*(12,548,863)*	*(7,200,894)*
	b) financial assets measured at fair value through other comprehensive income	*(71,473)*	*12,415*
150	**Net income from banking activities**	**39,765,429**	**27,044,653**
160	Administrative expenses:	(26,900,900)	(25,919,916)
	a)personnel expenses	*(16,276,384)*	*(15,656,281)*
	b)other administrative expenses	*(10,624,516)*	*(10,263,635)*
170	Net provisions for risks and charges	(2,885,252)	(1,447,206)
	a)commitments and guarantees given	*(2,592,380)*	*(1,213,774)*
	b)other net provisions	*(292,872)*	*(233,432)*
180	Net adjustments to / recoveries on property and equipment	(1,080,693)	(1,074,485)
190	Net adjustments to / recoveries on intangible assets	(106,517)	(101,895)
200	Other operating expenses (income)	380,925	3,268,261
210	**Operating expenses**	**(30,592,437)**	**(25,275,241)**
260	**Income (Loss) before tax from continuing operations**	**9,172,992**	**1,769,412**
270	Taxes on income from continuing operations	2,579,060	(376,683)
280	**Income (Loss) after tax from continuing operations**	**11,752,052**	**1,392,729**
300	**Net income (loss)**	**11,752,052**	**1,392,729**

STATEMENT OF COMPREHENSIVE INCOME

	ITEMS	31/12/2022	31/12/2021
10	**NET INCOME (LOSS)**	**11,752,052**	**1,392,729**
	Other comprehensive income (net of tax) that may not be reclassified to the income statement		
70	Defined benefit plans	**82,132**	**10,101**
	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	**605,846**	**25,312**
170	**Total other comprehensive income (net of tax)**	**687,978**	**35,413**
180	**TOTAL COMPREHENSIVE INCOME (Captions 10 + 170)**	**12,440,030**	**1,428,142**

STATEMENT OF CHANGES IN EQUITY - 01.01.2022-31.12.2022

	Balance as at 31.12.2021	Change in opening balance	Balances as at 01.01.2022	Allocation of profit/loss from previous year		Intervening variations								Comprehensive Net Income 2022	Shareholders' Equity as at 2022
							Changes to Equity								
				Reserves	Dividends and others	Changes to reserves	New Shares issued	Treasury stock bought	Extraordinary dividends paid	Changes to capital instruments	Derivatives on treasury stock	Stock options			
Share capital															
a) ordinary shares	261,185,870		261,185,870												261,185,870
b) other shares															
Share premium account	870,226		870,226												870,226
Reserves															
a) from profits	6,041,541		6,041,541												6,041,541
b) other	(83,911,066)		(83,911,066)	1,392,729		-									(82,518,337)
Revaluation reserves	652,300		652,300											687,978	1,340,278
Capital instrument															
Treasury stock															
Net profit for the year	1,392,729		1,392,729	(1,392,729)										11,752,052	11,752,052
Shareholders' equity	**186,231,600**		**186,231,600**											12,440,030	**198,671,630**

STATEMENT OF CHANGES IN EQUITY - 01.01.2021-31.12.2021

	Balance as at 31.12.2020	Change in opening balance	Balances as at 01.01.2021	Allocation of profit from previous year		Intervening variations								
							Changes to Equity							
				Reserves	Dividends and others	Changes to reserves	New Shares issued	Treasury stock bought	Extraordinary dividends paid	Changes to capital instruments	Derivatives on treasury stock	Stock options	Comprehensive Net Income 2021	Shareholders' Equity as at 2021
Share capital														
a) ordinary shares	261,185,870		261,185,870											261,185,870
b) other shares														
Share premium account	870,226		870,226											870,226
Reserves														
a) from profits	6,041,541		6,041,541											6,041,541
b) other	(26,144,425)		(26,144,425)	(57,766,641)										(83,911,066)
Revaluation reserves (1)	616,887		616,887										35,413	652,300
Capital instrument														
Treasury stock														
Net profit for the year (1)	(57,766,641)		(57,766,641)	57,766,641									1,392,729	1,392,729
Shareholders' equity	**184,803,458**		**184,803,458**										**1,428,142**	**186,231,600**

CASH FLOW STATEMENT

	Indirect Method	31/12/2022	31/12/2021
A	**OPERATING ACTIVITIES**		
1	**Operations**	**4,769,968**	**9,345,897**
	- profit (loss) for the period (+/-)	11,752,052	*1,392,729*
	Net impairment adjustments	12,620,336	7,188,479
	- net impairment losses/reversals on property, plant and equipment and intangible assets (+/-)	1,187,210	1,176,380
	- net allocations to provisions for risks and charges and other expenses/income (+/-)	(5,419,919)	(1,319,075)
	- unpaid taxes, duties and tax credits (+/-)	(16,057,689)	871,971
	- other assets	687,978	35,413
2	**Liquidity generated (absorbed) by financial assets**	**(80,067,872)**	**(31,643,351)**
	Financial assets held for trading	11,015,028	(7,770,612)
	- financial assets at fair value through other comprehensive income	(606,909)	114,404
	- financial assets measured at amortised cost	(86,169,928)	(36,112,393)
	- other liabilities	(4,306,063)	12,125,250
3	**Liquidity generated (absorbed) by financial liabilities**	**(71,327,660)**	**12,934,047**
	- financial liabilities measured at amortised cost	(82,266,759)	*28,437,913*
	- financial liabilities held for trading	(1,720,793)	(2,275,115)
	- other liabilities	12,659,892	(13,228,751)
	Net liquidity generated (absorbed) by operating activities	**(146,625,564)**	**(9,363,407)**
B	**INVESTMENT/DIVESTMENT ACTIVITIES**		
2	**Liquidity absorbed by:**	**(572,607)**	**(508,655)**
	Purchase of tangible fixed assets	(449,267)	(436,835)
	Purchase of intangible fixed assets	(123,340)	(71,820)
	Net liquidity generated (absorbed) by investment/divestment activities	**(572,607)**	**(508,655)**
C	**FUNDING**		
NET LIQUIDITY GENERATED (ABSORBED) DURING THE YEAR		**(147,198,171)**	**(9,872,062)**

Reconciliation	31/12/2022	31/12/2021
Cash and cash equivalents at start of year	**285,911,966**	**295,784,028**
Net liquidity generated/absorbed during the year	(147,198,171)	(9,872,062)
Cash and cash equivalents: effect of exchange rate variations		
Cash and cash equivalents at the year end	**138,713,795**	**285,911,966**

Meeting room of the Milan branch

PART A
ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

The Financial Statements for the year ended 31 December 2021 of Banca UBAE S.p.A., in application of legislative decree no. 38 dated 28 February 2005, have been prepared in accordance with 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 Banca d'Italia circular no. 262 of 22 December 2005 "bank balance sheet: layout and compilation rules" (7th update of 2 November 2021), 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 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 28 March 2023, the Directors approved the Financial Statements Draft 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 28/04/2023 (first call) and 11/05/2023 (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 28 March 2023, the date of approval by the Board of Directors.

Section 1 - Declaration of Conformity with International Accounting Standards

In accordance with the provisions of IAS1 to §14, we certify that the balance and financial statements of Banca UBAE for the year ended 31 December 2022 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 Circular no. 262 of 22/12/2005, updated on 2 November 2021, 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 show 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 of business continuity, 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 KPMG 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 2021-2029 was conferred by the shareholders' meeting of 18/05/2021. The annual remuneration set upon the assignment amounts to 65 thousand euros plus VAT.

4.1 Amendment of the Accounting Standards approved by the European Commission

4.1.1 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:

• 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, without any negative consequences, 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-instalment 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 an 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

a) Amendments to accounting principles and IFRS interpretations applied from I January 2022

The following amendments to accounting principles and IFRS interpretations were applied for the first time starting from 1 January 2022

- *amendments to IFRS3 Business Combinations; IAS16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets.*
- *Annual Improvements 2018-2020: the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, to IFRS 9 Financial Instruments, to IAS 41 Agriculture and to the Illustrative Examples of IFRS 16 Leases.*

The aforesaid changes did not have any effects on the Bank's financial position as at 31 December 2022.

b) Accounting principles coming into force after 31 December 2022

The accounting standards and accounting interpretations or amendments to existing accounting standards that will come into force after 31 December 2022, are shown below:

- *IFRS 17 Insurance Contracts (including the amendments published in June 2020): intended to replace IFRS 4 Insurance Contracts. The standard applies from 1 January 2023 but early application is permitted, only for entities that apply IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers;*
- *amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information. The amendments will apply from 1 January 2023, together with the application of IFRS 17;*
- *amendments to IAS 1 Presentation of Financial Statements and to IFRS Practice Statement 2: Disclosure of Accounting Policies and to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates. The amendments are aimed at improving accounting policy disclosures in order to provide more useful information to investors and other primary users of financial statements, as well as help companies distinguish changes in accounting estimates from accounting policy changes. The amendments will apply from 1 January 2023 but early application is permitted;*
- *amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments will apply from 1 January 2023 but early application is permitted.*

The directors do not expect a significant effect on the Bank's financial and economic situation from the adoption of the accounting standards and the aforesaid amendments.

c) Accounting principles, not yet registered, entering the legislation in the coming financial years

However, for the following accounting standards affected by the amendments, endorsement by the European Commission has not yet taken place:

- *amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as recurring or non-recurring. The amendments will apply from 1 January 2023 but early application is permitted;*

- *amendments to IAS 1 Presentation of Financial Statements: Non-recurring Liabilities with Covenants (Amendments to IAS 1) to clarify the conditions that an entity must satisfy, within twelve months of the end of the financial year, to influence the classification of a liability. The amendments will apply from 1 January 2024 but early application is permitted;*

- *amendments to IFRS16 Leases: Lease Liability in a Sale and Leaseback to clarify the methods of subsequent assessments, implemented by the selling lessee, of the sale and leaseback transactions that meet the requirements of IFRS15 to be accounted for as a sale. The amendments will apply from 1 January 2024 but early application is permitted.*

The directors do not expect a significant effect on the Bank's financial and economic situation from the adoption of the accounting standards and the aforesaid amendments.

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/lvass)

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 2021 financial statements, ordinary and extraordinary contributions were recognised – on an accrual basis – under item 160. Other administrative expenses "in application of the interpretation IFRIC21"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 2022 amounted to approximately **1.1 million euros** (1.4 million euros in 2021).

To date in 2022, the extraordinary contribution to the National Resolution Fund has not been requested by Banca d'Italia (358 thousand euros in 2021).

4.6 Information on the ECL

Using the RiskCalc tool provided by Moody's, the internal score (= alphanumeric score assigned internally to each counterparty) and PDPIT are processed for each counterparty. These parameters are calculated at the time of credit assignment/renewal by the Credit Preliminary Analysis Service on the basis of financial data (financials) and qualitative considerations (qualitative overlay).
LGDPIT data are instead differentiated by debt seniority (the prevailing debt seniority for the Bank is "unsecured term loan"), and essentially derive from a PD-LGD correlation model present within the Impairment Study tool provided by Moody's Analytics.
For the purposes of calculating the expected loss, i.e. the accounting write-down, macroeconomic scenarios are applied to these risk parameters so as to allow their recalculation from a "forward-looking" perspective.
Starting from June 2022, the Bank has decided to replace the custom models provided by Moody's (MAKS team - Moody's Analytics Knowledge Services) with the standard solution (Impairment Studio). The reasons underlying this decision lie in the opportunity to have a solution capable of offering more accurate data, thanks to the greater precision of the macroeconomic variables analysed (by individual country, rather than by geographical area), as well as the greater size of the data sample. The accuracy of the new solution generated its effects above all with reference to the expected losses linked to counterparties belonging to the Asian geographical area, whose customized models had begun to lose predictability, with the consequent need for re-development.

As regards the macroeconomic scenarios to be applied to project the point-in-time parameters over time and transform them into forward-looking data, the Bank has decided to apply the following combined scenario:
40% baseline scenario +30% upside +30% downside, now partially revised (40% baseline scenario +20% upside +40% downside). With the aim of considering the worsening of the international economic context, in fact, the Bank has prudently decided to reduce the weight associated with the upside scenario, simultaneously increasing the weight associated with the downside scenario.

4.7 Contractual changes due to COVID

With regard to contractual amendments and any accounting cancellations, in 2021 the Bank proceeded to assist a limited number of small/medium enterprises that requested to postpone the expiry of some financial transactions within the scope of the provisions of the "Cura Italia" Decree of March 2020 and subsequent amendments/integrations. This intervention was carried out in 2021 and was completed in the same year. No intervention by the Bank was carried out in 2022.

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 SPPItest;
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 –performing elements (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:

ECL = EAD x PD x LGD
where:
ECL = Expected Credit Loss
EAD = Exposure At Default
PD = Probability of Default
LGD = Loss Given Default

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

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

- at each reporting date, if the credit risk of a financial instrument is significantly increased compared to the date of disbursement or purchase (stage 2), the expected loss for such financial instrument is measured as the amount of expected losses in the instrument’s residual life (lifetime);

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

- in the field of securities, evidence of a significant increase in credit risk (and therefore the security's transfer to "stage 2") – worsening by two notches of the rating assigned to the instrument by external rating agencies, 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.

4. Hedging operations

(a) Classification criteria

Risk hedging transactions are aimed at neutralizing potential losses, attributable to a specific risk, and detectable on a specific element or group of elements, in the event that that particular risk should actually occur. Upon introduction, IFRS 9 envisages the possibility of continuing to fully apply the provisions of the previously existing IAS 39 on the subject of "hedge accounting" (in the carved-out version approved by the European Commission) for each type of hedge (both for hedges specifications and for macro hedging).

(b) Enrollment Criteria

Derivative hedging instruments, like all derivatives, are initially recorded and subsequently measured at fair value.

(c) Evaluation criteria

Hedging derivatives are valued at fair value. In the case of fair value hedging, the change in the fair value of the hedged item is offset against the change in the fair value of the hedging instrument. This compensation is recognized through the recognition in the income statement - under item 90 "Net result of hedging activities" - of the changes in value, referring both to the hedged element (as regards the changes produced by the underlying risk factor), and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, consequently constitutes the net economic effect. The derivative instrument is designated as a hedge if there is formalized documentation of the relationship between the hedged instrument and the hedging instrument and if it is effective when the hedging begins and, prospectively, throughout its life. The effectiveness of the hedge depends on the extent to which the changes in the fair value of the hedged instrument are offset by those of the hedging instrument. Therefore, the effectiveness is determined by comparing the aforementioned changes, taking into account the intent pursued by the company at the time the hedge was put in place. In the event of ineffectiveness of the hedge, the accounting of the hedging transactions, according to the above, is interrupted, the hedging derivative contract is reclassified among trading instruments and the hedged financial instrument reacquires the valuation criterion corresponding to its classification in the financial statements.

5 – 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.

6 – 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 de-recognised as a result of disposals or when they have fully exhausted their economic functions and no future economic benefits are expected.

7 – 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.

8 – Provisions for Risks and Charges

a) Registration and classification criteria

Provisions for risks and charges are recognised in the income statement and recorded on the liabilities side of the balance sheet if these conditions are met:
• there is a present obligation (legal or implicit) deriving from a past event;
• the disbursement of financial resources for the fulfilment of the obligation is deemed probable;
• a reliable estimate can be made of the probable future disbursement.
Provisions are recorded at the value representing the best estimate of the amount required to settle the obligation, or to transfer it to third parties at the end of the period.
When the financial effect related to the passage of time is significant and the payment dates of the obligations can be reliably estimated, the provision is subject to discounting at current market rates at the balance sheet date.

b) Evaluation and recognition criteria of income components

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

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

The Funds for Risks and Charges also include:
• provisions relating to commitments and financial guarantees issued subject to the impairment rules of IFRS 9;
• the charges relating to the defined-benefit pension funds pursuant to the provisions of IAS 19.

c) Cancellation policy

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

9 – 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.

10 - 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.

11 – 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.

– 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.
- corresponding to those of the underlying asset.

b) - Recognition of Revenues and Costs

Revenues are recognized when they are received or, in any event, when it is likely that future benefits will be received that can be quantified in a reliable manner. In particular:

- dividends are recognized in the Income Statement when their distribution is formally approved;
- revenue from dealings in financial instruments held for trading (consisting in the difference between the transaction price and the instrument's fair value) is recorded in the Income Statement when the trades are recognized if fair value can be determined by reference to parameters or recent transactions observable in the same market as that in which the instruments were traded;
- revenue from financial instruments for which the above assessment is not possible is recorded in the Income Statement over the duration of the transaction.

he costs are recognized in the Income Statement in the same year as the related revenues. If the link between costs and revenues can be made in a general and indirect manner, costs are recorded over a number of years using rational and systematic procedures. Costs that cannot be associated with revenues are recorded in the Income Statement immediately.

c) - Employee severance indemnity

Registration and classification

The Employee 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.

d) Accruals and deferrals

The accruals and deferrals that include charges and income for the period accrued on assets and liabilities are recorded in the financial statements as an adjustment to the assets and liabilities to which they refer.

e) Transfer of the tax credit "Tax Bonus" - Law no. 77 dated 17 July 2020

In order to counter the negative economic effects resulting from the spread of the Covid-19 pandemic, with Law no. 77 of 17 July 2020, converting with amendments the decree-law "Relaunch Decree", the Italian Government issued a series of measures which, among others, enable taxpayers, under certain conditions, to benefit from a tax deduction against expenses incurred in certain circumstances.

The law also grants the taxpayer the option to opt, instead of directly using the deduction, to be able to transfer the corresponding tax credit to other subjects, within the limits of the provisions of the reference legislation which was the subject of multiple interventions during 2022 by the legislator – including credit institutions and financial intermediaries.

Since the conversion into law of the "Relaunch Decree" the tax deductions arising from building interventions have undergone significant changes, both as regards the procedure for exercising the option of transfer or discount on the invoice – with the introduction of the compliance visa and of the technical certification also for the so-called minor bonuses – both as regards the time period within which to bear the expenses.

Nonetheless, the possibility granted to the taxpayer to opt for the conversion of the tax deduction into a tax credit that can be transferred to third parties – primarily to credit institutions and suppliers – represents a fundamental cornerstone for facilitating the execution of energy efficiency measures or seismic analysis of the national real estate assets.

In relation to the accounting framework to be adopted in the transferee's financial statements, there is no single reference framework, due to the particular and new characteristic of the instrument in question. In particular, the case in question:

- does not fall within the scope of IAS 12 "Income taxes" since it cannot be assimilated among taxes affecting the company's ability to produce income;
- does not fall within the scope of the definition of government grants according to IAS 20 "Accounting for government grants and disclosure of public assistance" since the entitlement to the receivable from the tax authorities arises only following the payment of a consideration to the assignor;

- is not attributable to the provisions of IFRS9 "Financial instruments" as the tax credits purchased do not originate from a contract between the transferee and the Italian State;
- is not attributable to IAS 38 "Intangible assets", as the tax credits in question can be considered monetary assets, allowing the payment of tax debts usually settled in cash.

The tax credit in question therefore represents a case not explicitly dealt with by an IAS/IFRS accounting standard, and as such requires recalling the provisions of IAS 8 "Accounting standards, changes in accounting estimates and errors" and in particular the need on the part of the person preparing the financial statements to define an accounting treatment that reflects the economic substance and not the mere form of the transaction and that is neutral, prudent and complete.

The approach followed, with particular reference to the application of the IFRS9 accounting standard, is that identified both by the Italian Accounting Organization (OIC) and by Banca d'Italia/Consob/Ivass document no. 9 ("Accounting treatment of tax credits connected with the "Cura Italia" and "Rilancio" decree-laws purchased following transfer by the direct beneficiaries or previous purchasers"). In fact, tax credits are substantially similar to a financial asset in that they can be used to offset a debt usually paid off in cash (tax debts), as well as being exchanged for other financial assets. The condition to be satisfied is that the same tax credits can be included in a business model of the entity. In this specific case, the Hold-To-Collect business model was chosen, as the intention is to hold these receivables until maturity.

In this sense, the following can be established:

- upon initial recognition, the fair value of the tax credit is equal to the purchase price of the credits included in the transaction;
- in the fair value hierarchy envisaged by IFRS 13, the fair value level is assimilated to level 3, as there are currently no active markets or comparable transactions;
- the purchase price of tax credits discounts both the time value of money and the ability to use it within the relative time limit;
- the subsequent accounting of financial assets takes place at amortized cost, through the use of an effective interest rate determined at the origin, in such a way that the discounted cash flows associated with the expected future offsets, estimated over the expected duration of the tax credit, equal the purchase price of the same credits;
- using the amortized cost method, the cash flow estimates are periodically reviewed and the gross carrying amount of the financial asset is adjusted to reflect the actual and restated cash flows. In

making these adjustments, the new cash flows are discounted at the original effective interest rate. This accounting therefore makes it possible to recognize the income during the life of this tax credit, as well as to immediately recognize any losses from the transaction;

- if the estimates regarding the use of the tax credit through offsetting are revised, the gross book value of the tax credit is adjusted to reflect the estimated, actual and restated uses;

- taking into account the specific characteristics of these tax credits, held for the purpose of using them up to their complete compensation, within the permitted period of time, with the payments of debts payable through F24, the reference business model, as already mentioned above, has been identified conventionally in the Hold-to-Collect model (HTC);

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 31.12.2022			Total 31.12.2021		
	L1	L 2	L 3	L1	L 2	L 3
1. Financial assets measured at fair value with impact on income statement	918	1,448	3,972	11,871	1,068	4,414
a) financial assets held for trading	918	1,448	3,972	11,871	1,068	4,414
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	1,926	2,328	48	959	2,688	48
3. Derivatives for hedging						
4. Tangible assets						
5. Intangible assets						
Total	**2,844**	**3,776**	**4,020**	**12,830**	**3,756**	**4,462**
1. Financial liabilities held for trading		82			1,803	
2. Financial liabilities designated at fair value						
3. Derivatives for hedging		47				
Total		**129**			**1,803**	

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				Financial assets measured at fair value with impact on overall profitability	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				
1. Opening balance		**4,414**			**48**			
2. Increases								
2.1 Purchases								
2.2 Profits								
2.2.1 Income statement								
- of which: capital gains								
2.2.2 Net assets								
2.3 Transfers from other levels								
2.4 Other variations with increase								
3. Decreases		**622**						
3.1 Sales								
3.2 Refunds								
3.3 Losses								
3.3.1 Income statement		622						
- of which: losses		622						
3.3.2 Net assets								
3.4 Transfers to other levels								
3.5 Other variations with decrease								
4. Closing balance		**3,792**			**48**			

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	31.12.2022				31.12.2021			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets valued at amortised cost	1,426,149	518,113	189,797	712,819	1,352,600	585,203	143,178	634,392
2. Tangible assets held for investment purposes								
3. Non-current assets and groups of assets held for sale								
Total	**1,426,149**	**518,113**	**189,797**	**712,819**	**1,352,600**	**585,203**	**143,178**	**634,392**
1. Financial liabilities valued at amortised cost	1,397,947			1,391,256	1,480,214			1,480,214
2. Liabilities associated with assets held for sale								
Total	**1,397,947**			**1,391,256**	**1,480,214**			**1,480,214**

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 31.12.2022	Total 31.12.2021
a) Cash	1,305	872
b) Free deposits with central banks	14,624	97,609
c) Free deposits with central banks	122,785	187,431
	138,714	**285,912**

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 31.12.2022			Total 31.12.2021		
	L1	L2	L3	L1	L2	L3
A Non-derivative assets						
1 Debt securities	918	1,430		11,469		
1.1 Structured securities				1,108		
1.2 Other debt securities	918	1,430		10,361		
2 Equity securities			3,972			4,414
3 Holdings in UCI				402		
4 Loans						
4.1 Repo						
4.2 Other debt securities						
	918	**1,430**	**3,972**	**11,871**		**4,414**
b Derivatives:						
1 Financial derivatives		18			1,068	
1.1 For trading		18			1,068	
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)		**18**			**1,068**	
Total (A+B)	**918**	**1,448**	**3,972**	**11,871**	**1,068**	**4,414**

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 Dec 2022)	Total (31 Dec 2021)
A. Assets for cash		
1. Debt securities	**2,348**	**11,469**
a) Central banks		
b) Public administrations	1,430	6,507
c) Banks	918	4,962
d) Other financial companies		
of which: insurance firms		
e) Non-financial companies		
2. Capital securities	**3,972**	**4,414**
a) Banks		
b) Other financial companies		
of which: insurance firms		
c) Non-financial companies	3,972	4,414
d) Other issuers		
3. O.I.C.R. shares (for collective investment)		**402**
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	**6,320**	**16,285**
B. Derivative instruments	**18**	**1,068**
a) Central counterparties		
b) Others	18	1,068
Total B	**18**	**1,068**
Total (A+B)	**6,338**	**17,353**

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 (31.12.22)			Total (31.12.21)		
	L1	L 2	L 3	L1	L 2	L 3
1. Debt securities	1,926	2,328		959	2,688	
1.1 Structured securities						
1.2 Other debt securities	1,926	2,328		959	2,688	
2. Capital securities			48			48
3. Financing						
Total	**1,926**	**2,328**	**48**	**959**	**2,688**	**48**

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

Items/Values	Total (31.12.22)	Total (31.12.21)
1. Debt securities	**4,254**	**3,647**
a) Central Banks		
b) Public administrations	2,328	2,688
c) Banks		
d) Other financial companies		
of which: insurance firms		
e) Non-financial companies	1,926	959
2. Capital securities	**48**	**48**
a) Banks		
b) Other issuers:	48	48
- other financial firms		
of which: insurance firms		
- non-financial companies	48	48
- others		
3. Financings		
a) Central Banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance firms		
e) Non-financial companies		
f) Families		
Total	**4,302**	**3,695**

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	of which instruments with low credit risk	Second stage	Third stage	of which: impaired, acquired/ originated	First stage	Second stage	Third stage	of which: impaired, acquired/ originated	
Debt securities			2,512	2,891			(184)	(965)		
Financings										
Total (31.12.22)			2,512	2,891			(184)	(965)		
Total (31.12.21)			2,799	1,926			(111)	(967)		
of which: impaired financial assets acquired or originated										

(*) Value to be displayed for information purposes

The second stage consists of a security issued by a foreign institutional counterparty for a nominal value of 2,5 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/Values	Total (31.12.22)						Total (31.12.21)					
	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	**302,134**	**12,173**		**30,423**		**281,435**	**382,420**				**30,030**	**349,105**
1. Financings	269,262	12,173				281,435	349,105					349,105
1.1 Current accounts												
1.2. Deposits at maturity	57,588					57,588	142,283					142,283
1.3. Other financings:	211,674	12,173				223,847	206,822					206,822
- Active repurchase agree'ts												
- Financial leasing												
- Other	211,674	12,173				223,847	206,822					206,822
2. Debt securities	32,872			30,423			33,315				30,030	
2.1 Structured securities												
2.2 Other debt securities	32,872			30,423			33,315				30,030	
Total	**302,134**	**12,173**		**30,423**		**281,435**	**382,420**				**30,030**	**349,105**

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

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

Types of operations/Values	Total (31.12.22)						Total (31.12.21)					
	Balance sheet value			Fair value			Balance sheet value			Fair value		
	First and second stage	Third stage	of which impaired, acquired/ originated	L1	L2	L3	First and second stage	Third stage	of which impaired, acquired /originat	L1	L2	L3
Financings	**399,910**	**27,099**				**427,009**	**266,329**	**18,959**				**285,288**
1.1. Current accounts	649	12,635				13,284	709	7,208				7,917
1.2. Active repurchase agreements												
1.3. Mortgages	8,770					8,770	9,717					9,717
1.4. Credit cards, personal loans and employee loan	2,431					2,431	2,660	3				2,663
1.5. Financial leasing												
1.6. Factoring	90,927	**3,271**				94,198	61,279					61,279
1.7. Other financings	297,133	11,193				308,326	191,964	11,748				203,712
Debt securities	**679,714**	**5,118**		**518,113**	**159,375**	**4,225**	**677,651**	**7,241**		**555,172**	**143,178**	
1.1. Structured securities												
1.2. Other debt securities	679,714	5,118		518,113	159,375	4,225	677,651	7,241		555,172	143,178	
Total	**1,079,624**	**32,217**		**518,113**	**159,375**	**431,234**	**943,980**	**26,200**		**555,172**	**143,178**	**285,288**

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

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

Types of operations/Values	Total (31.12.22)			Total (31.12.21)		
	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	**679,714**	**5,118**		**677,651**	**7,241**	
a) Public administrations	679,714	5,118		677,651	7,241	
b) Other financial companies						
of which: insurance firms						
c) Non-financial companies						
2. Financings	**399,910**	**27,099**		**266,329**	**18,959**	
a) Public administrations	17,688	11,436		14,318	7,138	
b) Other financial companies	2			2		
of which: insurance firms						
c) Non-financial companies	370,308	15,663		238,876	11,817	
d) Families	11,912			13,133	4	
Total	**1,079,624**	**32,217**		**943,980**	**26,200**	

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

	Gross value					Total value adjustments				Total partial write-offs (*)
	First stage	of which instruments with low credit risk	Second stage	Third stage	of which: impaired, acquired/or iginated	First stage	Second stage	Third stage	of which: impaired, acquired/or iginated	
Debt securities	708,865	708,865	7,270	54,889		(3,234)	(315)	(49,770)		
Financings	603,816		66,946	102,219		(1,404)	(186)	(62,947)		
Total	**1,312,681**	**708,865**	**74,216**	**157,108**		**(4,638)**	**(501)**	**(112,717)**		
Totale (31.12.21)	**1,186,580**	**681,189**	**151,552**	**122,300**		**(5,443)**	**(6,288)**	**(96,101)**		
of which: impaired, acquired/originated										

(*) Value to be displayed for information purposes

Section 5 – Hedging derivatives - Item 50

No data to report.

Section 6 - Adjustments to financial assets subject to macro-hedging Item 60

No data to report.

Section 7 – Equity investments – Item 70

No data to report.

Section 8 – Tangible fixed assets - Item 80

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

Assets/Values	Total (31.12.22)	Total (31.12.21)
1 Proprietary assets	**20,337**	**21,077**
a) land	8,187	8,187
b) buildings	11,497	12,103
c) furnishings	73	83
d) electric/electronic equipment	128	
e) other items	452	704
2 Right of use acquired through leasing	**212**	**104**
a) land		
b) buildings	136	88
c) furnishings		
d) electric/electronic equipment	52	
e) other items	24	16
Total	**20,549**	**21,181**
of which: obtained through enforcement of guarantees received		

The Bank owns the building located in Rome, in which it has its headquarters, and an apartment in Milan used for Branch offices. In addition, it owns a building located in Rome formerly used as a physical archive.

8.6 Tangible fixed assets held for operational use: Yearly variations

	Land	Buildings	Furnishings	Electronic plant	Other	Total
A. Gross opening balance	**8,187**	**23,906**	**1,814**	**2,377**	**3,880**	**40,164**
A.1 Reduction of total net values		11,716	1,729	2,377	3,161	18,983
A.2 Net opening balance	**8,187**	**12,190**	**85**		**719**	**21,181**
B. Increases:		**217**	**14**		**218**	**449**
B.1 Purchases		115	14		108	237
B.2 Expenses for capitalised improvements						
B.3 Write-backs						
B.4 Positive variations of fair value						
attributed to:						
a) net assets						
b) income statement						
B.5 Positive differences of exchange rates						
B.6 Transfers from properties held for investment purposes						
B.7 Other variations		102			110	212
C. Decreases:		**775**	**14**		**292**	**1,081**
C.1 Sales					29	29
C.2 Amortisations		722	14		214	**950**
C.3 Value adjustments from						
deterioration attributed to:						
a) net assets						
b) income statement						
C.4 Negative variations of fair value						
attributed to:						
a) net assets						
b) income statement						
C.5 Negative differences of exchange rates						
C.6 Transfers to:						
a) tangible assets held for investment purposes						
b) non-current assets and groups of assets held for sale						
C.7 Other variations		53			49	102
D. Net closing balance	**8,187**	**11,632**	**85**		**645**	**20,549**
D.1 Reduction of total net values		11,716	1,729	2,377	3,161	18,983
D.2 Gross closing balance	8,187	23,348	1,814	2,377	3,806	39,532
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 31.12.2022		Total 31.12.2021	
	Limited Life	Unlimited Life	Limited Life	Unlimited Life
A1 Goodwill				
A2 Other intangible assets	**251**		**234**	
of which software	9		41	
A2.1 Assets valued at cost	251		234	
a) Intangible assets developed in-house				
b) Other assets	251		234	
A2.2 Assets assessed at fair value				
a) Intangible assets developed in-house				
b Other assets				
Total	**251**		**234**	

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				**234**		**234**
A.1 Reduction of total net value						
A.2 Net opening balance				**234**		**234**
B. Increases				**133**		**133**
B.1 Purchases				133		**133**
B.2 Increase of intangible assets internally						
B.3 Value adjustments						
B.4 Positive variations of fair value:						
- to net assets						
- to income statement						
B.5 Positive differences in exchange rates						
B.6 Other variations						
C. Decreases				**116**		**116**
C.1 Sales						
C.2 Value adjustments				116		**116**
- amortisations				116		**116**
- write-downs:						
+ net assets						
+ income statement						
C.3 Negative variations of fair value:						
- to net assets						
- to income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Negative differences in exchange rates						
C.6 Other variations						
D. Net closing balance				**251**		**251**
D.1 Total net value adjustments						
E. Gross closing balance				**251**		**251**
F. Valuation at cost						

Legend
DEF= definite duration
INDEF= indefinite duration

Other intangible assets as of 31 December 2022 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 31.12.2022	Total 31.12.2021
Total	**11,442**	**7,476**
Income statement	*8,808*	*4,842*
1 Tax losses		
2 Loan losses	5,780	3,710
3 Other	3,028	1,132
Shareholders' equity	*2,634*	2,634
4 Valuation reserves	2,634	2,634
5 Other		

Deferred tax assets refer for approximately 8.8 million euros to items whose recoverability is not based on future profitability, for approximately 3.6 million euros to items whose recoverability is based on future profitability and which derive from temporary differences, and, finally, for approximately 0.9 million euros to items whose recoverability is based on future profitability and which do not derive from temporary differences.
In addition, as explained in the Management Report, the Bank has prudently not recognized additional deferred tax assets totaling approximately 27 million euros in the financial statements..

10.2 Deferred Tax liabilities: breakdown

	Total 31.12.2022	Total 31.12.2021
Total	**724**	**425**
1 Income statement		
2 Shareholders' equity	724	425
Valuation reserves	724	425
Other		

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

	Total 31.12.2022	Total 31.12.2021
1 Opening balance	**4,842**	**5,385**
2 Increases	**3,966**	
2.1 Pre-paid tax assets recorded during the year	2,070	
a) relating to earlier years	2,070	
b) due to changes in accounting policies		
c) write-backs		
d) other		
2.2 New taxes or increases in tax rates	1,896	
2.3 Other increases		
3 Decreases		**543**
3.1 Pre-paid tax assets annulled during the year		
a) reversals		
b) write-downs for intervening non-recov.		
c) due to changes in accounting policies		
d) other		
3.2 Reductions in tax rates		
3.3 Other decreases		543
a) transformation into tax credits as per Law 214/2011		543
b) other		
	8,808	**4,842**

10.3bis Changes in prepaid tax assets to L. 214/2011

	Total (31.12.22)	Total (31.12.21)
1 Opening balance	**4,842**	**5,385**
2 Increases	**3,966**	
3 Decreases		**543**
3.1 Reversal		
3.2 transformation into tax credits		543
a) resulting from operating losses		
b) resulting from tax losses		543
3.3 Others decreases		
4 Closing balance	**8,808**	**4,842**

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

	Total (31.12.2022)	**Total (31.12.2021)**
1. Initial amount	**2,633**	**2,633**
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		
3.1 Deferred tax assets cancelled during the year		
a) reversals		
b) unrecoverable write-offs		
c) due to changes in accounting criteria		
d) other		
3.2 Reduction in tax rates		
3.3 Other decreases		
4. Final amount	**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 31.12.2022	Total 31.12.2021
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)	26,202	4,101
Total	**26,202**	**4,101**

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 (31.12.2022)				Total (31.12.2021)			
	Balance value	Fair value			Balance value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Debts towards central banks	**252,171**				**222,808**			
2. Debts towards banks	**1,001,335**				**1,140,399**			
2.1 Current accounts and deposits at sight	194,104				304,963			
2.2 Deposits at maturity	807,231				835,436			
2.3 Financing operations								
2.3.1 Repurchase agreements								
2.3.2 Others								
2.4 Payables for repurchase commitments of own equity instruments								
2.5 Lease for liabilities								
2.6 Other payables								
Total	**1,253,506**				**1,363,207**			**1,299,587**

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 (31.12.2022)				Total (31.12.2021)			
	Balance value	Fair Value			Balance value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and deposits at sight	136,743				103,772			
2. Deposits at maturity	678				10,383			
3. Financing operations								
3.1 Repurchase agreements								
3.2 Others								
4. Payables for repurchase commitments of own equity instruments								
5. Lease for liabilities	263				131			
6. Other payables	6,757				2,722			
Total	**144,441**			**114,622**	**117,008**			**114,622**

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

	31.12.2022					31.12.2021				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A Cash liabilities										
1. Accounts payable to banks										
2. Accounts payable to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 Structured										
3.1.2 Other										
3.2 Other securities										
3.2.1 Structured										
3.2.2 Other										
Total A										
B Derivatives										
1. Financial derivatives			83					1,804		
1.1 Held for trading			83					1,804		
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			83					1,804		
Total (A+B)			**83**					**1,804**		

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

4.1 Hedging derivatives: composition by type and by hierarchical levels

	VN (31.12.22)	Fair value (31.12.22)			VN (31.12.22)	Fair value (31.12.21)		
		L1	L2	L3		L1	L2	L3
A) Financial derivatives	**101,566**		**47**					
1) Fair value	101,566		47					
2) Financial flows								
3) Foreign investments								
B. Credit derivatives								
1) Fair value								
2) Financial flows								
Total	**101,566**		**47**					

Legend:
VN: Nominal value
L1: Level 1
L2: Level 2
L3: Level 3

4.2 Hedging derivatives: composition by portfoglio hedged and by type of hedging

Operations/Type of hedging	Fair value							Financial flows		Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	capital securities and share indices	currency and gold	credit	goods	other				
1. Financial activities at fair value with impact on overall profitability										
2. Financial activities valued at amortized cost										
3. Portfolio										
4. Other operations										
Total activity										
1. Financial liability	47									
2. Portfolio										
Total liability	**47**									
1. Transactions pending										
2. Portfolio of financial credits and liabilities										

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 (31.12.22)	Total (31.12.21)
1. Accrued liabilities		
2. Other liabilities (sums available to customers, illiquid items)	25,301	12,609
Total	**25,301**	**12,609**

Section 9 – Employee severance benefits - Item 90

9.1 Staff severance fund: Yearly variations

Items/ Values	31.12.2022	31.12.2021
A. Opening balance	**576**	**851**
B. Increases	**11**	**29**
B.1 Provisioning for the year	11	5
B.2 Other increases		24
C. Decreases	**90**	**304**
C.1 Severance payments	65	304
C.2 Other decreases	25	
D. Closing balance	**497**	**576**
Total	**497**	**576**

9.1.1 Rates

Annual Technical	3.57%
Annual Inflation Rate	2.20%
Annual frequencies of turnover advances	4.00%
Annual frequencies of advances on severance fund	3.00%
Gross annual SSF	3.23%

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 5-7 years
- 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 on a significant number of similar business enterprises.

9.1.2 Reconciliation of actuarial valuations under IAS 19

	Totale (31.12.22)	**Totale (31.12.21)**
Opening balance	**576**	**851**
Realignment		
Pension cost		
Financial charges	11	5
Benifits paid	(65)	(304)
Transfers		
Expected liabilities	**522**	**552**
Actuarial loss	(25)	24
Closing balance	**497**	**576**

9.2 Other information

	Total (31.12.22)
Provisioning for the year	**11**
Pension costs	
Financial charges	11
Actuarial loss	
Other	

Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Items/Values	Total (31.12.2022)	Total (31.12.2021)
1. Funds for credit risk relating to commitments and financial guarantees issued	6,520	6,227
2. Funds on other commitments and other guarantees issued		
3. Company retirement funds		
4. Other provisions for risks and charges	6,599	12,311
4.1 legal and tax disputes	2,400	90
4.2 personnel costs	1,492	6,138
4.3 others	2,707	6,083
Total	**13,119**	**18,538**

As of December 31, 2022, the item "Other provisions for risks and charges" includes: specific and extraordinary provisions to cover expected future charges following the settlement of collective procedures, on a voluntary basis, which took place in 2021 (approximately € 1.4 million); prudential provisions related to a lawsuit on tax issues, for which a judgment by the Court of Cassation is still pending (€ 0.5 million); and potential legal risks that could arise from the existing "international guarantees" portfolio (€ 1.4 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	**6,227**	**5,454**	**6,857**	**18,538**
B. Increases	**293**		**2,310**	**2,603**
B.1 Allocation for the year	293		2,310	
B.2 Changes due to the passage of time				
B.3 Variations due to changes in the discount rate				
B.4 Other changes				
C. Decreases		**3,962**	**4,060**	**8,022**
C.1 Use during the year		3,962	4,060	
C.2 Variations due to changes in the discount rate				
C.3 Other changes				
D. Closing balance	**6,520**	**1,492**	**5,107**	**13,119**

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	of which: impaired, acquired/ originated	Total
Commitments to disburse funds	31	68			99
Financial guarantees issued	627	489	5,305		6,421
Total	**658**	**557**	**5,305**		**6,520**

10.6 Provisions for risks and charges – other provisions

	Total (31.12.22)	Total (31.12.21)
Provison for holidays not taken		684
Legal disputes	2,400	90
Other	2,707	6,083
Total	**5,107**	**6,857**

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

	31.12.2022	31.12.2021
1. Share capital	261,186	261,186
2. Share premium account	870	870
3. Reserves	(76,477)	(77,869)
4. Capital instruments		
5. (Treasury stock)		
6. Valuation reserves	1,340	652
7. Profit (Loss) for the year	11,752	1,393
Total	**198,671**	**186,232**

12.2 Share capital: Yearly variations in number of shares

	Common	Other
A. Shares at start of year	**2,374,147**	
- fully paid up	2,374,147	
- not fully paid up		
A.1 Treasury Stock		
A.2 Shares outstanding: Opening balance	**2,374,147**	
B. Increases		
B.1 New share issues		
rights issues:		
- combination of companies		
- conversion of bonds		
- exercise of warrants		
- others		
bonus issues:		
- for employees		
- for directors		
- other		
B.2 Sale of treasury stock		
B.3 Other increases		
C. Decreases		
C.1 Cancellations		
C.2 Purchase of treasury stock		
C.3 Disposal of companies		
C.4 Other decreases		
D. Shares outstanding: Fiscal closing balance	**2,374,147**	
D.1 Treasury stock(+)		
D.2 Shares at end of year	2,374,147	
- fully paid up	2,374,147	
- 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	**(83,930)**			
a) Legal Reserve	6,111	B	6,111	
b) Extraordinary Reserve		A,B,C		
c) FTA/IFRS reserves	(7,758)			
d) retained profitIFRS 2005	305			
e) retained profit	(82,588)	A,B,C		
Other Reserves				
Total	**(83,060)**			
Amount not allocatable	(83,930)			
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 (31.12.2022)	TOTAL (31.12.2021)
	(First stage)	(Second stage)	(Third stage)	impaired acquired or generated		
Commitments to disburse funds	**4,723,082**	**292,992**	**49,158**		**5,065,232**	**4,855,053**
a) Central banks		13,901			13,901	13,000
b) Public administrations						
c) Banks	4,260,143	222,952	44,596		4,527,691	4,344,632
d) Other financial companies	103,637				103,637	101,324
e) Non-financial companies	359,302	54,965	4,562		418,829	394,850
f) Families		1,174			1,174	1,247
Financial guarantees issued	**351,012**	**110,281**	**20,918**		**482,211**	**685,459**
a) Central banks	20,411				20,411	38,960
b) Public administrations						
c) Banks	229,328	39,278	203		268,809	457,411
d) Other financial companies						
e) Non-financial companies	101,273	71,003	20,715		192,991	189,088
f) Families						

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

Portfolios	Amount (31.12.2022)	Amount (31.12.2021)
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	10,864	507
4. Tangible assets		
of which: tangible assets that constitute inventories		

Such activities have been used by Banca d'Italia for issuing bank drafts (Euro 0.6 million) and to guarantee funding operations on the Eurosystem (10.2 million)

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	**795,260**
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	26,984
1. Securities issued by bank that draws up balance sheet	14,379
2. Other securities	12,605
c) Third-party securities held by third parties	0
d) Own securities held by third parties	768,276
4. Other operations	

Note that the Bank's memorandum accounts include third-party funds for a contra-value of EUR 3.4 billion (EUR 3.2 billion as of 31 December 2021) deriving 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 contra-value of Euro 1.7 billion, has 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 (31.12.2022)	Total (31.12.2021)
1. Financial assets measured at fair value with impact on income statement:	**218**			**218**	**258**
1.1 Financial assets held for trading	218			218	258
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	**137**			**137**	**143**
3. Financial assets valued at amortised cost:	**22,648**	**22,484**		**45,132**	**23,970**
3.1 Credits towards banks	2,013	13,580		15,593	7,606
3.2 Credits towards customers	20,635	8,904		29,539	16,364
4. Derivatives for hedging operations					
5. Other assets					
6. Financial liabilities					
Total	**23,003**	**22,484**		**45,487**	**24,371**
of which: interest income on impaired financial assets	618	48		666	1,947
of which: interest income on financial leasing					

Interest relating to customers' impaired assets amounted to Euro 0,7 million (previously Euro 1.9 million the year ended 31/12/2021).

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 (31.12.2022)	Total (31.12.2021)
1. Financial assets measured at fair value with impact on income statement:	**107**			**107**	**161**
1.1 Financial assets held for trading	107			107	161
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	**93**			**93**	**96**
3. Financial assets valued at amortised cost:	**5,901**	**15,131**		**21,032**	**13,009**
3.1 Credits towards banks	252	11,963		12,215	4,851
3.2 Credits towards customers	5,649	3,168		8,817	8,158
4. Derivatives for hedging operations					
5. Other assets					
6. Financial liabilities					
Total	**6,101**	**15,131**		**21,232**	**13,266**
of which: interest income on impaired financial assets	618			618	1,323
of which: interest income on financial leasing					

1.3 Interest charges and similar expenses: breakdown

Items/Technical forms	Debts	Securities	Other operations	Total (31.12.2022)	Total (31.12.2021)
1. Financial liabilities valued at amortised cost	**18,219**			**18,219**	**5,520**
1.1 Debts towards Central Banks	1,176			1,176	143
1.2 Debts towards other banks	16,865			16,865	5,354
1.3 Debts towards customers	178			178	23
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				32	61
Total	**18,219**			**18,251**	**5,581**
of which: interest expense relating to lease liabilities	3			3	2

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 (31.12.2022)	Total (31.12.2021)
1. Financial liabilities valued at amortised cost	**14,960**			**14,960**	**3,644**
1.1 Debts towards Central Banks	1,087			1,087	6
1.2 Debts towards other banks	13,810			13,810	3,623
1.3 Debts towards customers	63			63	15
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	**14,960**			**14,960**	**3,644**
of which: interest expense relating to lease liabilities					

1.5 Differences relative to the hedging operations

Items/Values	**Total (31.12.22)**	**Total (31.12.21)**
A. Positive differences relative to hedging operations:	71	
B. Negative differences relative to hedging operations:	42	
C. Balance (A-B)	**29**	

Section 2 - Commission income and expense - Items 40 and 50

2.1 Commission income: breakdown

Type of services/values	Total (31.12.22)	Total (31.12.21)
a) Financial intruments		
1. Allocation of securities		
1.1. With standing order and/or based on an irrevocable commitment		
1.2 Without an irrevocable commitment		
2. Receiving and transmitting orders, and executing them on behalf of customers of customers		
2.1 Receiving and transmitting orders using one or more financial instruments		
2.2 Executing orders on behalf of customers		
3. Other commissions connected with activities linked to financial instruments		
of which: negotiating on own account		
of which: managing individual portfolios		
b) Corporate finance		
1. Consultancy on mergers and acquisitions		
2. Treasury services		
3. Other commissions connected with corporate finance services		
c) Consultancy on investments		
d) Compensation and regulation		
e) Custody and administration		
1. Deposit bank		
2. Other commissions linked to custody and administration		
f) Central administrative services for managing collective portfolios		
g) Fiduciary activities		
h) Payment services	31	31
1. Current accounts	15	15
2. Credit cards		
3. Debit cards and other payment cards	8	7
4. Bank transfers and other payment orders	8	9
5. Other commissions linked to payment orders		
i) Distribution of third-party services		
1. Managing collective portfolios		
2. Insurance products		
3. Other products		
of which: managing individual portfolios		
j) Structured finance		
k) Servicing activities for securitization operations		
l) Commitments to disburse funds		
m) Financial guarantees issued	11,611	12,454
of which: credit derivatives		
n) Financing operations	2,638	3,082
of which: factoring operations	634	949
o) Currency trading	1,794	385
p) Goods and commodities		
q) Other active commissions	409	421
of which: activities for managing multilateral exchange systems		
of which: activities for managing organized trading systems		
Total	**16,483**	**16,373**

2.3 Commission expense: breakdown

Services/Values	Total (31.12.22)	Total (31.12.21)
a) Financial instruments		
of which: negotiating financial instruments		
of which: allocating financial instruments		
of which: managing individual portfolios		
*Own account		
*Delegated to third parties		
b) Compensation and regulation		
c) Custody and administration		
d) Encashment and payment services	12	9
of which: credit cards, debit cards and other payment cards	7	
e) Servicing activities for securitization operations		
f) Commitments to receive funds		
g) Financial guarantees received	1,961	2,613
of which: credit derivatives		
h) External offer of financial instruments, products and services		
i) Currency trading	1	1
j) Other passive commissions	440	446
Total	**2,414**	**3,069**

The item includes commissions downgraded to banking counterparties on guarantees issued by our Bank, and commissions retroceded to counterparties participating in pooled financing.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Voci/Proventi	Total (31.12.22)		Total (31.12.21)	
	Dividends	Income from investment funds	Dividends	Income from investment funds
A. Financial assets held for trading	1			
B. Financial assets necessarily measured at fair value				
C. Financial assets measured at fair value with impact on overall profitability				
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	**2**	**247**	**461**	**520**	**(732)**
1.1 Debt securities	2	144	461	426	(741)
1.2 Capital securities				3	(3)
1.3 O.I.C.R. portions		103		91	12
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					87
4. Derivative instruments	**6**	**13,473**	**6**	**2,459**	**11,612**
4.1 Financial derivatives:	6	13,473	6	2,459	11,612
- on debt securities and interest rates	6	13,456	6	2,452	11,004
- on capital securities and equity indices		17		7	10
- on foreign currencies and gold					598
- others					
4.2 Credit derivatives					
of which: natural hedging related to fair value option					
Total	**8**	**13,720**	**467**	**2,979**	**10,967**

(*) The amount reflects the profit deriving from the valuation of items in foreign currency.
(**) Capital gains and losses (Euro 0.1 million) reflect the fair value measurement of financial derivatives on interest rates and foreign currencies and are included respectively in asset item 20 (below Euro 17 thousand) and in item 20 of liabilities (below Euro 83 thousand).

Section 5 – Net income from hedging activities – Item 90

5.1 Net result of hedging activity: composition

	Total (31.12.22)	Total (31.12.21)
A. Revenues relating to:		
A.1 Hedging derivatives at fair value	15	
A.2 Financial hedging activities (fair value)		
A.3 Financial hedging liabilities (fair value)		
A.4 Hedging of financial flows		
A.5 Activities and liabilities in currency		
Total revenues of hedging activities (A)	**15**	
B. Charges relating to:		
B.1 Hedging derivatives at fair value	(76)	
B.2 Financial hedging activities (fair value)		
B.3 Financial hedging liabilities (fair value)		
B.4 Hedging of financial flows		
B.5 Activities and liabilities in currency		
Total charges of hedging activity (B)	**(76)**	
C. Net result of hedging activity (A - B)	**(61)**	
of which: result of hedging on net positions		

Section 6 – Net income from disposals and repurchases – Item 100

6.1 Profit (Loss) from sale/repurchase: composition

Items/Income components	Total (31.12.2022)			Total (31.12.2021)		
	Profit	Loss	Net result	Profit	Loss	Net result
A. Financial assets						
1. Financial assets valued at amortised cost:						
1.1 Credits towards banks						
1.2 Credits towards customers						
2. Financial assets measured at fair value with impact on total profitability	**171**		**171**	**151**		**151**
2.1 Debt securities	171		171	151		151
2.4 Financial operations						
Total assets	**171**		**171**	**151**		**151**
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 (31.12.2022) (2-1)	Total (31.12.2021)
	First stage	Second stage	Third stage		Impaired credits acquired or originated		First stage	Second stage	Third stage	Impaired credits acquired or originated		
			write-offs	others	write-offs	others						
A. Credits towards banks	**509**			**11,954**			**1,805**	**5,452**			**(5,206)**	**(2,421)**
- financing operations				11,954			1,805	5,374			(4,775)	(1,128)
- debt securities	509							78			(431)	(1,293)
B. Credits towards customers:	**376**	**97**		**7,192**			**322**				**(7,343)**	**(4,779)**
- financing operations	376	54		1,540							(1,970)	(287)
- debt securities		43		5,652			322				(5,373)	(4,492)
C. Total	**885**	**97**		**19,146**			**2,127**	**5,452**			**(12,549)**	**(7,200)**

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 (31.12.2022)	Total (31.12.2021)
	First stage	Second stage	Third stage		Impaired credits acquired or originated		First stage	Second stage	Third stage	Impaired credits acquired or originated		
			write-offs	others	write-offs	others						
A. Debt securities		73							2		(71)	12
B. Financing operations												
- towards customers												
- towards banks												
Total		**73**							**2**		**(71)**	**12**

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 (31.12.2022)	Total (31.12.2021)
1) Staff	**14,195**	**14,221**
a) Wages and salaries	10,066	9,775
b) Social security contributions	2,555	2,925
c) Severance payments		
d) Pension payments		
e) Allocations to the staff severance fund		
f) Allocations to the provision for pensions and similar liabilities:		
- defined contribution		
- defined benefit		
g) Payments to external complementary pension funds:	626	690
- defined contribution	626	690
- defined benefit		
h) Costs arising from agreements to make payments in own equity instruments		
i) Other benefits to staff	948	831
2) Non-salaried personnel	140	139
3) Directors	1,941	1,296
4) Retired personnel		
5) Expenses recouped for staff seconded to other institutions		
6) Expenses reimbursed for staff seconded from other institutions		
Total	**16,276**	**15,656**

10.2 Average number of employees per category

Employees:	
a) executives	3
b) managers	70
c) remaining employees	77
Other personnel	

10.4 Other staff benefits

	Total (31.12.2022)	Total (31.12.2021)
Early retirement payments		
Other payments	948	831
Total	**948**	**831**

10.5 Other administration expenses: breakdown

	Total (31.12.2022)	Total (31.12.2021)
a) IT expenses	2,207	2,003
b) Expenses for movable/immovable property:	373	496
- rentals and other fees	65	63
- other	308	433
c) Expenses for the purchase of goods and non-professional services	2,291	2,080
d) Expenses for professional services	2,708	3,014
e) Insurance premiums	159	149
g) Advertising	156	60
h) Indirect duties and taxes	566	583
i) Other :	2,164	1,879
of which: Resolution Funds and Deposit Guarantee Schemes (DGS)	1,107	1,576
Total	**10,624**	**10,264**

Item i) "Other" as of 31 December 2022 includes charges incurred for the Single Resolution Fund (FRU) relating respectively to the ordinary portion, of the contributions required by Banca d'Italia and amounting to about Euro 1,1 million.

Section 11 – Net provisioning for risks and charges – Item 170

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

	Total (31.12.2022)	Total (31.12.2021)
Legal disputes	2,400	90
Commitments to disburse funds and financial guarantees issued	(740)	1,214
Other risks and charges	1,225	143
Total	**2,885**	**1,447**

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

	Total (31.12.2022)	Total (31.12.2021)
Other risks and charges	192	143
Total	**192**	**143**

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	1,081			1,081
- owned	979			979
- Right of use acquired trough leasing	102			102
2. For investment				
- owned				
- Right of use acquired trough leasing				
3. Inventories				
Total	**1,081**			**1,081**

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 asets				
of wich software				
A.1 Owned	107			107
- generated internally by the bank				
- others	107			107
A.2 Right of use acquired trough leasing				
Total	**107**			**107**

Section 14 – Other operating income / charges – Item 200

14.1. Other operating charges: breakdown

	Total (31.12.2022)	Total (31.12.2021)
Other operating charges	2,641	56
Total	**2,641**	**56**

14.2. Other operating income: breakdown

	31.12.2022	31.12.2021
Duties and taxes recouped	30	318
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	497	465
- other	1,241	975
SSF attribution to profit and loss		
Other income	1,251	1,566
Total	**3,021**	**3,324**

The figures reflect the recovery of costs and expenses for activities inherent to the Bank's core business (Euro 1.2 million), and the partial release of provisions (approximately Euro 1.2 million) prudentially allocated in previous years against risks which, during 2022, were redefined in their amount.

Section 15 – Gains (losses) from equity investments - Item 220

No data to report.

Section 16 – Net adjustments to fair value of tangible and intangible assets – Item 230

No data to report.

Section 17 – Adjustments to goodwill – Item 240

No data to report.

Section 18 – Gains (losses) from the disposal of investments - Item 250

No data to report.

Section 19 – Income tax for the year on continuing operations – Item 270

19.1 Income tax for the year on continuing operations: breakdown

Income component/Values	Total (31.12.2022)	Total (31.12.2021)
1. Current taxes (-)	(1,387)	(425)
2. Changes in current taxes from previous years (+/-)		
3. Reduction of current taxes for the year (+)	3,966	48
3. (extra) Reduction of current taxes for the year with tax credits pursuant to law no. 214/2011 (+)	3,966	48
4. Change in prepaid taxes (+/-)		
5. Change in deferred taxes (+/-)		
6. Taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**2,579**	**(377)**

19.2 Reconciliation of theoretical tax liability and actual book liability

	31.12.2022	31.12.2021
Profit before tax	9,173	**1,769**
Theoretical IRES and IRAP due	(1,387)	(425)
IRAP adjustments for administration expenses		
IRAP adjustments for write-offs		
Taxes on non-deductible costs		
Pre-paid and deferred taxes	3,966	48
Net Worth increase benefit		
Total taxes	**2,579**	**(377)**
Net profit	**11,752**	**1,392**

As regards the tax effect relating to the year 2022, 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

	31.12.2022	31.12.2021
Net profit	11,752	1,393
Number of Shares	2,374,147	2,374,147
Profit per Share	**5**	**1**

PART D
COMPREHENSIVE INCOME DETAIL

	Items	31.12.2022	31.12.2021
10.	**Profit (loss) for year**	**11,752**	**1,393**
	Other income components without reversal to income statement	**82**	**10**
70.	Defined benefit plans	82	10
	Other income components with reversal to the income statement	**606**	**25**
150.	Financial assets (other than equity securities) measured at fair value with impact on total profitability:	**606**	**25**
	a) changes in fair value	606	25
190.	**Total other income components**	**688**	**35**
200.	**Overall profitability (10+190)**	**12,440**	**1,428**

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 identified[1]:

- the **Board of Directors** (made up of 7 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.

[1]The Board of Directors has not currently appointed an Executive Committee pursuant to Article 22 of the Articles of Association, although it is understood that it may be established in the future should the Board deem it necessary or appropriate..

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.

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 and subsequent updates, 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 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;
- 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 performs the duties and performs the functions envisaged by current legislation. In particular, the Board of Statutory Auditors supervises compliance with the laws, regulations and the Articles of Association, correct administration, and the adequacy of the organisational, administrative and accounting structure of the Bank. The Board of Statutory Auditors is responsible for supervising the completeness, adequacy, functionality and reliability of the internal control system, the risk management and control system, the statutory audit of the annual accounts and the independence of the auditing firm. Furthermore, the Board of Statutory Auditors is required to ascertain the effectiveness of all the structures and functions of the internal control system and their adequate coordination, promoting the corrective actions for the deficiencies and irregularities found.

The Board of Statutory Auditors told members that, pursuant to art. 52 of T.U.B. (consolidated banking law), Banca d'Italia will be informed 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 activity. In order to fulfil its duties, the Board of Statutory Auditors is endowed with the broadest powers established by the legal, regulatory and supervisory provisions in force from time to time.

The Board of Statutory Auditors also performs the functions of the supervisory body, established pursuant to legislative decree no. 231/2001, concerning the administrative liability of entities, supervising the functioning and observance of the Bank's organization 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 body of the Board of Directors; it exclusively has advisory and propositional functions towards the same, in terms of: remuneration of personnel whose remuneration and incentive systems are decided by the Body with strategic supervision function; analysis of remuneration and incentive policies; identification of key personnel – including any exclusions – and determination of criteria for quantifying related fees; determination of the criteria for the remuneration of the consultants of the foreign commercial network and of the Head of the Tripoli Representation Office.

Internal control system

Banca UBAE's internal control system consists of a set of rules, procedures and organizational structures aimed at enabling, through a process of identification, measurement, management and monitoring of the main risks, the sound and prudent conduct of banking activity.
The internal control system was designed in line with the legal and regulatory framework, with the Bank's organizational structure and in line with national and international standards and best practices.
At present, the internal control and risk management system of Banca UBAE is substantiated as follows:

• **line controls (**so-called "first-level controls"), aimed at ensuring that operations are carried out correctly. They are carried out by the operating structures themselves (e.g. hierarchical, systematic and random checks), also through various units that report to the managers of the operating structures, or performed within the back office;

• **controls on risks and compliance** (so-called "second-level controls"): entrusted to structures other than the operational ones, they have the objective of ensuring, among other things, the correct implementation of the risk management process, compliance with 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 Function and the Compliance Function. In particular, the Risk Management Function deals with the definition of risk measurement methodologies and the control of compliance with the risk limits, while the Compliance Function deals with verifying compliance with the relevant legislation, also carrying out verification activities;

• **internal audit** (so-called "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 information system (ICT audit), with pre-established intervals 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 summarized below:

The governance model

Banca UBAE has set up a system of rules, procedures and organizational structures which pursue:

- compliance with the Bank's strategies;
- the effectiveness of corporate processes;
- compliance of operations with regulatory provisions, supervisory obligations, regulations and internal procedures;
- the protection of the business system from losses.

The various players in the control system contribute to the achievement of these objectives, each within their own sphere of competence. Roles and functions are described below according to the structure currently in force.

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

Internal managerial committees

The Credit Committee is made up of: General Manager, Deputy General Manager, Head of Administration Management.
The Credit Committee is the proposing body for the granting of credit lines to be submitted to the Board of Directors, exercises the credit line powers within the limits delegated by the Board of Directors, revokes the credit lines approved by the Board of Directors (with the exception of those included in the application of article 136 of the Consolidated Banking Law on and against 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: General Manager, Deputy General Manager, Head of Administration Management. The Risk Committee proposes to the Board of Directors the guidelines for the management of each single risk, quantifiable and not; examines the RAF (Risk Appetite Framework) by verifying the Bank's consistency profile with the limits set therein; discusses and evaluates: the effectiveness of the policies approved 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, indicators established in the Recovery Plan; periodic simulations in terms of stress testing and prospective analysis; the operational strategies of the Finance Division and the use of derivative financial instruments to hedge risks, establishing amount limits for individual transactions, in relation to the profile of the operator and/or the negotiating counterparty and issuing, upon proposal of the General Manager, instructions restrictive of the operating limits in force and/or relating to individual financial instruments, issuers, counterparties; proposes to the Board of Directors changes to the operating limits assigned to the various Finance portfolios and any exceptions; submits to the Board of Directors the divestment operations relating to the HTC portfolio (Held-to-Collect).

The Personnel Committee consists of the General Manager, the Deputy General Manager and the HR Manager.
The Personnel Committee examines, as a preliminary step, proposals for hiring personnel (except for the components of the General Management) and the transformation of the related contracts, defines criteria and methods relating to personnel career advancement and the payment of the variable remuneration component in line with the remuneration policies established by the appropriate body; as a preliminary step, the committee examines the Supplementary Corporate Agreement.

Roles and responsibilities of corporate control functions

• **Risk Management Sector**

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

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

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

With a view to ICAAP (Internal Capital Adequacy Assessment Process), the sector develops, updates and perfects methodologies and tools for impact assessment and risk monitoring; oversees the risk management models, conducts stress tests and prospective analyses and supports the capital management process.

From an ILAAP (Internal Liquidity Adequacy Assessment Process) perspective, the sector monitors the Bank's exposure to liquidity risk, produces the weekly reporting flow to the Supervisory Body, prepares the reporting to the senior management and conducts the defined stress tests as part of the Recovery Plan.

Regarding the Risk Appetite Framework, the sector proceeds with the periodic monitoring and reporting of the risk propensity limits and takes care of their annual review, if any. The manager is also required to formulate opinions of consistency with the RAF for Operations of Major Importance (OMR) by virtue of the current management process.

From a Recovery Plan perspective, the sector supports the definition of stress scenarios in order to verify the adequacy of the recovery options and the effectiveness of the selected recovery indicators with the associated alarm thresholds. It also proceeds with the monitoring and reporting of the indicators belonging to the capital, liquidity, profitability and asset quality categories, 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 adapting to the international accounting standard IFRS9, the sector supports the definition of staging criteria and in particular of the concept of "significant credit deterioration", verifying the correctness of the macroeconomic scenarios aimed at transforming the risk parameters from forward-looking for the purposes of impairment of performing exposures, and lastly supports the decision-making process, accompanying loan proposals with specific information on expected credit loss and unexpected credit loss.

As part of the lending process, the sector checks on a sample of counterparties the correctness of the classification and the consistency of provisions from an AQR (Asset Quality Review) perspective and takes care of periodic reporting to the top management bodies, taking care to provide qualitative and quantitative information on the composition of RWAs (Risk Weighted Assets) in terms of regulatory portfolios, the distribution by credit rating and by weighting coefficient, as well as the composition of the loan portfolio by status and by individual impairment class.

As part of the remuneration policies, it calculates the value of the reference indicator for the purpose of determining the bonus pool, processes and possibly updates the indicators used 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 Head of the Sector participates without the right to vote in the meetings of the Risk Committee performing secretarial functions. He is periodically required to report his activity to the Audit & Risk Committee.

• **Compliance and anti-money laundering sector**

The regulatory compliance or compliance control function forms part of the BoD's staff, is responsible for ensuring internal consultancy to all the Bank's structures and to the General Management on the application of internal and external regulations and has the responsibility to preventively evaluate the impact that any procedural change and/or new product or service change could generate in terms of the risk of non-compliance with the aforesaid standards.
The function performs the following tasks:

• continuously identify the rules applicable to the Bank and measure/evaluate their impact on corporate processes and procedures;
• submit to the General Management proposals for organizational and procedural changes aimed at minimizing or eliminating the risk identified above;

• verify the effectiveness of the proposed organizational adjustments (on structures, processes, both operational and commercial procedures) suggested for the prevention of the risk of non-compliance.

To perform the tasks indicated above, the Compliance Function adopts two main operating methods: internal consultancy, with which the Function fulfils a primary institutional responsibility, and compliance checks of procedures, contractual documents, individual transactions or transactions brought to its attention.

Annually, the Compliance Function submits to the Board of Directors, after presentation to the Audit & Risk Committee, and to the Board of Statutory Auditors, a report regarding the activity carried out in the previous year, the activity plan for the current year and suggestions aimed at minimizing or eliminating the risk of non-compliance with regulations. This report is subsequently sent to Banca d’Italia.

The Function is also required to periodically report its activities to the Bank of Italy and the Audit and Risk Committee.

The Board of Statutory Auditors, the Audit & Risk Committee, the oversight body pursuant to law no. 231/01 may also ask the Compliance Function to formulate opinions, evaluate and carry out specific checks on procedures potentially at risk of non-compliance.

The Anti-Money Laundering Function is located within the Compliance sector, in charge of supervising the commitment to prevent and manage the risk of money laundering and terrorism financing; the Compliance Officer also holds the role of head of the anti-money laundering function. The activity related to the assessment and reporting of suspicious transactions is entrusted to the Head of Compliance.

- **Internal Audit Sector**

The internal audit function is entrusted to the Internal Audit Sector, which reports directly to the Board of Directors, or through the Audit & Risk Committee.
The activity of the Internal Audit Function is aimed at checking, with a view to third-level controls, also with in-situ checks, the regular progress of operations and risks, and at assessing the completeness, adequacy, the functionality and reliability of the organizational structure and of the other components of the internal control system, bringing possible improvements to the attention of General Management and the Board of Directors, with particular reference to the RAF, the risk management process as well as its measurement and control. Based on the results of its controls, the Internal Audit Sector makes recommendations to the corporate bodies.

This function operates with independence, autonomy and professionalism, in compliance with current legislation and with the overall guidelines of the Bank's internal control system; it has access to all activities, including outsourced ones; verifies the removal of anomalies found in the operation and functioning of the controls (follow-up activities); carries out checks required by the Oversight Body as well as sharing information useful for the purposes of legislative decree 231/01.

The Internal Audit Sector annually submits the audit plan to the Board of Directors, or through the Audit & Risk Committee, and to the Board of Statutory Auditors, taking into account the risks inherent in corporate processes. It also presents, with the same frequency, the annual report on the activity conducted, which illustrates the checks carried out, the results that have emerged, the weaknesses identified with the suggestions of the interventions to be adopted for their removal. This report is also delivered to the Independent Auditors.

The Sector periodically reports to the Board of Directors, through the Audit & Risk Committee, the outcome of the inspections carried out; it also periodically submits to the Board of Statutory Auditors, also in the function of Oversight Body pursuant to legislative decree 231/01, the results of the checks carried out and the related assessments.

The Department is also required to periodically report its activities to the Bank of Italy.

Diffusion of risk culture

Banca UBAE attaches particular importance to the diffusion of risk culture within the organization and for this purpose provides internal training sessions aimed at all personnel to ensure continuous updating on external regulatory changes and improvement of the skills necessary to carry out their duties competently and efficiently.

During 2021, various training courses were provided regarding national and international regulations of relevance to corporate operations, with particular reference to the internal control system, anti-money laundering, supervisory reports, worker safety and security, as well as privacy. There was a variable participation between 75% and 85% of the total workforce according to the specific skills of each organizational unit.

Furthermore, from an internal procedural point of view, alert systems are being prepared which rapidly inform people whenever new external regulations are issued which could have an impact on the Bank's proper operations, together with internal reporting systems aimed at providing indications – to the various business units involved – on service communications regarding the publication of new operating procedures or their possible implementations as well as to inform the units of any organizational adjustments of the Bank's structure.

PREMISE

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

Banca UBAE has therefore adopted the "standard" methodology for calculating the requirement for credit risk and market risk and the Basic Indicator Approach (BIA) for calculating operational risks.
For the purposes of the "prudential control process" (ICAAP - Internal Capital Adequacy Assessment Process) the 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 the Pillar I of the prudential regulation.
The entire process is based on a principle of proportionality, according to which the risk management procedures, the internal control mechanisms, the methods for assessing the economic capital as well as the frequency and intensity of the review by the Supervisory Body depend on the nature, size and complexity of the activity carried out by each Bank.
For this reason, Banca d'Italia has divided the banks and intermediaries into three groups for the purposes of applying the Pillar II legislation.
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 authorized to use internal models or with assets exceeding Euro 4bln). The banks included in the third group adopt simplified methodologies for the calculation and assessment of "other risks" to be considered in the context of Pillar II.
It should be considered that, for the concentration risk by counterparty or group of connected counterparties and for the interest rate risk on the banking book, the legislation proposes a calculation methodology which translates into the identification of "additional" capital requirements with respect to the regulatory requirements established by Pillar I.
Furthermore, already in 2012, to take account of its particular operations more directed towards higher risk countries, Banca UBAE introduced a new additional capital requirement, albeit not required by law, in relation to the risk scenario. In order to then consider all the risks relevant to the Bank, a further capital requirement was introduced against the risk of geo-sectoral concentration, with the aim of quantifying the risk deriving from the concentration of the Bank's loans to certain macro-sectors. Lastly, in light of the current economic context, starting from 2017, the Bank deemed it appropriate to also consider an additional capital absorption for the purposes of capital adequacy against the strategic risk estimated according to an internal calculation method.

Lastly, with reference to stress testing activities, it should be noted that starting from 2022 the Bank, in compliance with the regulatory guidelines, has taken steps to 1) expand the scope of analysis (including operational risks, market risks and the risk of excessive financial leverage), 2) introduce a stress test from a capital point of view, 3) extend the time horizon of the analysis (from one year to two years), 4) include macroeconomic stress scenarios.
The activity conducted as part of the supervisory review process is reported

annually to the Supervisory Body through the ICAAP report. The report relating to the data as at 31 December 2022 will be sent to Banca d'Italia by April 2023.
As regards compliance with the disclosure obligations to the public of data and information regarding exposure to individual risk categories (Pillar III), the Bank will publish the qualitative and quantitative information tables on the corporate website (in the Financials area) within the deadlines established for the publication of financial statements.
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.

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 its latest version in 2022 and subject to periodic review, which governs:

- in the area of governance, roles and responsibilities of corporate bodies and functions within the credit risk management process;
- in the risk identification and measurement phase, the risk assumption process in terms of both preliminary investigation and operational delegations regarding credit lines;
- in the risk monitoring phase, the credit performance monitoring process and the internal risk monitoring limits;
- in the risk management phase, the process of identifying non-performing credit exposures and the process of managing, classifying and assessing the same;
- internal information flows between corporate functions (horizontal flows) and towards the corporate bodies (vertical flows), as well as towards the Oversight Body.

This policy, supplemented by the Credit and Counterparty Risk Management Procedures, constitutes the reference regulatory framework for credit and counterparty risk management.

Banca UBAE's mission is to promote and develop any type of financial, commercial, industrial and economic relationship at an international level. The Bank's activity is aimed primarily, though not exclusively, at supporting relations between the Mediterranean and Middle Eastern countries with Europe, as well as between them and the rest of the world.
Respect for this mission, consolidated over 50 years of activity in favour of its customers, involves the adoption of credit selection and disbursement policies based on criteria of rigorous professionalism.

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

The Board of Directors establishes individual exposure limits with respect to certain countries and for technical forms, inspired by criteria of sound and prudent management.

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

2. Policies for managing credit risk

2.1 **Organizational aspects**

The credit risk assumption policies in Banca UBAE are approved by the Board of Directors, which establishes:
- the corporate bodies delegated to grant credit lines and the relative powers;
- the process of selection and evaluation of credit lines;
- the risk monitoring and control process, also in relation to the regulation on risk concentration.

Decision-making involves a system of delegated powers based on the type and amount of risk to be assumed; the functions involved in risk management, control and mitigation processes can be identified in the Credit Management Sector, Control Unit for 1st level credit performance, Control Unit for 2nd level credit performance, Legal Sector and Risk Management Sector.

The internal policy governing the credit risk management process and in particular non-performing loans was reviewed in 2022 and approved by the 295thBoard of Directors on 31 August 2022. The update was carried out on the basis of the new regulatory framework, with particular reference to Banca d’Italia Circular no. 285 and the EBA guidelines, as well as with a view to rationalizing and making credit risk management and monitoring more efficient.

In the Pillar I area, the Risk Management Sector is responsible for monitoring the capital requirement against credit risk and, based on the data communicated quarterly to the Supervisory Body by sending the risk matrix, submits to the Risk Committee, to the Audit & Risk Committee and to the BoD a quarterly report on capital adequacy. The quarterly reporting prepared by this Sector is also intended for Banca d’Italia. For ICAAP purposes, it is also responsible for formulating the stress testing hypotheses to be submitted to the attention of the Risk Committee and for prospectively estimating internal capital on the basis of strategic planning and budgeting data.

As part of the Risk Appetite Framework, the Risk Management Sector monitors compliance with the macro risk limit and risk tolerance for credit risk on a quarterly basis; the results of the analyses conducted are subject to periodic reporting to the Risk Committee, the Audit & Risk Committee and the Board of Directors. Consistency opinions are also formulated by the Risk Manager with the RAF for the most significant transactions identified (OMR).

The Sector receives reports from the Oversight Body in the area of Large Exposures and any reports in the event of failure to comply with the lending limit, evaluates the trend and impact over time of positions classified as "large risks" and prepares specific reports for the corporate bodies.

2.2 Management, measurement and control systems

Preliminary loan investigations

Within the credit process, the preliminary phase, carried out by the Credit Sector, represents the moment in which the acquisition, processing and control of all the documentation necessary for the technical analysis from the financial asset point of view takes place and income, in order to assess the overall risk profile of the counterparties and transactions.
The investigation has the following objectives:
• verify the correctness and completeness of the corporate documentation and financial statements submitted by the requesting counterparty;
• assess customer’s credit capacity, based on a qualitative/quantitative analysis also at Group level and of a forecast type;
• verify the consistency of the request for renewal/variation of the credit line or of a new line of credit with the Bank's objectives and the needs identified during the analysis;
• verify the consistency of the required technical forms with what was previously resolved for the same counterparty;
• verify compliance with the regulations in force (Civil Code and T.U.B.) regarding the obligations envisaged for bank representatives (Directors, Statutory Auditors and General Manager);
• identify groups of connected customers for the purposes of risk concentration analysis;
• identify related parties pursuant to Circular 263/2006 – Title 5 Chapter 5;
• register approved credit facilities in the Bank's IT system, in order to report the credit lines granted to the Central Credit Register;
• check the adequacy of anti-money laundering regulations as required by national and international provisions.

The preliminary process ends with the formulation of a technical opinion on the reliability of the applicant and with the assessment of the risks associated with the investment operation.

The flow of all the activities described above is governed by a homogeneous system of internal rules which govern their performance at every stage, from the initial request presented by the counterparty to approval by the appropriate delegated body.

Over the last few years, this flow has undergone some changes from a structural and operational point of view, in line with the regulations on the subject and incorporating the recent regulatory updates that have occurred, including:
• guidelines EBA/Gl/2020/06 "Guidelines on the granting and monitoring of loans",
• code of business crisis and insolvency in implementation of law no. 155 dated 19 October 2017, and subsequent legislative decrees, including that of 17 June 2022 (no. 83) which implemented the contents of EU Directive 2019/1023 (Insolvency Directive).

In compliance with this, a road map has been drawn up which provides for the adjustment of the analysis framework, in particular for those of scenario and sensitivity and for ESG assessments, and projects have been launched aimed at strengthening the controls on credit risk, according to a proactive approach (e.g. Early-Warning System).

Technically, all risk analysis activities are carried out with the aid of a series of IT instruments, which contribute to the definition of the information framework on the credit quality of the counterparty:

- internal reclassification models of the economic-financial information of each counterparty, which ensure a homogeneous analysis of the data and absolutely impartial "super partes" technical control;
- internal calculation system for all customers carried out using specific software supplied by Moody's (RiskCalc procedure), in order to assign each counterparty to homogeneous internal risk classes by providing the relative PD - Probability of Default (quantitative and qualitative). Any significant differences between the internal score and the external rating (where available) are reported, in compliance with current legislation, to Banca d'Italia, based on the consistency assessment carried out annually by the Risk Management Sector with the support of the Credit Sector;
- verification of prejudicial events, land registry surveys on the assets of the guarantors, and sectoral comparisons by consulting the most widespread national and international infoproviders (Cerved, Dun & Bradstreet, etc);
- analysis of country risks through collaboration with the ECONOMIST INTELLIGENCE UNIT. EIU provides monthly reports and country ratings;
- definition of the level of depth of the analysis in relation to the preliminary investigation and rationalization of the evaluation methodology.

Technical opinions, based on economic-financial analyses, are also formulated to support the Legal Sector, with regard to non-performing positions, and the Risk Management Sector, in AQR (Asset Quality Review) assessments.

Credit Performance Control

As part of the credit performance control process, and consistently with the provisions of the EBA/Gl/2020/06 guidelines, the new performance analysis guidelines were defined, integrating what is currently performed as outlined below, identify players (owner) differentiated both in the monitoring process and in the qualitative level of control (controls at 1stand 2ndlevels).

During 2022, this development also changed the organizational approach in order to make the principle of control and intervention more cohesive, as recommended by the guidelines. The organizational unit in charge of performance monitoring has therefore been structured into two separate bodies: Control Unit for 1stlevel credit performance, Control Unit for 2ndlevel credit performance, forming part of the Risk Management Sector.

When monitoring credit performance, the 1st level organizational unit, with the support of the appropriate Italian and Foreign Commercial Sectors, compiles and updates a list of risk positions to keep under observation, based on the information available from both external sources (Central Risks, prejudicial deeds, press reports), and internal (e.g. reports produced by the application for performance monitoring, reports from Italian and Foreign Commercial Sectors concerning specific countries and/or economic sectors, etc). In the event of updated information or upon request, the heads of the Italian and foreign Commercial Sectors update the Control Unit for 1stlevel credit performance about the reasons for the anomalies found on the positions reported and possibly on the actions taken to mitigate the credit risk.

This body periodically reports to the General Management, to the Business Managers and to the Italian and Foreign Sales Sectors. If deemed appropriate, and in any case in the event of events that may lead to an objective deterioration of the possibility of partial or full recovery of the credit exposure, the organizational unit proposes to the General Manager the reclassification of the position at risk among non-performing loans (unlikely-to-pay), accompanied by any write-down proposal.

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 Unit 1stlevel is used to verify the reports produced by the Cedacri IT system.

Furthermore, the same procedure, as a support in the credit control activity, is provided with a platform called CQM - Credit Quality Manager, which aims to identify the positions to be monitored and to manage those in which the anomalies are already evident, with the ultimate aim of controlling and minimizing the Bank's credit risk (the platform allows customers to be subdivided supported by monitoring portfolios of the Bank's 2ndstrategic lines).

Other information flows to which particular attention is paid, in order to then elaborate the necessary information to the management and business units, are the information present in the black list of the return flow of the Central Credit Register and the table of continuous over-runs (past due) coming from the Cedacri IT system, together with those of the Organizational Development Unit, for the monthly monitoring of the related parties.

In this context, the 2nd level Credit Performance Control Unit is responsible for verifying the correct monitoring carried out by the 1st level structure and periodically verifies the correctness of the classifications and the adequacy of the provisions also through the annual AQR (Asset Quality Review). It also provides support in regulatory and technical investigations concerning credit matters and participates in corporate projects aimed at improving/perfecting credit risk management systems. Lastly, it supports the Risk Management Sector for the purposes of quarterly reporting, the half-yearly analysis regarding non-performing positions and the annual calculation of the additional provisions envisaged for endorsement exposures (Letters of Guarantee) included in specific risk clusters.

2.3 Methods of measuring expected losses

The accounting standard IFRS 9, published by the IASB on 24 July 2014, was definitively endorsed by the European Commission on 22 November 2016. IFRS 9 fully replaces IAS 39 and therefore applies to all financial instruments classifiable as assets and in the balance sheet liabilities of the financial statements, modifying the classification and measurement criteria and the method of determining impairment, as well as defining new rules for designating 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, represented by the FINREP deadline referring to 31 March 2018.

The impact for banks and companies in the financial sector was particularly significant since – with regard to impairment – the standard introduced the definition of provisions on the basis of the expected loss in accounting terms, already used in prudential regulation, instead of the actual loss (incurred loss) envisaged by IAS 39, thus determining, however, a greater convergence between accounting and regulatory aspects.

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

IMPAIRMENT – PERFORMING CREDITS (Stage 1 and Stage 2)

In the Impairment area, a specific expected loss is calculated for each credit exposure valued at amortized cost, no longer according to the quota of loss historically suffered by the Bank, but according to the following formula:

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

where:

- **ECL** (Expected Credit Loss): represents the accounting provision for IFRS9 purposes
- **EAD** (Exposure at Default): corresponds to the utilization existing at the reference date weighted by the credit conversion factor (CCF - credit conversion factor)
- **PD_{FL}** (**Probability of Default forward-looking):**represents the future-oriented probability of default that is obtained by applying a macroeconomic scenario to the **PD_{PIT}**
- **PD_{PIT} (Probability of Default point-in-time):**represents the probability of default of each individual counterparty and is calculated on the basis of balance sheet data, country of residence and other qualitative considerations
- **LGD_{FL}(Loss Given Default forward-looking):**represents the loss given default obtained through the application of a macroeconomic scenario to the **LDG_{PIT}**
- **LGD_{PIT} (Loss Given Default point-in-time):**represents the loss in the event of default calculated on the basis of the nature of the exposure and is conditioned by the presence of real guarantees (e.g. cash collateral) or personal guarantees (e.g. SACE).

The Bank possesses the score data and PD_{PIT} for each counterparty (processed by the Credit Sector at the time of assignment/renewal).

For the purpose of calculating the expected loss, i.e. the accounting provision, macroeconomic scenarios are applied to these risk parameters such as to allow their recalculation from a forward-looking perspective.

The Bank uses the macroeconomic models made available by Moody's through the Impairment Studio platform. During 2022, this platform replaced the previous custom models differentiated by geographical area. This methodological change is based on specific analyses conducted on the two IT solutions. The "Impairment Studio" platform showed better performance in terms of model (higher frequency of updates and use of country-specific variables instead of proxies variables by geographical area) and in terms of auditing, as well as a containment of operational risks associated with the process of impairment.

The level of Own Funds is impacted (+Euro 13 million circa) by the effect of the transitional adjustments made on CET1 relating to the IFRS9 transition and deriving from the application of the calculation methodology as per EU regulation 2020/873 of the European Parliament and of the Council of 24 June 2020 amending the EU regulations nos. 575/2013 and (EU) 2019/876.

This choice, communicated to the Oversight Body on 12 August 2021, was subject to disclosure to the auditing firm.

The exercise of this faculty results in a positive impact on Own Funds of Euro 13 million until 31 December 2022, while for the year 2023 this impact cannot be quantified to date. It should be emphasized that, with a view to prudent management, internal limits are already taken into consideration in credit risk assessments which do not consider this transitional measure.

IMPAIRMENT – NON-PERFORMING CREDITS (Stage 3)

The valuation method for non-performing loans – allclassified in Stage3 on the basis of the IFRS9 principle – is differentiated according to the status of the deteriorated exposures.

Consequently, different evaluation methodologies are envisaged:

- Assessment of loans classified as non-performing, carried out analytically by the Legal Sector for all positions classified in this way.

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

- upon classification as non-performing (normally within 30 days of receipt of the complete documentation from the office in charge of the relative position);
- subsequently, whenever a new event occurs which may affect the recovery prospects (e.g. change in the value of the assets on which a guarantee has been acquired, developments in disputes or bankruptcy proceedings in progress, information or data acquired/received, etc) and in any case at least once every six months.

- **Valuation of credits classified as probable default or Unlikely-to-Pay (UTP)**in turn distinguished as follows:
  - analytical evaluation on a lump sum basis(so-called forfeitary), applicable to positions below a certain threshold (EAD < 500,000 euros);
  - analytical evaluation on a lump sum basis with an amount exceeding a certain threshold(EAD > 500,000 euros).
- **Valuation of positions of past-due credits with** analytical evaluation on a lump sum basis (so-called forfeitary) 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 policy on credit and counterparty risk management.

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

To proceed with the analytical valuation of a counterparty, it is first necessary to define whether to value it from a liquidation perspective, in the event that recovery is possible through the realization of the guarantees and/or the liquidation of the company's assets, or from a going concern perspective, where the assessment focuses on verifying the sustainability of corporate debt over time on the basis of estimated cash flows.

STAGING RULES

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

- Stage 1: past due of less than 30 days, performing (performing) investment grade and speculative grade exposures (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 (performing) classified as forborne, included in watch lists during credit performance monitoring or for which there is evidence of a significant deterioration in creditworthiness (expressed in terms of two notches of the score class or increase in PD above specific thresholds): write-downs calculated in terms of expected loss calculated over the entire residual life of the exposure (if more than 1 year, forward-looking lifetime PDs and LGDs will be applied);
- Stage 3: non-performing exposures (overdue by more than 90 days, probable default and impairment): write-downs calculated analytically in line with the current approach.

In more detail, for the switch to stage 2, the following cases are foreseen:

- **Forborne** – automatic switch
- **Expired between 30 and 90 days** – automatic switch
- **Watching list** – detection of anomalies according to specific indicators (AQR) or presence within the observation lists
- **Counterparties without score and PD –** automatic switch
- **Marked credit deterioration** – detected in terms of percentage increase of PD compared to the original value. For each class of score, a parameter X corresponding to a downgrade of 2 notches was then defined (on the basis of the average PD per class of score).

UBAE’s approach is to classify all counterparties in stage 1, including speculative grade ones (rated from BB+ to B-), for which there is no significant deterioration in creditworthiness since the moment when the relationship began, with the exception of counterparties that scored CCC, for which a direct classification in stage 2 will be envisaged 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 case 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 understood as a two-notch downgrade from the origination score. Therefore, the "low credit risk assumption" is envisaged only in the field of securities.

2.4 Mitigation techniques for credit risk

Credit risk mitigation techniques are currently governed by additional regulatory sources with respect to the pre-existing ones; in particular, by the EU Regulation no. 575/, (also referring to small and medium-sized firms), as well as the Directive 2013/36/EU on prudential supervision, rules both aimed at implementing in the European Union the rules defined by the Basle Committee for banking supervision (Basle 3).
In line with the objective of ensuring a clear and organic regulatory framework, Banca d'Italia Circular no. 285 of 17 December 2013 has implemented and counted the two aforesaid acts among the regulatory sources governing the matter.
The current reference regulatory framework has maintained the distinction between funded credit protection instruments and unfunded credit protection instruments.
In order to be eligible, the real guarantees, which allow those who dispose of them the right to satisfy the credit on specifically identified assets or sums of money, must be included in the list of assets permitted by the aforesaid Regulation and precisely:

- deposits in cash with the lender[2] or similar instruments held by the lender;
- debt securities issued by governments or central banks for which a creditworthiness assessment by an ECAI or an Export Credit Agency comparable to credit quality step 4 or higher is available;
- debt securities issued by institutions or other entities for which a creditworthiness assessment by an ECAI comparable to credit quality step 3 or higher is available;
- debt securities for which a short-term credit assessment is available from an ECAI comparable to credit quality step 3 or higher;
- capital instruments or convertible bonds;
- gold;
- securitization positions that have an external credit assessment by an ECAI comparable to credit rating 3 or higher;
- debt securities issued by entities without an ECAI's creditworthiness assessment, if such securities meet stringent conditions (they are listed on recognized stock exchanges, qualifying as senior debt, the other issues of the entity are associated with merit class 3 or higher, etc);

In addition, only for reciprocal cash balances between the lender and the

[2]This means the entity that holds the exposure.

counterparty, the offsetting of reciprocal credits in the financial statements is permitted.
Other types of funded credit protection are:

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

Personal credit protection, consisting of legal commitments, assumed by third parties, to fulfil the obligation towards the Bank in the event of default by the principal obligor, can be granted by subjects who are:

- central governments and central banks;
- regional administrations or local authorities;
- multi-lateral development banks;
- international organizations when exposures to them are weighted at 0%;
- certain bodies or entities or companies having the requisites pursuant to art. 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. Within the scope of the above eligibility principle, only credit derivatives falling within the category of unsecured guarantees are strictly listed, i.e. credit default swaps, total return swaps, credit linked notes.
However, Banca UBAE does not acquire credit risk protection by holding such instruments.
Furthermore, the Regulation identifies, for each type of guarantee, both real and personal, the requirements necessary for the purposes of the related eligibility.

REAL GUARANTEES

A) OFFSET OF ITEMS IN THE BUDGET:

Requisites:

- legal effectiveness and enforceability in all relevant jurisdictions, including in the event of insolvency or bankruptcy of the counterparty;
- possibility for the lender to identify the assets and liabilities covered by these agreements;
- surveillance and control of the risks associated with the termination of protection;
- surveillance and control of relevant exposures on a net basis.

B) STANDARD OFFSET AGREEMENTS

Requisites:

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

C) REAL FINANCIAL GUARANTEES

Requisites:

- Absence of a relevant correlation between the debtor's creditworthiness and the value of the collateral. For example, securities issued by the obligor or another related group entity are not eligible as collateral;
- Applicability of contracts in all relevant jurisdictions;

Institutions are also required to:

- Document the contract in the due form and provide for a suitable procedure for prompt enforcement of the guarantee;
- Control the risks arising from the use of guarantees;
- Have documented policies and practices regarding the types of collateral accepted and the amount thereof;
- Calculate the market value of the collateral and revalue it at least half-yearly and whenever they believe that there has been a significant decline in market value;
- If the collateral is held by a third party, ensure that the holder separates it from its assets;
- Dedicate sufficient resources to control and monitor all risks associated with collateral management (e.g. concentration risk towards particular types of assets 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 the completion of the guarantee;
- Structure of the contract and of 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 may have decreased significantly in relation to general market prices and this review is carried out by a suitably qualified appraiser;
- Institutions clearly document the types of residential and commercial properties accepted and the related credit policy;
- Entities have procedures in place to ensure that property received as collateral is adequately insured against the risk of damage.

E) COMMERCIAL CREDITS

Requisites:

- The legal mechanism through which guarantees are provided is robust, clear and effective;
- The entities have a first-degree right of first refusal on the asset pledged as collateral;
- Applicability of warranty agreements in all relevant jurisdictions;
- The entity's internal procedures ensure that the legal conditions are observed for declaring the default of the debtor and obtaining prompt enforcement of the guarantee;
- In the event of debtor default, the entity has the right to assign trade receivables to other parties without the consent of the debtor concerned;
- The institution has adequate procedures in place to assess the credit risk inherent in trade receivables;

- The difference between the exposure and the value of the credits granted as a guarantee is able to ensure coverage of the additional costs borne by the entity;
- The trade receivables pledged by the debtor are diversified and not unduly correlated with the debtor's situation;
- Entities do not use trade credits against subjects related to the debtor;
- Institutions have a documented process for the direct collection of trade receivable payments in critical situations.

F) OTHER TYPES OFREAL GUARANTEES

Requisitesof deposits with a third party:

- The credit (deposit) of the debtor towards the third party is explicitly constituted as a guarantee or pledged in favour of the lender and this deed is effective and enforceable in all competent jurisdictions, unconditional and irrevocable;
- The third-party entity has received notification of the pledge or assignment;
- As a result of the notification, the third party is able to make payments only to the lender.

Life insurance policy requirements:

- the life insurance policy is explicitly pledged or pledged in favor of the lender;
- The insurance company has received notification of the constitution as guarantee or of the assignment as a pledge and, consequently, cannot pay amounts without the consent of the lender;
- The lender has the right to terminate the policy and receive the surrender value in the event of default by the debtor;
- The lender is informed of any non-payment of the policy by the holder;
- Credit protection is provided for the life of the loan;
- The security or pledge is enforceable and legally enforceable in all relevant jurisdictions;
- The surrender value (i) is declared by the life insurance company and is non-reducible, (ii) is paid by the life insurance company promptly upon request, (iii) cannot be claimed without the prior consent of the institution;

- The insurance undertaking is subject to Directive 2009/138/EC (on the matter of taking up and pursuing insurance business) or to the supervision of a competent authority of a third country which applies prudential and regulatory provisions at least equivalent to those in force in the European Union.

G) REAL GUARANTEES ON GOODS

Requisites necessaryfor the valuation ofreal guarantees on goods:

- The valuation provided by an independent third party appraiser;
- Formal documentation of escrow in terms of lease of goods, quantity, unique identification;
- The prudential criteria regarding the hair cut to be applied, linked to the perishability of the goods, the ease or otherwise of liquidation of the same, the costs of conservation and guardianship.

In general, institutions verify the value of the collateral frequently and at least once a year or more frequently if market conditions are subject to significant changes; the loan agreement must contain a detailed description of the collateral and specify in detail the manner and frequency of the revaluations. In addition, the institution shall clearly document in its internal credit lines policies and procedures the types of physical collateral it accepts and the criteria it applies regarding the appropriate ratio between the amount of each type of collateral and the exposure amount.

PERSONAL GUARANTEES

Requisites common to personal guarantees and derivatives on credits:

- The credit protection is direct and the extent of the same clearly defined and incontrovertible;
- There are no clauses whose fulfillment escapes the direct control of the lender and which can:
  - Allow the protection provider to unilaterally cancel the protection;
  - Increase the cost of protection following the deterioration of the credit quality of the protected exposure;
  - Avoid the obligation for the protection provider to make payments due in the event of default by the principal debtor;
  - Allow the protection provider to reduce the duration of the protection granted.
- The guarantee agreement must be effective and enforceable in all relevant jurisdictions;

- The institution is able to demonstrate to the competent authority that it has the appropriate tools in place to manage the potential concentration of risk arising from the use of guarantees and credit derivatives;
- The institution complies with the contractual and legal provisions relating to personal guarantees.

Additional requisites only for personal guarantees:

- The lending institution has the right to promptly retaliate against the guarantor without the obligation of prior enforcement of the principal debtor;
- The warranty is explicitly documented;
- The guarantee covers all the payments owed to the principal debtor or, when certain payments are excluded from the personal guarantee, the lender has adjusted the value of the guarantee to take into account the limitation of coverage.

COUNTER-GUARANTEES FROM GOVERNMENTS AND OTHER PUBLIC SECTOR BODIES

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

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

3. Deteriorated credit exposure

Non-performing credit exposures are divided into the following categories:

- ❖ Impaired past-due and/or overdrawn exposures: cash credit exposures which, at the reference date of the report, are past-due or overdrawn for more than 90 days;
- ❖ Unlikely-To-Pay: credit exposures for which the Bank deems unlikely that, without recourse to actions such as the enforcement of guarantees, the debtor will fully settle (in principal and/or interest) its credit obligations. This valuation is made regardless of the presence of any overdue and unpaid amounts (or instalments);

- Non-performing loans: the complex of cash and "off-balance sheet" credit exposures towards a subject in a state of insolvency (even if not judicially ascertained) or in substantially comparable situations, regardless of any loss forecasts formulated by the Bank. Exposures whose anomalous situation is attributable to profiles relating to country risk are excluded.

For the purposes 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 consideration the minimum write-down levels envisaged by the credit policy for each impairment class.

3.1 Strategies and policies for managing businesses

The units responsible for managing non-performing loans implement the interventions defined by the internal policy and the credit procedure in the event of deterioration of the risk position.

These interventions include all the activities carried out after the passage of the position to non-performing which may involve, in the event of passage to non-performing, also the revocation of the credit lines, the consequent forfeiture of the debtor from the benefit of the term and the resolution (where possible) of the contractual relationships maintained with the customer.
These activities are aimed at protecting and recovering the Bank's credit claims, both through internally conducted out-of-court interventions and with recourse to judicial procedures activated (through external lawyers) by the Bank itself or again with credit management in the scope of the insolvency procedure from which the position is affected.

The various phases of the process are left to the Legal Sector with reference to the positions classified as UTP or bad loans, as well as the Credit Performance Control Unit at 1st level in case of expired and deteriorated (past-due).
In particular, the Legal Sector, as "manager" of the non-performing positions (with the exclusion of past-due positions), will take care of following the various management phases with the support of the other structures involved (Credit Sector, Commercial Area, Credit Performance Control Unit at 1st level), also dealing with preparing the periodic information addressed to the senior managers.

Managing expired positions and/or bad loans with deteriorated over-runs

Individual exposures are identified as past-due and/or overdrawn:

• other than those classified as non-performing and/or unlikely to pay;

• past-due or past-due for more than 90 days if, at the reference date of the report, the higher of the two values is equal to or greater than a materiality threshold of 5%:

- average of past-due and/or overdrawn portions of the entire exposure recorded on a daily basis in the previous quarter;

- expired and/or overdrawn portion of the entire exposure referred to the reference date of the report;

• expired or overdue by more than 180 days corresponding to the reference date of the report. All positions in this status are placed in a state of probable default unless there are adequate formal reasons.

Impaired past-due and/or overdrawn exposures are monitored by the 1st level Credit Performance Control Unit, which defines their classification (also on the advice of the Commercial Area) and the provisions, also based on the technical analyses provided by the SAIF and taking into consideration the minimum write-down percentages defined by the Bank.

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

Managing probable defaults (unlikely to pay)

As envisaged by the legislation, for classification among unlikely to pay positions, it is not necessary to wait for the explicit symptom of anomaly (non-repayment) where there are elements that imply a situation of risk of default by the debtor. The complex of cash and "off-balance sheet" exposures towards the same debtor who is in the aforesaid situation is called "Probable default", unless the conditions for the classification of the debtor among non-performing loans are met.

The condition of "improbability that, without recourse to actions such as the enforcement of the guarantee, the debtor fully meets his obligations" is considered satisfied upon the occurrence of events specifically envisaged by the legislation or events subject to internal evaluation by the Bank.

Positions classified as UTP are monitored by the Legal Sector, which can propose the provision in amounts higher than the minimum write-down percentages defined by the Bank, also based on the technical analyses provided by the Credit Sector.

Managing bad debts

The category of non-performing loans includes all receivables from customers who are in serious and non-transitory economic and financial difficulties even if the state of insolvency has not been legally ascertained. The need for the change of status may also derive from extrajudicial and prejudicial events against the customer and/or guarantors, from the risk of consolidation of mortgages registered by other credit institutions, from legal actions aimed at reducing the patrimonial guarantee provided by the customer and/or by guarantors.

For the purposes of classification as non-performing, therefore, the existence of any real or personal guarantees set up to protect the receivables is disregarded.

The identification of the positions that will have to be "possibly" included in the non-performing sector, involves the following subjects:

• The Commercial Management/Heads of Commercial Desks who are responsible for the relationship on the basis of their first level monitoring activity;

• The Performance Control Desk at 1st level, on the basis of reports of anomaly and as part of the systematic activity of credit risk monitoring on the positions under its responsibility;

• the Legal Sector, based on the ongoing analysis of UTP positions.

Once the file to be classified as non-performing has been identified, the Legal Sector carries out a prior assessment of the opportunity and the presence of the minimum requirements for the possible transfer of status.

The proposal for transfer to non-performing, containing the reasons for the change in status of the position as well as the indication of the write-down to be carried out to a minimum extent, is submitted to the attention of the General Manager on the proposal of the Head of the Legal Sector.

1.1 Write-Off

The write-off constitutes, as specified by IFRS9, an event of partial or complete accounting cancellation of the credit exposure and may or may not lead to the legal waiver of credit recovery.

The Bank proceeds, subject to resolution by the Board of Directors, in the case of positions relating to UTPs and bad loans, or by the General Management, in the presence of 'Past-Due' positions and in compliance with the materiality threshold set out in the Credit Risk and Counterparty Management Policy, to remove the credit exposures if valid and objective elements are identified in support of the assessment or the irrecoverable nature of the credit and/or the economic inconvenience to carry out the recovery deeds. The partial write-off can be justified if there are elements to demonstrate the debtor's inability to repay the entire amount of the debt.

1.2 Impaired financial activities, acquired or originated

Impaired financial assets acquired or originated are those exposures which are impaired at the date of initial recognition.
The Bank does not envisage the acquisition of exposures of this kind in its business model, while it is permitted, subject to internal analysis, to disburse "new finance" to impaired counterparties as part of restructuring agreements between the debtor and a pool of banks.
In this case, the Legal Sector follows the restructuring agreements, suitably

assisted by the internal structures and, in particular, by the Commercial Management/Commercial Desks, who are responsible for the possible preparation of the proposal for the disbursement of "new finance" to be submitted to the approval of the Board of Directors. These exposures will be classified as non-performing in compliance with the classification attributed to the debtor and will be subject to the write-down rules specific to the assigned impairment class.

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

The Bank identifies and classifies, pursuant to the provisions of Banca d'Italia, the forborne exposures, i.e. the cash loans (performing or non-performing) subject to forbearance by the Bank. The forbearance measures constitute changes to the original contractual conditions of the credit line that the Bank grants to the client company.

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

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

- Non-performing forbearance: the exposure must last at least 1 year ("cure period"), at the end of which it can abandon the non-performing status;
- Forbearance performing: exposure deriving from the previous class, from which the exposure can exit towards performing status after 2 years ("probation period").

Those agreements – reached between the debtor and a pool of creditor banks – whereby existing lines of credit are temporarily "frozen" in view of a formal restructuring do not qualify as concessions.
The permanence times in the forborne state and the exit mechanisms are duly regulated. For non-performing forborne cases, it takes at least 36 months (12 months for the so-called "cure period" and 24 months for the so-called "probation period") before the position can return to performing status without reservations. In the other cases of forborne performing, it is possible to evaluate the return to performing status or the definition of a stay in the classification even for a shorter period.
From an accounting standpoint, IFRS 9 provides that if a forbearance measure is approved relating to a performing credit line, this credit line is allocated to Stage2.
In the process of managing and classifying problematic credit to customers entrusted by several Banks in the presence of a request for moratorium/restructuring of the credit, internal information is prepared aimed at acknowledging the same by the appropriate Managers of the Commercial Desks responsible for the relationship. Subsequently, the Level 1 Credit Performance Control Unit will propose the reclassification "under observation" and the immediate blocking of operations (the loan is rendered non-operational) to the General Manager, pending more in-depth analyses to be carried out.

Until the restructuring agreements are formalised, subject to the resolution of the competent bodies, the negotiations for any moratoriums will be conducted by both the Head of the Commercial Development Area and the Legal Sector.

Once the relative proposal has been submitted (in the usual manner) and approved by the decision-making bodies, the management of the position will be attributed 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	6,512	29,248	8,630	13,045	1,368,714	**1,426,149**
2. Financial assets measured at fair value with impact on total profitability		1,926			2,328	**4,254**
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 (31.12.2022	**6,512**	**31,174**	**8,630**	**13,045**	**1,371,042**	**1,430,403**
Total (31.12.2021)	**1,778**	**25,377**	**3**	**17,473**	**1,311,616**	**1,356,247**

At 31 December 2022, past-due unimpaired exposures amounted to a total of Euro 13 million relating to positions that were correctly returned in the early days of January 2023.

At 31 December 2022, exposures subject to concessionary measures (known as forbearance exposures) amounted to Euro 11,8 million, entirely attributable to the portfolio of "loans to customers"; more information on these exposures can be found in table A.1.7.

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

Portfolios/quality	Impaired				Not impaired			Total (net exposure)
	Gross exposure	Total value adjustments	Net Exposure	Overall partial write-offs (*)	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets valued at amortised cost	157,108	112,717	44,391		1,386,897	5,139	1,381,758	1,426,149
2.Financial assets measured at fair value with impact on total profitability	2,891	965	1,926		2,512	184	2,328	4,254
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 (31.12.2022)	**159,999**	**113,682**	**46,317**		**1,389,409**	**5,323**	**1,384,086**	**1,430,403**
Total (31.12.2021)	**124,226**	**97,068**	**27,158**		**1,340,937**	**11,849**	**1,329,088**	**1,356,246**

Portfolio/credit quality	Assets of low-quality credit		Other assets
	minus	net exposure	net exposure
1. Financial assets held for trading			2,366
2. Hedging derivatives			
Total (31.12.2022)			**2,366**
Total (31.12.2021)			**12,538**

* Value to be displayed for information purposes

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

Impaired assets include, principally, 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	12,569		476	469			1,529	1,273	14,704
2. Financial assets measured at fair value with impact on total profitability									
3. Financial assets held for sale									
TOTAL (31.12.2022)	**12,569**		**476**	**469**			**1,529**	**1,273**	**14,704**
TOTAL (31.12.2021)	**17,471**		**2**		**1**	**1**		**288**	**10,988**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: changes in total value adjustments and total provisions

Reasons/risk stages	Total value adjustments																				Total provisions on commitments to disburse funds, and financial guarantees issued			Total
	Assets included in first stage					Assets included in second stage					Assets included in third stage					Impaired financial assets acquired or originated								
	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	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	**(6,267)**				**(6,267)**	**(5,856)**	**(111)**			**(5,967)**	**(96,279)**	**(967)**		**(97,246)**							**(1,419)**	**(343)**	**(4,464)**	**(115,706)**
Changes in increase from financial assets acquired or originated																								
Cancellations other than write-offs											1,392			1,392										**1,392**
Net value adjustments/write-backs for credit risk (+/-)	1,243				1,243	5,354	(73)			5,281	(18,170)	1		(18,169)							762	(214)	(841)	**(11,938)**
Contractual changes without cancellations																								
Changes in the estimation methodology																								
Write-offs not directly recognized in the income statement																								
Other changes																								
Final overall adjustments	**(5,024)**				**(5,024)**	**(502)**	**(184)**			**(686)**	**(113,057)**	**(966)**		**(114,023)**							**(657)**	**(557)**	**(5,305)**	**(126,252)**
Recuperation recoveries on financial assets subject to write-off																								
Write-offs recorded directly in the income statement																								

The differences with table A.1.2 are related to the items on loans to banks and central banks at sight.

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	23,620	27,457	23,572		10,107	1,413
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	63,438	72,914			35,647	
TOTAL (31.12.2022)	**87,058**	**100,371**	**23,572**		**45,754**	**1,413**

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 provision					Net exposure	Overall partial write-offs*
		First stage	Second stage	Third stage	impaired credits acquire or originated		First stage	Second stage	Third stage	impaired credits acquire or originated		
A. CREDIT EXPOSURES FOR CASH												
A.1 AT SIGHT	**138,136**	**137,730**	**23**	**383**		**727**	**387**		**340**		**137,409**	
a) Impaired	383			383		340			340		43	
b) Non-impaired	137,753	137,730	23			387	387				137,366	
A.2 OTHER	**330,399**	**299,044**	**7,451**	**23,965**		**15,173**	**3,213**	**169**	**11,792**		**315,226**	
a) Impaired												
- of which: exposures subject to concessions												
b) Probable defaults	23,572			23,572		11,788			11,788		11,784	
- of which: exposures subject to concessions	23,572			23,572		11,788			11,788		11,784	
c) Overdue impaired exposures	393			393		4			4		389	
- of which: exposures subject to concessions												
d) Overdue non-impaired exposures												
- of which: exposures subject to concessions												
e) Other non-impaired exposures	306,434	299,044	7,451			3,381	3,213	169			303,053	
- of which: exposures subject to concessions												
TOTAL A	**468,535**	**436,774**	**7,474**	**24,348**		**15,900**	**3,600**	**169**	**12,132**		**452,635**	
B. OFF-BALANCE SHEET CREDIT EXPOSURES												
a) Impaired	44,598			44,598		2			2		44,596	
a) Non-impaired	4,786,013	4,509,883	276,130			688	409	280			4,785,325	
TOTAL B	**4,830,611**	**4,509,883**	**276,130**	**44,598**		**690**	**409**	**280**			**4,829,921**	
TOTAL A+B	**5,299,146**	**4,946,657**	**283,604**	**68,946**		**16,590**	**4,009**	**449**	**12,132**		**5,282,556**	

** 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*
		First stage	Second stage	Third stage	impaired credits acquire or originated		First stage	Second stage	Third stage	impaired credits acquire or originated		
A. CREDIT EXPOSURES FOR CASH												
a) Impaired	82,158			82,158		75,645			75,645		6,513	
- of which: exposures subject to concessions												
b) Probable defaults	44,163			44,163		24,623			24,623		19,540	
- of which: exposures subject to concessions	28,750			28,750		16,890			16,890		11,860	
c) Overdue impaired exposures	9,714			9,714		1,473			1,473		8,241	
- of which: exposures subject to concessions												
d) Overdue non-impaired exposures	13,055	13,055				10	10				13,045	
- of which: exposures subject to concessions												
e) Other non-impaired exposures	1,072,118	1,003,025	69,093			1,931	1,414	517			1,070,187	
- of which: exposures subject to concessions												
TOTAL A	**1,221,208**	**1,016,080**	**69,093**	**136,035**		**103,682**	**1,424**	**517**	**101,741**		**1,117,526**	
OFF-BALANCE SHEET CREDIT EXPOSURES												
a) Impaired	25,277			25,277		5,303			5,303		19,974	
b) Non-impaired	691,354	564,212	127,143			527	249	278			690,827	
TOTAL B	**716,631**	**564,212**	**127,143**	**25,277**		**5,830**	**249**	**278**	**5,303**		**710,801**	
TOTAL A+B	**1,937,839**	**1,580,292**	**196,236**	**161,312**		**109,512**	**1,673**	**795**	**107,044**		**1,828,327**	

** 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		**355**	
- of which: sold exposures not cancelled			
B. Increasing changes	**377**	**23,594**	**1,476**
B.1 re-entry of non-impaired exposures		23,572	1,476
B.2 re-entry of impaired financial assets acquired or originated			
B.3 transfers from other categories of impaired exposures	377		
B.4 contractual changes without cancellations			
B.5 other increasing changes		22	
C. Decreasing changes		**377**	**1,078**
C.1 exits to non-impaired exposures			
C.2 write-offs			
C.3 receipts			
C.4 income from sales			
C.5 losses from sales			
C.6 transfer to other categories of impaired exposures		377	1,078
C.7 contractual changes without cancellations			
C.8 other decreasing changes			
D. Final gross exposure	**377**	**23,572**	**398**
- of which: sold exposures not cancelled			

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	**29,961**	**94,261**	**4**
- of which: sold exposures not cancelled			
B. Increasing changes	**54,938**	**5,846**	**73,587**
B.1 re-entry of non-impaired exposures		937	73,587
B.2 re-entry of impaired financial assets acquired or originated			
B.3 transfers from other categories of impaired exposures	54,888		
B.4 contractual changes without cancellations			
B.5 other increasing changes	50	4,909	
C. Decreasing changes	**2,742**	**55,944**	**63,877**
C.1 exit towards non-impaired exposures			63,873
C.2 write-offs	2,742		
C.3 receipts			
C.4 income from sales			
C.5 losses from sales			
C.6 transfers to other categories of impaired exposures		54,889	
C.7 contractual changes without cancellations			
C.8 other decreasing changes		1,055	4
D. Gross final exposure	**82,157**	**44,163**	**9,714**
- 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	**28,441**	
of which: sold exposures not cancelled		
B. Increasing changes	**1,365**	
B.1 re-entry of unimpaired exposures not subject to concessions		
B.2 re-entry of unimpaired exposures subject to concessions		
B.3 re-entry of exposures subject to impaired concessions		
B.4 re-entry of impaired exposures not subject to concessions		
B.5 other increasing changes	1,365	
C. Decreasing changes	**1,056**	
C.1 exit towards unimpaired exposures not subject to concessions		
C.2 exit towards unimpaired exposures subject to concessions		
C. 3 exit towards exposures subject to impaired concessions		
C.4 write-offs		
C.5 receipts		
C.6 income from sales		
C.7 losses from sales		
C.8 other decreasing changes	1,056	
Gross final exposure	**28,750**	
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			**178**			
of which: sold exposures not cancelled						
B. Increasing changes	**340**		**11,950**		**48**	
B.1 value adjustments on impaired assets acquired or originated						
B.2 other value adjustments						
B.3 losses from sales						
B.4 transfers from other categories of impaired exposures	340					
B.5 contractual changes without cancellations						
B.6 other increasing changes			11,950		48	
C. Decreasing changes			**340**		**44**	
C.1 value gains due to re-valuation						
C.2 value recoveries						
C.3 profit from sales						
C.4 write-offs						
C.5 transfers to other categories of impaired exposures			340		44	
C.6 contractual changes without cancellations						
C.7 other decreasing changes						
D. Overall final adjustments	**340**		**11,788**		**4**	
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	**28,183**		**68,884**	**17,512**		
of which: sold exposures not cancelled						
B. Increasing changes	**49,820**		**6,429**	**298**	**1,493**	
B.1 value adjustments of impaired financial assets acquired or originated						
B.2 other value adjustments						
B.3 losses on sales						
B.4 transfers from other categories of impaired exposures	49,770					
B.5 contractual changes without cancellations						
B.6 other increasing changes	50		6,429	298	1,493	
C. Decreasing changes	**2,358**		**50,690**	**920**	**20**	
C.1. value recovery from re-valuation						
C.2 value recovery from receipts						
C.3 profits on sales						
C.4 write-offs	2,358					
C.5 transfers to other categories of impaired exposures			49,770			
C.6 contractual changes without cancellations						
C.7 other decreasing changes			920	920	20	
D. Overall final adjustments	**75,645**		**24,623**	**16,890**	**1,473**	
of which: sold exposures not cancelled						

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

A.2.1 Distribution of financial assets, commitments to disburse funds, and financial guarantees issued: for external rating classes (gross values)

Exposures	Classes of external ratings						Without ratings	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost	**9,517**	**30,470**	**625,150**	**52,608**	**137,336**	**86,396**	**602,527**	**1,544,004**
First stage	9,517	30,470	625,150	52,608	131,011	30,561	433,364	1,312,681
Second stage					6,325	947	66,944	74,216
Third stage						54,888	102,219	157,107
of wich: impaired financial assets acquired or originated								
B. Financial assets measured at fair value with an impact on total profitability						**2,512**	**2,891**	**5,403**
First stage								
Second stage						2,512		2,512
Third stage							2,891	2,891
of wich: impaired financial assets acquired or originated								
C. Financial assets held for sale								
First stage								
Second stage								
Third stage								
of wich: impaired financial assets acquired or originated								
Total (A+B+C)	**9,517**	**30,470**	**625,150**	**52,608**	**137,336**	**88,908**	**605,418**	**1,549,407**
D. Commitments to disburse funds; financial guarantees issued	**180,000**	**864,752**	**1,292,605**	**589,814**	**284,894**	**98,501**	**2,236,676**	**5,547,242**
First stage	180,000	864,752	1,292,605	554,668	284,891	96,001	1,801,177	5,074,094
Second stage				35,146	3	2,500	365,624	403,273
Third stage							69,875	69,875
of wich: impaired financial assets acquired or originated								
Total D	**180,000**	**864,752**	**1,292,605**	**589,814**	**284,894**	**98,501**	**2,236,676**	**5,547,242**
Total (A+B+C+D)	**189,517**	**895,222**	**1,917,755**	**642,422**	**422,230**	**187,409**	**2,842,094**	**7,096,649**

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

<table>
<tr><th>External ratings bands</th><th>Moody's</th><th>S&P</th><th>Fitch</th></tr>
<tr><td>Class 1</td><td>Aaa/Aa3</td><td colspan="2">AAA/AA-</td></tr>
<tr><td>Class 2</td><td>A1/A3</td><td colspan="2">A+/A-</td></tr>
<tr><td>Class 3</td><td>Baa1/Baa3</td><td colspan="2">BBB+/BBB-</td></tr>
<tr><td>Class 4</td><td>Ba1/Ba3</td><td colspan="2">BB+/BB-</td></tr>
<tr><td>Class 5</td><td>B1/B3</td><td colspan="2">B+/B-</td></tr>
<tr><td>Class 6</td><td>Caa and below</td><td colspan="2">CCC and below</td></tr>
</table>

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 (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature credits				
								Other derivatives								
			Properties, mortgages	Properties, leasing financing	Securities	Other real guarantees	CLN	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Guaranteed cash credit exposures:	**35,040**	**35,038**				**35,038**										**35,038**
1.1 totally guaranteed	35,040	35,038				35,038										35,038
- of which: impaired	177	175				175										175
1.2 partially guaranteed																
- of which: impaired																
2. Guaranteed off-balance sheet credit exp	**96,422**	**96,422**				**96,422**										**96,422**
2.1 totally guaranteed	96,150	96,150				96,150										96,150
- of which: impaired	15	15				15										15
2.2 partially guaranteed	272	272				272										272
- of which: impaired																

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

	Gross exposure	Net exposure	Real guarantees (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature credits				
								Other derivatives								
			Properties, mortgages	Properties, leasing financing	Securities	Other real guarantees	CLN	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Guaranteed cash credit exposures:	**46,472**	**39,306**	**8,421**												**30,885**	**39,306**
1.1 totally guaranteed	46,472	39,306	8,421												30,885	39,306
- of which: impaired	14,276	7,138													7,138	7,138
1.2 partially guaranteed																
- of which: impaired																
2. Guaranteed off-balance sheet credit exposures:	**23,947**	**23,947**				**1,608**									**22,339**	**23,947**
2.1 totally guaranteed	23,947	23,947				1,608									22,339	23,947
- of which: impaired																
2.2 partially guaranteed																
- of which: impaired																

B. Distribution and concentration of loans

B.1 Sectoral distribution of cash and off-balance-sheet exposures to customers

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of 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										
A.1 Non-performing loans	5,118	49,770					1,394	25,875		
- of which: exposures subject to concessions										
A.2 Probable defaults	7,138	7,138					12,402	17,485		
- of which: exposures subject to concessions							11,859	16,890		
A.3 Expired impaired exposures	4,298	1,433					3,943	40		
- of which: exposures subject to concessions										
A.4 Non-deteriorated exposures	701,160	1,275	2				357,113	604	11,912	53
- of which: exposures subject to concessions										
Total (A)	**717,714**	**59,616**	**2**				**374,852**	**44,004**	**11,912**	**53**
B. Off-balance-sheet credit exposures										
B.1 Impaired exposures							19,974	5,303		
B.2 Non-deteriorated exposures			103,606	31			586,047	496	1,175	
Total (B)			**103,606**	**31**			**606,021**	**5,799**	**1,175**	
Total (A+B) (31.12.22)	**717,714**	**59,616**	**103,608**	**31**			**980,873**	**49,803**	**13,087**	**53**
Total (A+B) (31.12.21)	**709,036**	**52,738**	**101,325**	**1**			**830,710**	**50,879**	**14,380**	**48**

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

Exposures/Geographical Area	Italia		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										
A.1 Bad Debts	1,394	24,255		1,118			5,118	50,272		
A.2 Probable defaults	12,402	17,485							7,138	7,138
A.3 Expired impaired exposures			3,943	40					4,298	1,433
A.4 other Assets / in Bonis	667,762	317	176,640	474	48,293	48	138,748	775	38,745	318
Totale (A)	**681,558**	**42,057**	**180,583**	**1,632**	**48,293**	**48**	**143,866**	**51,047**	**50,181**	**8,889**
B. Off-Balance Sheet exposures										
B.1 Past due positions	19,126	3,897	849					1,406		
B.2 No Past due positions	339,830	272	75,500	58	102,108		34,206	31	139,183	166
Total (B)	**358,956**	**4,169**	**76,349**	**58**	**102,108**		**34,206**	**1,437**	**139,183**	**166**
Total (A+B) (31.12.22)	**1,040,514**	**46,226**	**256,932**	**1,690**	**150,401**	**48**	**178,072**	**52,484**	**189,364**	**9,055**
Total (A+B) (31.12.21)	**985,514**	**47,711**	**207,855**	**1,676**	**124,908**	**5**	**164,996**	**46,509**	**172,181**	**7,768**

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

Exposures/Geographical Area	Italia		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										
A.1 Bad Debts									43	341
A.2 Probable defaults							11,784	11,788		
A.3 Expired impaired exposures									389	4
A.4 other Assets / in Bonis	149,971	230	60,216	256	14,433	3	122,883	640	92,916	2,638
Totale (A)	**149,971**	**230**	**60,216**	**256**	**14,433**	**3**	**134,667**	**12,428**	**93,348**	**2,983**
B. Off-Balance Sheet exposures										
B.1 Past due positions									44,596	2
B.2 No Past due positions	1,724,310	36	1,002,650	5	142,500		598,181	203	1,318,037	444
Total (B)	**1,724,310**	**36**	**1,002,650**	**5**	**142,500**		**598,181**	**203**	**1,362,633**	**446**
Total (A+B) (31.12.22)	**1,874,281**	**266**	**1,062,866**	**261**	**156,933**	**3**	**732,848**	**12,631**	**1,455,981**	**3,429**
Total (A+B) (31.12.21)	**2,130,111**	**176**	**1,084,824**	**537**	**115,000**	**-**	**925,859**	**8,423**	**1,325,349**	**2,332**

B.4 Large Exposures

a) Amount (balance sheet value)	5,630,576
b) Amount (weighted value)	851,611
c) Number of balance positions	90
d) Number of weighted positions	90

The provisions contained in EC Regulation 575/2013 establish that by large exposure we mean the exposure of an institution to a customer or group of connected customers having a value equal to or greater than 10% of the institution's eligible capital.

The same provisions establish that the amount of an institution's exposure to a single customer or a 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 institution or entity itself. The amount of 25% obviously takes into account credit risk mitigation techniques, the type of guarantee 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, and in the latter case the internal lending limit is differentiated according to the internal score assigned and presented as a cap to the regulatory limit.

Furthermore, in order to limit the concentration profile of loans to individual companies and to the same economic sector, the Bank has introduced internal investment limits subject to specific monitoring and reporting processes.

The internal functions in charge periodically verify the overall exposure of customers or groups of connected customers who fall into the category of large exposures, providing adequate information to the corporate bodies and preparing the related reporting flows to the Supervisory 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

The Bank is currently equipped with a tool that allows each counterparty to be assigned 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 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 management purposes as an indication at the time of pricing (in addition to the opportunity cost associated with capital provisions – unexpected credit loss – UCL) from a risk-adjusted performance measurement perspective.

In recent years, the Bank has launched an overall project aimed at increasing the efficiency and effectiveness of all phases of the credit process (applying, credit granting, performance monitoring, risk profile analysis, business activity assessment), strengthening the principals of both first and second level. This project was finalized in the definition of the policy governing the credit risk management process, approved by the Board of Directors in its latest version in 2022. This policy incorporates the guidelines regarding the NPL strategy and plan, it captures the operational peculiarities that emerged during the application and ensures its integration with the Bank's Recovery Plan.

Closely connected to this project was the corporate project to adapt to the IFRS9 accounting standard which in 2017 enabled the Bank to define the new write-down and staging allocation system for performing positions, as well as the new classification and valuation criteria also through the definition of the Business Model. During 2022, the Bank implemented the new impairment platform (made available by the same supplier) allowing better performances in terms of technical soundness and auditing of the process.

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 (foreign exchange, position and settlement) establishes internal operating limits and the related responsibilities and monitoring procedures.

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

The Finance Division's transactions are in fact recorded in the ObjFin application integrated in 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 makes it possible to obtain automatic reports that allow the various corporate functions to be informed on the basis of established frequencies on the situation relating to positions, risks and exceeding of operating limits.

The application manages the following financial instruments:
• Traditional Forex and OTC derivatives;
• Traditional Money Markets and derivatives (FRA, IRS, OIS);
• Bonds and derivatives;
• Equity and derivatives (index futures, stock futures, ETFs and options traded on regulated markets).

In particular:
• the position risk on the trading portfolio is expressed in terms of VaR, with a 99% confidence interval and a 10-day holding period;
• counterparty risk is calculated by applying the current value method to positions in OTC derivatives;
• interest rate risk is expressed in terms of sensitivity to changes in the rate curve (duration).

In outlining the relevant legislation, the Board of Directors was inspired by two fundamental principles:
• each type of operation must correspond to a portfolio of financial instruments;
• each type of risk identified in relation to the operational types must correspond to a specific system of limits to assumption and a system for quantifying corporate 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

Intermediation between the market and banking and corporate customers relating to interest rate and exchange rate derivative instruments can generate daily misalignments in the correlated portfolio and therefore a temporary increase in exposure to generic position risk, both borne by the Treasury Desk and Securities Sector.

Trading positions in interest rate and foreign exchange derivative instruments, both regulated and OTC, are registered on the front office system, which also supports the daily pricing of the instruments and the calculation of unrealized gains/losses. The risk of each open position on financial instruments is expressed synthetically 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 set by the Risk Committee, approved by the Board of Administration 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 procedures for identifying, assessing, measuring and monitoring risk and allocating tasks and responsibilities among the internal structures.

In the capital adequacy area, these risks are measured according to the standard regulatory approach and are analyzed under stress testing conditions. As part of the Risk Appetite Framework, the Risk Management Sector monitors compliance with the macro risk limit and risk tolerance for market risks on a quarterly basis; the results of the analyses conducted are subject to periodic reporting to 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								
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		**39,445**						
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security		**39,445**						
- Options								
+ long positions								
+ short positions								
- Other derivatives		**39,445**						
+ long positions		5,454						
+ short positions		33,991						

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		**1,403**		**912**				
1.1 Debt securities		1,403		912				
- with option of early repayment								
- others		1,403		912				
1.2 Other assets								
2. Liabilities for cash								
2.1 P.C.T. liabilities								
2.2 Other liabilities								
3. Financial derivatives		**39,351**						
3.1 With underlying security								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Without underlying security		**39,351**						
- Options								
+ long positions								
+ short positions								
- Other derivatives		**39,351**						
+ long positions		33,917						
+ short positions		5,434						

1.C Regulatory trading portfolio: distribution by residual duration (re-pricing date) of financial assets and liabilities for cash and financial derivatives Currency: **Other**

No data report

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

Types of operations/listing index	Listed			Unlisted
	ITALY			
A. Capital securities	**3,972**			
- long-term positions	3,972			
- 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 against 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 which contemplates a parallel shift of the rate curve equal to 200 bps.

The value of this indicator should never exceed the limit of 20% of Own Funds; this value is much higher than that recorded by Banca UBAE, which is more contained due to the high concentration of deposits and loans over a 12-month time horizon and the presence of derivative instruments that mitigate the risk.
From a management point of view, internal regulations have established an internal limit lower than the regulatory threshold and equal to 5.20% of Own Funds, as it is more consistent with the Bank’s real risk exposure.

The Sector also conducts, on a quarterly basis, stress testing activities of the exposure assuming parallel and non-parallel shifts in the rate curve. And moreover, in compliance with regulatory provisions, it annually evaluates the exposure to risk also in terms of potential change in the interest margin following a parallel shift in the interest rate curve. During 2021, new stress scenarios were introduced (EBA shock) and risk exposure is subject to quarterly monitoring with reference to the 15% risk indicator.

The Bank has an internal policy governing the process of managing this risk, defining the procedures for identifying, assessing, measuring and monitoring the risk and allocating 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 monitors compliance with the macro-risk limit and risk tolerance for interest rate risk on the banking book on a quarterly basis; the results of the analyses conducted in terms of risk indicators, capital absorption and monitoring of internal operating limits are the subject of quarterly reports for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

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 rate derivative instruments (IRS and OIS) in its portfolio aimed at offering a management macro-hedge of the interest margin implicit in the cash flows deriving from banking activity (securities, deposits and loans). The hedging and trading of derivative instruments is entrusted to the Treasury Desk of the Finance Division.
The distribution by residual duration of financial assets and liabilities referred to other currencies ranges from over 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	**85,750**	**646,434**	**75,322**	**66,758**	**119,219**	**4,549**	**3,247**	
1.1 Debt securities		383,316	29,524	49,983	115,348			
- with early repayment option								
- others		383,316	29,524	49,983	115,348			
1.2 Financing to banks	37,471	23,255	9,818	12,929				
1.3 Financing to customers	48,279	239,863	35,980	3,846	3,871	4,549	3,247	
- current accounts	18,107					1,157		
- other financings	30,172	239,863	35,980	3,846	3,871	3,392	3,247	
- with early repayment option	92	184	275	544	3,871	2,987	3,247	
- others	30,080	239,679	35,705	3,302		405		
2. Cash liabilities	**219,942**	**206,905**	**281,851**	**2,155**	**542**			
2.1 Payables to customers	97,603	166	22	44	126			
- current accounts	90,956	149						
- other payables	6,647	17	22	44	126			
- with early repayment option								
- others	6,647	17	22	44	126			
2.2 Payables to banks	122,339	206,739	281,829	2,111	416			
- current accounts	117,516							
- other payables	4,823	206,739	281,829	2,111	416			
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			**100,000**					
+ long positions			50,000					
+ short positions			50,000					
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	**43,696**	**430,596**	**39,191**	**69,626**	**4,804**			
1.1 Debt securities		90,637	14,309	28,918	4,804			
- with early repayment option								
- others		90,637	14,309	28,918	4,804			
1.2 Financing to banks	41,948	232,178	24,723	40,550				
1.3 Financing to customers	1,748	107,781	159	158				
- current accounts	860							
- other financings	888	107,781	159	158				
- with early repayment option								
- others	888	107,781	159	158				
2. Cash liabilities	**156,361**	**446,798**	**56,570**	**19,307**				
2.1 Payables to customers	45,229	94	246	189				
- current accounts	45,229	94	246	189				
- other payables								
- with early repayment option								
- others								
2.2 Payables to banks	**111,132**	**446,704**	**56,324**	**19,118**				
- current accounts	109,853							
- other payables	1,279	446,704	56,324	19,118				
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			**103,132**					
+ long positions			51,566					
+ short positions			51,566					
4. Other off-balance-sheet transactions	**39,904**							
+ long positions	19,952							
+ short positions	19,952							

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	**7,510**	**42**	**177**
1.1 Debt securities			
- with early repayment option			
- others			
1.2 Financing to banks	7,508	42	177
1.3 Financing to customers	2		
- current accounts			
- other financings	2		
- with early repayment option			
- others	2		
2. Cash liabilities	**7,368**		
2.1 Payables to customers	558		
- current accounts	558		
- other payables			
- with early repayment option			
- others			
2.2 Payables to banks	6,810		
- current accounts	6,810		
- 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			

2.3 - Currency risk

QUALITATIVE INFORMATION

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

Within the banking book, the equity structure of Banca UBAE is characterized by funding in dollars and euros balanced by loans denominated in the same currencies.

Brokerage on foreign exchange derivatives and forwards can lead to an increase in the Bank's overall exposure to exchange rate risk, deriving from the holding of assets and liabilities denominated in foreign currency.

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

B. Hedging activities for exchange risk

Banca UBAE's Finance Division carries out the management macro-hedging of cash flows in foreign currency by holding currency swaps, based on its market vision.

QUANTITATIVE INFORMATION

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

Items	Currency					
	US dollars	Pounds sterling	Yen	Swiss franc	Dirham UAE	Other currencies
A. Financial assets	**583,628**	**4,358**	**2,207**	**522**	**127**	**515**
A.1 Debt securities	146,135					
A.2 Capital securities						1
A.3 Financing for banks	327,629	4,358	2,207	522	127	511
A.4 Financing for customers	109,864					3
A.5 Other financing assets						
B. Other assets	74	7				4
C. Financial liabilities	**679,029**	**4,361**	**2,239**	**525**	**200**	**41**
C.1 Debts towards banks	633,271	4,003	2,239	332	200	35
C.2 Debts towards customers	45,758	358		193		6
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities						
E. Financial derivatives	**39,350**					
- Options						
+ long positions						
+ short positions						
- Other derivatives	39,350					
+ long positions	33,916					
+ short positions	5,434					
Total assets	**617,618**	**4,365**	**2,207**	**522**	**127**	**519**
Total liabilities	**684,463**	**4,361**	**2,239**	**525**	**200**	**41**
Imbalance (+/-)	**(66,845)**	**4**	**(32)**	**(3)**	**(73)**	**478**

Section 3 - Derivative financial instruments and hedging policies

3.1 Derivative trading instruments

A. Financial derivatives

In 2022, Banca UBAE did not trade derivative financial products on behalf of third parties, limiting the activity on its own account to risk hedging instruments 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 Bank's exposure to the various risk profiles.
The mitigation of market risk 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 exchange rate derivatives, which allow sterilization by fixing the economic component generated by forex operations, interest rate derivatives are used by the Bank to mitigate the effect of possible adverse fluctuations in returns with respect to the value of portfolio assets (securities and loans) and minimizing the time horizon of exposure to risk.
The results of the analyses conducted periodically by the Risk Management Sector are reported to the Risk Committee, the Audit & Risk Committee and the Board of Directors.

Furthermore, similarly to what has been described for market risks, the use of derivative instruments (IRS) is used to set up the management coverage of loans and HTC 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 (31.12.2022)				Total (31.12.2021)			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without Central			Central counterparties	Without Central counterparties		
		With compensation agreements	Without compensation agreements			With compensation agreements	Without compensation agreements	
1. Debt securities and interest rates						**299,131**		
a) Options								
b) Swap						299,131		
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			**30,911**				**17,420**	
a) Options								
b) Swap								
c) Forward			30,911				17,420	
d) Futures								
e) Others								
4. Goods								
5. Others								
Total			**30,911**			**299,131**	**17,420**	

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

Types of derivatives	Total (31.12.22)				Total (31.12.21)			
	Over-the-counter			Organised markets	Over-the-counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With compensation agreements	Without compensation agreements			With compensation agreements	Without compensation agreements	
1. Fair positive value								
a) Options								
b) Interest rate swap						1,004		
c) Cross currency swap								
d) Equity swap								
e) Forward			18				65	
f) Futures								
g) Others								
Total			**18**			**1,004**	**65**	
2. Fair negative value								
a) Options								
b) Interest rate swap						1,790		
c) Cross currency swap								
d) Equity swap								
e) Forward			83				13	
f) Futures								
g) Others								
Total			**83**			**1,790**	**13**	

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		**30,010**	**1,002**	
- notional value		29,927	984	
- fair positive value			18	
- fair negative value		83		
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				
- 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				
- 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
A.1 Financial derivatives on debt securities and interest rates				
A.2 Financial derivatives on equities and equity indices				
A.3 Financial derivatives on currencies and gold	30,911			30,911
A.4 Financial derivatives on goods				
A.5 Other financial derivatives				
Total (31.12.22)	**30,911**			**30,911**
Total (31.12.21)	**35,078**	**281,473**		**316,551**

B. Credit derivatives

No data to report.

3.2 Accounting coverage

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

Types of derivatives	Total (31.12.22)				Total (31.12.21)			
	Over the counter				Over the counter			
	Central counterparties	Without central counterparties		Organized markets	Central counterparties	Without central counterparties		Organized markets
		With compensation agreements	Without compensation agreements			With compensation agreements	Without compensation agreements	
1. Debt securities and interest rates		**101,566**						
a) Options								
b) Swap		101,566						
c) Forward								
d) Futures								
e) Others								
2. Capital securities and indices of shares								
a) Options								
b) Swap								
c) Forward								
d) Futures								
e) Others								
3. Currencies and gold								
a) Options								
b) Swap								
c) Forward								
d) Futures								
e) Others								
4. Goods								
5. Others								
Total		**101,566**						

A.2 Financial hedging derivatives: fair value (gross positive and negative) – division of products

Types of derivatives	*Fair value (positive and negative)*								Variation of value used to show lack of efficacy of hedging	
	Total (31.12.22)				Total (31.12.21)					
	Over the counter			Organized markets	Over the counter			Organized markets		
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties			Total (31.12.22)	Total (31.12.21)
		with compens. agreements	without comp. agreements			with compens. agreements	without comp. agreements			
Fair value positive										
a) Options										
b) Interest rate swap										
c) Cross currency swap										
d) Equity swap										
e) Forward										
f) Futures										
g) Others										
Fair value negative		**(47)**								
a) Options										
b) Interest rate swap		(47)								
c) Cross currency swap										
d) Equity swap										
e) Forward										
f) Futures										
g) Others										
Total		**(47)**								

A.3 Financial hedging derivatives OTC: notional values, fair value gross positive and negative for counterparties

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not part of compensation agreements				
1) Debt securities and interest rates				
- notional fair value				
- positive fair value				
- negative fair value				
2) Capital securities and share indices				
- notional fair value				
- fair value positive				
- fair value negative				
3) Currencies and gold				
- notional fair value				
- fair value positive				
- fair value negative				
4) Goods				
- notional fair value				
- fair value positive				
- fair value negative				
5) Others				
- notional fair value				
- fair value positive				
- fair value negative				
Contracts - part of compensation agreements				
1) Debt securities and interest rates		**101,613**		
- notional fair value		101,566		
- fair value positive				
- fair value negative		47		
2) Capital securities and share indices				
- notional fair value				
- fair value positive				
- fair value negative				
3) Currencies and gold				
- notional fair value				
- fair value positive				
- fair value negative				
4) Goods				
- notional fair value				
- fair value positive				
- fair value negative				
5) Others				
- notional fair value				
- fair value positive				
- fair value negative				

A.4 Residual life of financial hedging derivatives OTC: notional values

Underlying/Residual life	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	101,566			**101,566**
A.2 Financial derivatives on capital securities and indices of shares				
A.3 Financial derivatives on currencies and gold				
A.4 Financial derivatives on goods				
A.5 Other financial derivatives				
Total (31.12.22)	101,566			**101,566**
Total (31.12.21)				

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
A. Financial derivatives				
1) Debt securities and interest rates		**101,613**		
- notional value		101,566		
- positive fair value				
- negative fair value		47		
2) Capital securities and share indices				
- notional value				
- positive fair value				
- negative fair value				
3) Currencies and gold		**30,010**	**1,002**	
- notional value		29,927	984	
- positive fair value			18	
- negative fair value		83		
4) Goods				
- notional value				
- positive fair value				
- negative fair value				
5) Others				
- notional value				
- positive fair value				
- negative fair value				
B. 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

With regard to liquidity risk, defined as the inability to meet one's payment obligations due to sudden difficulties in obtaining funds on the market and/or to promptly liquidate positions in financial instruments, the banks admitted to the simplified methods are not required the calculation of an additional capital requirement (Pillar II); however, they must include an internal policy that establishes the system of operating limits to be respected and the procedures to be followed in the event of a liquidity crisis (contingency funding plan). An ILAAP (Internal Liquidity Assessment Process) process must also be envisaged, aimed at assessing the adequacy of the liquidity risk management system. The ILAAP includes analyses and monitoring of the liquidity situation, periodic internal and external reporting and adequate stress testing, guaranteeing its integration with the ICAAP and with the Bank's Recovery Plan. The description of this process and of the management results is included in the ICAAP/ILAAP Report sent annually to the Oversight Body.
The financial sources of Banca UBAE are represented by 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 towards mainly short-term investments, the liquidity risk for Banca UBAE does not represent, under normal financial market conditions, a particularly critical element.
Furthermore, in consideration of interbank relations, the support of the majority shareholder and the establishment of 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 has financial backing and adequate financial resources to face potential liquidity crises.
However, the Bank is constantly engaged in seeking to diversify its sources of financing with particular attention to their volumes and costs.
The corporate functions of the Bank responsible for guaranteeing 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 performance in relation to the pre-established limits, as well as supporting the activity of the Risk Committee which is responsible for annually submitting funding and liquidity risk management policies to the Board of Directors and suggesting any interventions to ensure that the activity is carried out in 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 strategies of intervention in the event of liquidity tensions, providing for the extraordinary procedures to be activated to

guarantee the survival of the Bank even in conditions of stress. In this context, the escalation procedure envisaged by the Recovery Plan is inserted for which, also with reference to the liquidity indicators (LCR and NSFR), alarm thresholds and activation thresholds of the plan are established, together with the connected recovery options.
The policy also provides for the integration of internal processes with 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 consistently with the Bank's recovery plan.
The Risk Management Sector, in accordance with the provisions of the liquidity risk management policy, is responsible for monitoring the attention thresholds for the early-warning indicators and for the liquidity ratios (LCR and NSFR) and periodically the stress tests. Furthermore, it produces weekly liquidity reporting (in a standard format) for the Bank of Italy, while for internal purposes it produces a report on monitoring activities for the Risk Committee, the Audit & Risk Committee and the Board of Directors.
In particular, the Risk Management Sector prepares the maturity ladder on a weekly basis (on the basis of outflows and inflows distributed by maturity time band) and monitors the performance trend of the early warning indicators. Conversely, on a monthly basis, the Sector calculates the ratios relating to the concentration of deposits and the monitoring tools in order to evaluate their trend over time. As regards the liquidity ratios (LCR and NSFR), it conducts periodic monitoring and reporting.
Lastly, in light of the current regulatory framework, 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 highlights compliance with the regulatory limit in force (100%), reaching an average of over 400% in 2022.
Furthermore, the NSFR level is reported to Banca d’Italia on a quarterly basis and following the entry into force of the regulatory limit which took place in June 2021; the Bank monitors compliance. The monitoring of this ratio highlights compliance with the regulatory limit (100%) in 2022 of the year, reaching an average of over 120%.

QUANTITATIVE INFORMATION

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

Items/Timing	At sight	from over 1 day to 7 days	from over 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
Cash activities	**71,420**	**22,176**	**11,384**	**71,523**	**152,796**	**74,256**	**71,666**	**495,391**	**7,810**	**13,518**
A.1 Government bonds					4,000	28,390	22,789	491,500		
A.2 Other debt securities							32,025			2,891
A.3 O.I.C.R. portions										
A.4 Financings	71,420	22,176	11,384	71,523	148,796	45,866	16,852	3,891	7,810	10,627
- banks	23,119	2,335	1,369	2,521	6,409	9,703	12,885			10,627
- customers	48,301	19,841	10,015	69,002	142,387	36,163	3,967	3,891	7,810	
Cash liabilities	**220,060**	**4,752**		**4,007**	**98,602**	**283,511**	**2,163**	**100,541**		
B.1 Deposits and current accounts	213,296	4,752		4,007	98,584	283,488	2,117	100,415		
- banks	122,340	4,603		4,007	98,584	283,488	2,117	100,415		
- customers	90,956	149								
B.2 Debt securities										
B.3 Other liabilities	6,764				18	23	46	126		
"Off-balance-sheet" operations		**38,445**		**1,000**		**141**				
C.1 Financial derivatives with capital exchange		38,445		1,000						
- long-term positions		4,454		1,000						
- short-term positions		33,991				141				
C.2 Financial derivatives without capital exchange						141				
- long-term positions										
- short-term positions										
C.3 Receivable deposits and financings										
- long positions										
- short positions										
C.4 Irrevocable commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees issued										
C.6 Financial guarantees received										
C.7 Credit derivatives with capital exchange										
- long positions										
- short positions										
C.8 Credit derivatives without capital exchange										
- long positions										
- short positions										

1.B Time distribution for residual contract duration of financial assets and liabilities – **USD**

Items/Timing	At sight	from over 1 day to 7 days	from over 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
Cash activities	**42,900**	**83,010**	**12,007**	**155,292**	**167,354**	**52,172**	**70,477**	**4,688**	**3,841**	
A.1 Government bonds			111	48,911	36,975	14,374	29,209	4,688	3,841	
A.2 Other debt securities					4,826		957			
A.3 O.I.C.R. portions										
A.4 Financings	42,900	83,010	11,896	106,381	125,553	37,798	40,311			
- banks	42,007	78,919	9,035	88,060	41,840	37,639	40,152			
- customers	893	4,091	2,861	18,321	83,713	159	159			
Cash liabilities	**156,375**	**21,103**	**5,647**	**66,709**	**74,676**	**57,948**	**19,664**	**281,268**		
B.1 Deposits and current accounts	156,375	21,103	5,647	66,709	74,676	57,948	19,664	281,268		
- banks	111,132	21,103	5,647	66,615	74,676	57,698	19,467	281,268		
- customers	45,243			94		250	197			
B.2 Debt securities										
B.3 Other liabilities										
"Off-balance-sheet" operations	**18,707**	**38,366**		**984**		**657**	**18,707**			
C.1 Financial derivatives with capital exchange		38,366		984						
- long-term positions		33,916								
- short-term positions		4,450		984						
C.2 Financial derivatives without capital exchange						657				
- long-term positions						657				
- short-term positions										
C.3 Receivable deposits and financings										
- long positions										
- short positions										
C.4 Irrevocable commitments to disburse funds	18,707						18,707			
- long positions							18,707			
- short positions	18,707									
C.5 Financial guarantees issued										
C.6 Financial guarantees received										
C.7 Credit derivatives with capital exchange										
- long positions										
- short positions										
C.8 Credit derivatives without capital exchange										
- long positions										
- short positions										

1.C Time distribution for residual contract duration of financial assets and liabilities – others

Items/Timing	At sight	from over 1 day to 7 days	from over 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
Cash activities	**7,566**				**40**	**175**				
A.1 Government bonds										
A.2 Other debt securities										
A.3 O.I.C.R. portions										
A.4 Financings	7,566				40	175				
- banks	7,564				40	175				
- customers	2									
Cash liabilities	**7,367**									
B.1 Deposits and current accounts	7,367									
- banks	6,810									
- customers	557									
B.2 Debt securities										
B.3 Other liabilities										
"Off-balance-sheet" operations										
C.1 Financial derivatives with capital exchange										
- long-term positions										
- short-term positions										
C.2 Financial derivatives without capital exchange										
- long-term positions										
- short-term positions										
C.3 Receivable deposits and financings										
- long positions										
- short positions										
C.4 Irrevocable commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees issued										
C.6 Financial guarantees received										
C.7 Credit derivatives with capital exchange										
- long positions										
- short positions										
C.8 Credit derivatives without capital exchange										
- long positions										
- short positions										

Section 5 – Operational risk

QUALITATIVE INFORMATION

A. General aspects

Banca UBAE calculates the capital requirement for operational risks by applying the Basic Indicator Approach, as required by current prudential legislation.

At the moment, the Bank does not intend to request the application of the standardized 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 could derive from it. In this sense, on the one hand, a project to review 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 Division, on the occasion of the launch of operations on new products or services, in collaboration with the Organization and IT Banca UBAE calculates the capital requirement for operational risks by applying the Basic Indicator Approach, as required by current prudential legislation.

At the moment, the Bank does not intend to request the application of the standardized 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 could derive from it. In this sense, on the one hand, a project to review 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 calculation of the operational risk capital requirement as at 31 December 2022 was determined by taking as reference the indicator referred to in art. 316 CRR.

As part of the Risk Appetite Framework, the Risk Management Sector monitors compliance with the macro risk limit and risk tolerance for operational risks on a quarterly basis; the results of the analyses are subject to periodic reporting to the Risk Committee, the Audit & Risk Committee and the Board of Directors, the Compliance Sector, the Risk Management Sector and the Internal Auditing Sector, who present the General Management with a complete analysis of the risks associated with the new operation.

In the ICAAP context, operational risks have been included in the scope of stress testing through the capital impact of operational losses estimated according to the fall-back approach.

INFORMATION

	Total (31.12.22)	Total (31.12.21)
OPERATIONAL RISK	**5,645**	**4,268**
1 Basic method	5,645	4,268
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 activity in OTC interest rate and exchange rate derivative instruments generates the risk that, upon expiry, the counterparty will not meet the payment obligations deriving from the stipulated contracts (counterparty risk), once this contractual deadline has been exceeded, in the event of fulfilment, 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 internal operating limits system.

Each counterparty, both banking and corporate, authorized to negotiate derivative instruments, is entrusted by the Board of Directors, by the Credit Committee or by another competent body within the Bank, through the granting of specific ad hoc credit lines. The limits are controlled by the first-level structures through the front office system which carries out a daily recalculation of all existing positions, based on updated prices. The Risk Management Sector, on the basis of the results deriving from internal analyses, takes care of the information flow 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 monitors compliance with the macro risk limit and risk tolerance for counterparty risk (including Credit Valuation Adjustment) on a quarterly basis; the results of the analyses are subject to periodic reporting to the Risk Committee, the Audit & Risk Committee and the Board of Directors.

B. General aspects, processes for managing and methods for measuring the regulation risk

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

Section 7 - Concentration risk

QUALITATIVE INFORMATION

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

For the purpose of limiting the global concentration level of exposures, the Bank operates in compliance with the legislation on Large Exposures, identifies and reports exposures with a weighted amount exceeding 10% of the eligible capital and monitors compliance with the lending limit by arranging possible reporting of overdue positions to the Oversight Body.

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

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

The Risk Management Sector, in addition to conducting analyses on capital adequacy, conducts quarterly stress tests by simulating, for the same corporate exposures, an increase in the level of concentration of the portfolio.

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

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

In order to contain the concentration risk towards corporate counterparties, the

Bank has introduced an internal lending limit that is prudentially lower than the regulatory limit and equal to the threshold identifying "Major Risks". In 2022, a further internal investment limit was also introduced for exposures to the same economic sector.

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

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 for 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.

Lastly, the Bank has an internal risk management policy for concentration, Large Exposures and SBEs (Shadow Banking Entities) which defines the roles and responsibilities of the various corporate bodies and functions, the monitoring process of internal and external limits by a system of internal operating limits, as well as the reporting and information process.

Section 8 – Country risk

INFORMATION OF A QUALITATIVE NATURE

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

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

From a management point of view, the granting of a plafond for use by individual countries is envisaged, which is the responsibility of the Board of Directors, and which governs credits from countries that have a rating lower than BBB or that do not have a rating.

The internal policy, on the other hand, governs the methods of identifying, assessing, measuring and monitoring country risk and transfer risk. This policy was revised in order to incorporate the decisions of the European Commission regarding banks resident in non-equivalent countries (Shadow Banking Entities).

With regard to transfer risk, the Bank has decided to include this risk, from a quantitative point of view, in the more global context of 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 credit portfolio and the determination of the relevance of the exposures towards the countries belonging to the transfer risk classes provided by the trade association.

The Risk Management Sector takes care of the information flow for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

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

Section 9 – Strategic risk

INFORMATION OF A QUALITATIVE NATURE

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

Banca UBAE measures the capital requirement against strategic risk by applying an internal calculation methodology aimed at determining an additional capital absorption which completes the internal analyses in terms of capital adequacy. The rationale for this additional requirement, although not required by law, is due to the relevance of the strategic planning process and the economic effects associated with potential changes in the operating and regulatory contexts and/or untimely processes for adapting the strategic lines to such changes.

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

During 2022, the Bank identified the planning model on a multi-year basis, the subjects and bodies involved, as well as the internal approval processes and, lastly, the timing of the planning and subsequent monitoring tools. The policy drawn up after this activity was submitted to the approval of the 293rd Board of Directors at its meeting on 7 June 2022.

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Section 10 – Risk of excessive financial leverage

INFORMATION OF A QUALITATIVE NATURE

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

Current prudential legislation requires banks (in line with the principle of proportionality) to monitor the risk of excessive financial leverage, providing for its inclusion among the risks to be assessed under the ICAAP and introducing a representative indicator of financial leverage (Leverage Ratio), calculated as the ratio between the Tier 1 Capital and the overall exposure of the Bank. This ratio is subject to a regulatory limit of 3%, as well as the attention thresholds set in the context of the Recovery Plan.

In the context of stress testing, this risk was included in the scope of analysis by assessing the impacts of adverse scenarios on the level of leverage ratio.

The Bank has an internal policy governing the process of managing this risk, defining the procedures for identifying, assessing, measuring and monitoring the risk and allocating 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

Asset management 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 European regulators (CRR/CRD) and in particular to the capitalization objectives that the Oversight Body sets within the SREP (Supervisory Review and Evaluation Process).

The activity of verifying compliance with the minimum supervisory requirements and the consequent adequacy of capital depends both on the objectives set during planning, which take into account the possible evolution of risk, and on what is regulated at the level of the Risk Appetite Framework (RAF).

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

On a quarterly basis, the Risk Management Sector monitors compliance with the supervisory coefficients, prepares 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 operations of an exceptional nature are planned (transactions of greater importance). In this case, the impact of the risk limits on the system is estimated and a consistency opinion is formulated by the Risk Manager with the RAF.

Lastly, with the aim of ensuring the integration between the crucial corporate processes, a prospective analysis of the capital ratios is conducted as part of the strategic planning process and on the basis of budgeting data so as to verify the capital sustainability of the strategic guidelines outlined by the governing bodies.

B. QUANTITATIVE INFORMATION

B.1 Shareholders' equity: breakdown

Items/Values	Amount (31.12.2022)	Amount (31.12.2021)
1. Capital	261,186	261,186
2. Issue surcharges	870	870
3. Reserves	(76,477)	(77,870)
- of profits	6,111	6,041
a) legal	13,564	13,494
b) statutory		
c) own actions		
d) others	(7,453)	(7,453)
- miscellaneous	(82,588)	(83,911)
3.5 Advances on dividends (-)		
4. Capital instruments		
5. (Own actions)		
6. Valuation reserves	1,340	652
- 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	1,466	860
- 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	(126)	(208)
- Shares of valuation reserves relating to subsidiaries valued at net equity		
- Special revaluation legislation		
7. Profit (loss) for year	11,752	1,393
Total	**198,671**	**186,231**

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

Assets/Values	Total (31.12.22)		Total (31.12.21)	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debit securities	1,466		860	
2. Capital securities				
3. Financings				
Total	**1,466**		**860**	

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

	Debt securities	Capital securities	Financings
1. Opening balance	**860**		
2. Positive changes	606		
2.1 Fair value increases	606		
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			
3.1 Reductions in fair value			
3.2 Write-backs for credit risk			
3.3 Transfer to income statement from positive reserves: from realisation			
3.4 Transfers to other components of equity (equity securities)			
3.5 Other variations			
4. Closing balance	**1,466**		

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 2021 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 Banca d'Italia 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 1.9 million Euro and consisting of:*

  0.1 million Euro in the negative reserve for actuarial losses deriving from defined-benefit plans in accordance with the new IAS19;

  1.8 million Euro in positive reserves for HTC&S;

● a*ccumulated negative retained earnings/losses as at 31/12/2022: 65 million euros;*

● *EUR 13.5 million resulting from a new transitional IFRS9 calculation method introduced by the European authorities in response to the COVID-19 pandemic.*

D) Items to be deducted from CET1

This item includes the following main aggregates:

- *0.2 million Euro in goodwill and other intangible assets.*

2. Additional Tier 1 Capital (AT1)

PART 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 (31.12.22)	Total (31.12.21)
A	**Common Equity Tier 1 (CET1) before application of prudential filters**	**198,672**	**186,231**
	of which CET1 instruments subject to transitional provisions		
B	CET1 prudential filters (+/-)		
C	**CET1 gross of items to be deducted and the effects of the transitional regime (A+/- B)**	**198,672**	**186,231**
D	**Items to be deducted from CET1**	(259)	(234)
E	**Transitional regime - Impact on CET1 (+/-)**	13,540	27,081
F	**Total Common Equity Tier 1 (CET1) (C-D+/-E)**	**211,953**	**213,078**
G	**Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime**		
	of which AT1 instruments subject to transitional provisions		
H	**Items to be deducted from AT1**		
I	**Transitional regime - Impact on AT1 (+/-),**		
L	**Total Additional Tier 1 Capital (AT1) (G-H+/-I)**		
M	**Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime**		
	of which T2 instruments subject to transitional provisions		
N	**Items to be deducted from T2**		
O	**Transitional regime - Impact on T2 (+/-)**		
P	**Total Tier 2 Capital (T2) (M-N+/-O)**		
Q	**Total own funds (F+L+P)**	**211,953**	**213,078**

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 permitted by the Oversight Body for Class 3 banks). It aims to ensure continuous compliance with capital requirements (with reference to the risks considered in Pillar I and the quantifiable risks considered in Pillar II, according to simplified methodologies), and to provide the Board of Directors and General Management with the information necessary to set up, in an efficient and effective way, the Bank's capital strengthening policies.

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

1. the total internal capital, given by the sum of the minimum capital requirements for the various risk categories of Pillar I (credit risk, counterparty risk, market risk and operational risk), of Pillar II (concentration risk for counterparties or groups of connected counterparties and interest rate risk on the banking book) and 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;

2. the total internal capital under stressed 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) and interest rate risk on the banking book and country risk. In compliance with EBA guidelines and relevant national provisions, the risks subjected to stress tests also include country risk, market risk, operational risk and risk of excessive financial leverage;

3. prospective total internal capital, given by the total internal capital calculated on the capital quantities approved as a result of the planning and budgeting process and having an impact on credit risk, operational risk, market risk, concentration risk and country risk;

4. 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 associated with 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 data from the supervisory reporting and according to three analysis perspectives: under ordinary conditions, under conditions of stress and in perspective. 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 on an annual basis it prepares the yearly report submitted to the attention of the Supervisory Body, subject to Board approval.

B. QUANTITATIVE INFORMATION

	Categories/Values		Non-Weighted amount		Weighted amount	
			(31.12.22)	(31.12.21)	(31.12.22)	(31.12.21)
A	**RISK ASSETS**					
A1	**Credit and counterparty risk**					
	1	Standard methodology	**1,737,829**	**1,880,786**	**992,452**	**981,999**
	2	Methodology based on Internal ratings				
		2.1 based				
		2.2 advanced				
	3	Securitization				
B	**REGULATORY CAPITAL REQUIREMENTS**					
B1	CREDIT AND COUNTERPARTY RISK				**79,396**	**78,560**
B2	CAPITAL REQUIREMENTS				**1**	**2**
B3	CAPITAL REQUIREMENTS					
B4	MARKET RISK				**1,532**	**6,391**
	1	Standard Methodology			1,532	6,391
	2	Internal Models				
	3	Credit concentration Risk				
B5	Operational risk				**5,645**	**4,268**
	1	Basic indicator approach			5,645	4,268
	2	Standardized approach				
	3	Advanced method				
B6	Other calculation factors					
B7	total prudential requirements				**86,574**	**89,221**
C	**RISK ASSETS AND CAPITAL REQUIREMENT RATIOS**					
C1	Risk-weighted assets					
C2	Common equity Tier 1 Capital/Risk-weighted assets (CET 1 Capital ratio)				1,082,177	1,115,264
C3	Capital /Risk-weighted assets (Tier 1 capital ratio)				**19.59%**	**19.11%**
C4	Total own funds/ Risk-weighted assets (Total capital ratio)				**19.59%**	**19.11%**
					19.59%	**19.11%**

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.

The tables below show the Bank's outstanding economic and financial positions with related parties as at 31 December 2022

1. Remuneration of Directors, Auditors and Management

Remuneration during 2022 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.

EUR/000

Description		TOTAL
Short-term benefits (1)		**2,049**
- Directors	1,057	
- Auditors	100	
- Management	892	
Post-severance benefits (2)		**49**
Other benefits (3)		**266**

(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	92		92
Financial liabilities	241		241

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 (Consolidated Banking Law – T.U.B.);
- 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 aforesaid 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 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, amongst which the parent entity, Central Bank of Libya.

description	LFB	CONNECTED PARTIES	TOTAL
Financial assets	815	27,609	28,424
Financial liabilities	792,588	290,752	1,083,340
Issued Commitments	6,702	77,627	84,329

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

Costs

Description	LFB	CONNECTED	TOTAL	
Comm. on Letters of Credits	1	568	569	
Comm. on Letters of Guarantees	372	266	638	
Interest	14,227	1,876	16,103	
Subordinated Loans				
Total	**14,600**	**2,710**	**17,310**	
	0	**0**		

Revenues

Description	LFB	CONNECTED	TOTAL	
Comm. on Letters of Credits	50	5,338	5,387	
Comm. on Letters of Guarantees	841	761	1,602	
Interest	1	1,003	1,003	
Total	**891**	**7,101**	**7,992**	

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 2022 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.


UBAE

STATUTORY AUDITORS' REPORT
pursuant to and for the purposes of art.2429 of the Civil Code

To all shareholders of Banca UBAE S.p.A.,

during the year ended 31 December 2022, the activity of the Board of Statutory Auditors was inspired by the provisions of the law and the "Rules of conduct of the Board of Statutory Auditors" issued by the National Council of Chartered Accountants and Accounting Experts. For the sake of clarity, this single report is made up of section A) relating to the supervisory activity and section B) relating to the results of the financial year as well as the activity carried out; lastly, it sets out the observations and proposals regarding the financial statements and approval of the report.

A) Supervisory activity

The Board of Statutory Auditors has exercised, with diligence and good faith, albeit in the context of effective knowledge of corporate events, the supervisory function that falls to it in terms of compliance with the law and the by-laws and compliance with the principles of correct administration, on the adequacy of the organizational structure and the internal control system, taking into account the reference regulatory framework for Banks.

The Board of Statutory Auditors:

I. participated in the Shareholders' Meetings and in the meetings of the Board of Directors, in which, in relation to the transactions approved, no violations of the law and of the Articles of Association were found on the basis of the information provided, nor any manifestly imprudent, risky, potential conflicts of interest or such as to compromise the integrity of the corporate assets;

II. during the assemblies and periodic meetings, the Board obtained from the Administrative Body, from the General Management, from the Area Sectors, information on the general management trend and on the foreseeable evolution, as well as on the most significant operations, in terms of size and characteristics, carried out by the Bank and can reasonably ensure that the actions taken comply with the law and the Articles of Association and are not manifestly imprudent, risky, in potential conflict of interest and in contrast with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the corporate assets;

III. as part of the assemblies and periodic meetings, the Board of Statutory Auditors carried out, during the year just ended, 16 meetings during which no relevant data or information emerged that should be highlighted in this report;

IV. the statutory audit of the accounts pursuant to legislative decree no. 39/2010 was carried out by the auditing firm "KPMG S.p.A." which, during the year that has just ended, was not entrusted with further tasks with reference to contractual relationships with associated companies, and therefore the Board of Statutory Auditors noted the absence of influential activities to the assigned legal auditing activity. During the meetings with the auditors, no relevant data or information emerged that should be highlighted in this report. The Board of Statutory Auditors received from the company "KPMG S.p.A." the report made pursuant to articles 10 and 17 of legislative decree no. 39/2010 regarding its independence and/or incompatibility, with particular reference to Art. 6 paragraph 2, letter A of the EU Regulation no. 537/14 with the specification of the absence of limitation to the assignment carried out on behalf of BANCA UBAE S.p.A;

V. monitored the appropriate structuring of the control functions typical of credit institutions (Internal Audit Function, Compliance Function, Anti-Money Laundering Function and Risk Management Function), also in the context of the organizational changes implemented in 2022;

VI. met with the managers of the Internal Audit, Risk Management, Anti-Money Laundering and Compliance functions, maintaining reciprocal exchanges of data and news with them, as well as examining their action through the analysis of the checks carried out;

VII. has issued the opinions requested by the Supervisory Body and the Board of Directors on the basis of the provisions of the law and the articles of association in force;

VIII. in the exercise of its Supervisory Body functions, the Board has not identified any critical issues, with respect to the organizational model, which need to be highlighted in this report.

The Board of Statutory Auditors acquired knowledge and supervised, to the extent of its competence, the adequacy and functioning of the organizational structure of the Bank, also through the collection of information from the heads of the functions. In this regard, it has no particular observations to make.

The Board of Statutory Auditors acquired knowledge and supervised, to the extent of its competence, the adequacy and functioning of the administrative-accounting system, as well as the reliability of the latter in correctly representing management events, by obtaining information from the staff responsible for the functions, by the person in charge of the statutory audit of the accounts and by the examination of corporate documents, and in this regard has no particular observations to report.

It is also deemed necessary to point out that the Board of Statutory Auditors:

- monitored compliance with the anti-money laundering and financial terrorism regulations and ascertained the related training activity aimed at the personnel in the workforce;

- verified that the obligations regarding the protection of personal data pursuant to EU Regulation 2016/679 and subsequent amendments and additions (so-called Privacy Regulation) are observed.

During the year, the Board of Statutory Auditors did not receive any complaints or observations pursuant to art. 2408 of the Civil Code.

The Board of Statutory Auditors did not find any atypical and/or unusual transactions during the year.

During the supervisory activity, as described above, no other significant facts emerged such as to require mention in this report.

B) Balance sheet

The Board of Statutory Auditors examined the draft financial statements for the year ended 31 December 2022, made available by the Directors within the terms set out in Article 2429 of the Civil Code and approved by the Board of Directors on 29 March 2022, which show a result for the year equal to 11,752,052 euros.
The draft financial statements for the year ended 31 December 2022 consist of the Balance Sheet, the Income Statement and the Explanatory Notes and the Report on

Operations as required by law. These documents were delivered to the Board of Statutory Auditors in good time for them to be deposited at the corporate headquarters accompanied by this report, and this regardless of the deadline set by art. 2429, paragraph 1, of the Italian Civil Code.
Since the statutory audit of the financial statements was not entrusted to the Board of Statutory Auditors, it supervised the general layout of the financial statements, their compliance with the law as regards the preparation procedure, the structure and composition of the related documents, as well as the correctness of the valuation principles adopted and in this regard has no observations to report.
In this regard, the Board of Statutory Auditors specifies that:
a) the periodic accounting control and the statutory audit of the financial statements are entrusted to the auditing firm KPMG S.p.A. to whose report, therefore, reference is made for the relative professional judgment;
b) the accounting control and auditing activity implemented by KPMG S.p.A. was carried out on the basis of the guidelines of the ISA Italian auditing standards and the report on the financial statements was drawn up pursuant to articles 14 and 16 of legislative decree 39/2010 and includes the judgment of consistency and conformity of the management report envisaged by art. 14, paragraph 2, letter e) of the same decree.
As far as it is concerned, the Board of Statutory Auditors supervised the general layout of the financial statements, its compliance with the law as regards the formation procedure, the structure and composition of the related documents, as well as the correctness of the valuation principles adopted and has no observations to report; there are no observations to report on compliance with the law relating to the preparation of the management report.
As specified by the directors, in preparing the financial statements, no derogations from the law were used pursuant to art. 2423, paragraph 4, of the Italian Civil Code
As highlighted in the Explanatory Notes, the financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and on the basis of the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission, as established by EU regulation no. 1606 of 19 July 2002, by legislative decree no. 38/2005 and in compliance with the instructions for the preparation of financial statements of

banking institutions prepared by the Italian Accounting Organization (O.I.C.) and by the Italian Banking Association (ABI), as referred to in the seventh update of Circular no. 262: "The bank balance sheet: layouts and compilation rules" issued by Banca d'Italia on 2 November 2021.
The activity was carried out through interviews with the management and the function in charge of preparing the financial statements, direct checks, as well as through the information obtained from the appointed auditing firm which issued its report with an unqualified opinion.
In particular, it should be noted that the documents accompanying the financial statements provide an exhaustive illustration of the risks to which the business is exposed and the related hedging policies adopted by the Bank. With regard to these checks, there are no particular observations to report.
The Board verified the correspondence of the financial statements to the facts and information of which it became aware following the performance of the duties and there are no observations in this regard.

Conclusions

For what has been set out above and also considering the results of the activity carried out by the independent auditors appointed to carry out the statutory audit of the financial statements, the Board of Statutory Auditors expresses its favourable opinion on the proposal to approve the financial statements for the year ended 31 December 2022, as drawn up by the Directors, as well as the proposal to allocate 5% of the profit for the year to the legal reserve for Euro 587,603.00 and the remainder equal to Euro 11,164,449 to the reserve called "profit surplus for the year 2022".
Rome, 13 April 2023.

THE BOARD OF STATUTORY AUDITORS
Ms Ersilia Bartolomucci – Chairperson
Mr Angelo Pappadà – Statutory Auditor
Mr Michele Testa – Statutory Auditor

LEGAL AUDITORS' REPORT

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Banca UBAE S.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2022, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Banca UBAE S.p.A. as at 31 December 2022 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing 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 "*Auditors' responsibilities for the audit of the financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements of the current year. 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.

Classification and measurement of financial assets at amortised cost and measurement of the provision for financial guarantees issued

Notes to the financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets at amortised cost"

Notes to the financial statements "Part B - Information on the statement of financial position - Assets": section 4 "Financial assets at amortised cost - caption 40"

Notes to the financial statements "Part B - Information on the statement of financial position - Liabilities": section 10 "Provisions for risks and charges - Caption 100"

Notes to the financial statements "Part C - Information on the income statement": section 8.1 "Net impairment losses for credit risk on financial assets at amortised cost: breakdown"

Notes to the financial statements "Part C - Information on the income statement": section 1.1 "Net accruals for credit risk on loan commitments and financial guarantees issued: breakdown"

Notes to the financial statements "Part E - Risks and related hedging policies": section 1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Lending to customers, both cash and endorsement loans, and to banks is one of the bank's core activities. Financial assets at amortised cost totalled €1,426million at 31 December 2022, accounting for about 87% of total assets. Financial guarantees issued amounted to €482 million. Net impairment losses for credit risk on financial assets at amortised cost amounted to €1.4 million in 2021. The provision for financial guarantees issued recognised under liabilities amounted to €6.5 million, including accruals for the year of €2.6 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks. Measuring loans and receivables with customers and banks, both cash and endorsement loans, is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, an assessment of any guarantees, the impact of macroeconomic variables, future scenarios and risks of the sectors in which the bank's customers operate. For the above reasons, we believe that the classification and measurement of financial assets at	Our audit procedures included: • gaining an understanding of the bank's processes and IT environment in relation to the disbursement, monitoring, classification and measurement of financial assets at amortised cost and financial guarantees issued; • assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses on financial assets at amortised cost and the accruals to the provision for financial guarantees issued; • analysing the classification criteria used for allocating financial assets to the IFRS 9 categories (staging); • analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network; • selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; • selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions

amortised cost and the measurement of financial guarantees issued are a key audit matter.	about their recoverability, including considering the guarantees received; • checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; • analysing the significant changes in the financial asset categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; • assessing the appropriateness of the disclosures about financial assets at amortised cost, loan commitments and financial guarantees issued.

Responsibilities of the bank's directors and board of statutory auditors ("Collegio Sindacale") for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the bank's financial reporting process.

Auditors' 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 auditors' 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 judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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;

- obtain 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 bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' 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 bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;
- evaluate 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 communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, 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 also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the measures taken to eliminate those threats or the safeguards applied.

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 year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 15 May 2021, the bank's shareholders appointed us to perform the statutory audit of its financial statements as at and for the years ending from 31 December 2021 to 31 December 2029.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the bank in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The bank's directors are responsible for the preparation of a directors' report at 31 December 2022 and for the consistency of such report with the related financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the bank's financial statements at 31 December 2022 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the bank's financial statements at 31 December 2022 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Rome, 13 April 2023

KPMG S.p.A.

(signed on the original)

Riccardo De Angelis
Director of Audit

RESOLUTIONS PASSED BY SHAREHOLDERS' ORDINARY GENERAL MEETING HELD ON 11/05/2023

AGENDA

1. Review and approval of the accounts for the financial year ended 31 December 2022 and of the Annual Report on operations

2. Statutory Auditors’ report

3. Legal Auditors’ report

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

5. Approval of the 2023 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

6. Approval of a bonus for the members of the Board of Directors in relation to the Bank’s 2022 profit results

THE SHAREHOLDERS’ MEETING

- having acknowledged the financial statements as at 31 December 2021, which close with a profit for the year of Euro **11,752,052**

- having taken note of the documentation prepared by the Board of Directors, the Board of Statutory Auditors and the Independent Auditors;

By unanimous vote,

RESOLVED

1. to approve the financial statements as at 31 December 2022, downloading them, ratified and valid for the Board of Directors;

2. to approve the proposal to allocate 5%, equal to Euro 587,603 to the Legal Reserve (art. 30 letter A of the Articles of Association) and the remainder, equal to Euro 11,164,449, to a reserve "Profit surplus for the year".

Following this decision, the total assets of the Bank as at 31 December 2022 will amount to Euro 198,671,630 divided as follows:

- Share Capital	Euro	261,185,870
- Legal Reserve	Euro	14,151,339
- 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	1,340,278
- Previous Years' Losses	*Euro*	(83,911,066)
- Profit surplus for year 2021 and 2022.	*Euro*	12,487,542
		198,671,630

Annex A

COUNTRY-BY-COUNTRY REPORTING AS AT 31 DECEMBER 2022

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 2021.

a) Denomination and nature of activity
Denomination: Banca UBAE S.p.A.
Registered office: Rome, 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 - Rome, *Banque Centrale Populaire* and *Banque Marocaine du Commerce Extérieur* - Casablanca, *Intesa Sanpaolo* – Turin, and leading Italian companies: Sansedoni Siena (*Monte dei Paschi di Siena* Foundation) – Siena, ENI Adfin (ENI Group) – Rome, 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. Banca UBAE currently operates in fifty countries with the support of 500 correspondent banks occupying a position of reference and reliability in the foreign trade sector. The bank does not have branches abroad.

b) Turnover[3] = EUR 52,385,765
c) Number of employees on equivalent full-time basis[4]= 148
d) Economic Result (before tax) =EUR 9,172,992
e) Income tax on year's result= EUR 2,579,000
d) Public contributions received = None

[3] "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 .
4 "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

Fees for auditing accounts and other auditing services pursuant to article 149 duodecies of Consob regulation no. 11971.

The table below shows a detail of the 2022 fees according to the contract with the auditing firm with the task of auditing the accounts pursuant to legislative decree 59/98, together with the scale of the network to which the auditing firm belongs.

Eur

Type of services performed	Entity that provided the services	Fees
Auditing services (1)	KPMG S.p.A.	63,913
Certification services (2)	KPMG S.p.A.	1,500
Other services (3)	KPMG S.p.A.	
Total Fees 2022		**65,413.00**

(1) Including costs of legal auditing, voluntary payments and mandatory fiscal certifications
(2) Amount includes: contribution to National Guarantee Fund
(3) Amount includes: certification release for MIFID 2 Report