BANCA FINNAT

GRUPPO BANCA FINNAT

CONSOLIDATED HALF-YEARLY FINANCIAL REPORT AT 30 JUNE 2018

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BOARD OF DIRECTORS

Carlo Carlevaris
Honorary Chairman

Flavia Mazzarella
Chairman

Leonardo Buonvino
Deputy Chairman

Marco Tofanelli
Deputy Chairman

Arturo Nattino
Managing Director

Ermanno Boffa
Director

Roberto Cusmai
Director

Giulia Nattino
Director

Maria Sole Nattino
Director

Lupo Rattazzi
Director

Andreina Scognamiglio
Director

BOARD OF STATUTORY AUDITORS

Alberto De Nigro
Chairman

Barbara Fasoli Braccini
Permanent Auditor

Francesco Minnetti
Permanent Auditor

Laura Bellicini
Alternate Auditor

Antonio Staffa
Alternate Auditor

MANAGEMENT

Arturo Nattino
General Manager

Giulio Bastia
Joint General Manager
Manager in charge of preparing the accounting documents

Alberto Alfiero
Deputy General Manager

AUDITING FIRM
EY S.p.A.

ORGANI SOCIALI

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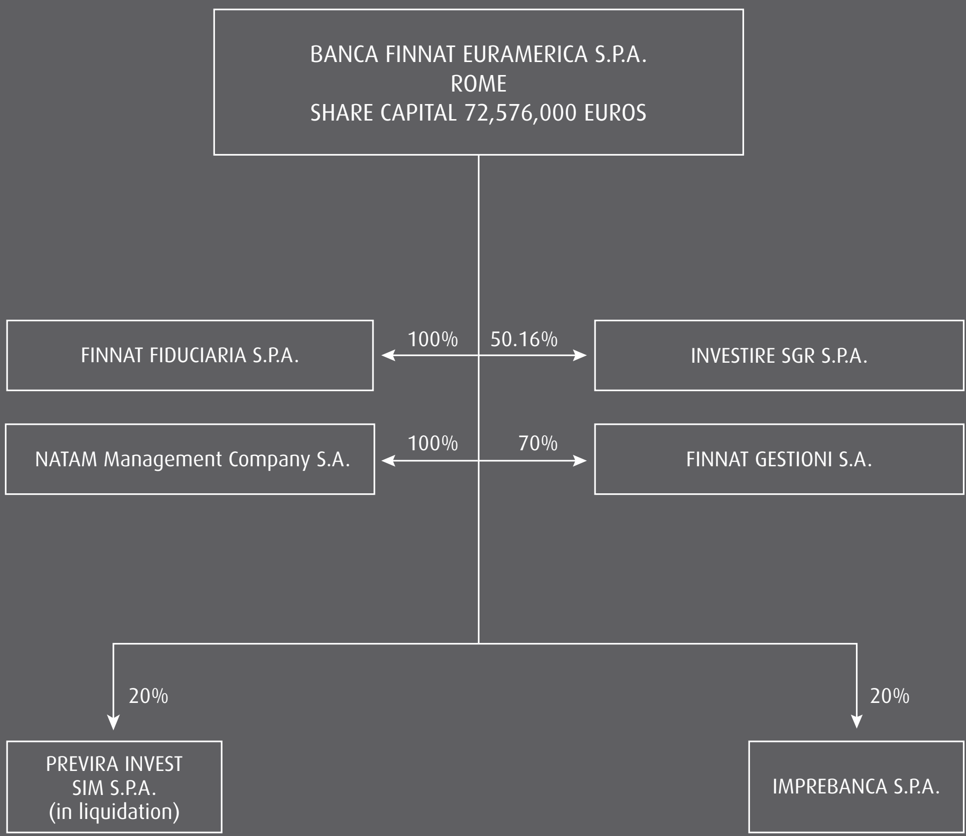
Deputy General Manager

AUDITING FIRM
EY S.p.A.

INTERIM REPORT ON GROUP OPERATIONS

GROUP STRUCTURE

The following diagram shows the Group's structure at 30 June 2018:



KEY FIGURES FOR THE GROUP

	30 June 2017	31 December 2017 (*)	30 June 2018
CONSOLIDATED SHAREHOLDERS' EQUITY OF THE GROUP (in thousands of euros)	220,608	222,108	203,563
HUMAN RESOURCES OF THE GROUP	338	341	349
CONSOLIDATED PROFIT (LOSS) (in thousands of euros)	11,905	36,308	2,387

(*) The consolidated shareholders' equity of the Group at 1 January 2018 after the adjustments made on the first-time adoption of IFRS 9 amounts to 219,770 thousand euros.

STOCK EXCHANGE CAPITALISATION OF BANCA FINNAT EURAMERICA

	Number of shares	Market price 20 July 2018	Capitalisation 20 July 2018 (in thousands of euros)	Consolitaded shareholders' equity (in thousands of euros)	Share capital (in thousands of euros)
ORDINARY SHARES	362,880,000	0.3720	134,991	203,563	72,576

Changes in the Group's deposits

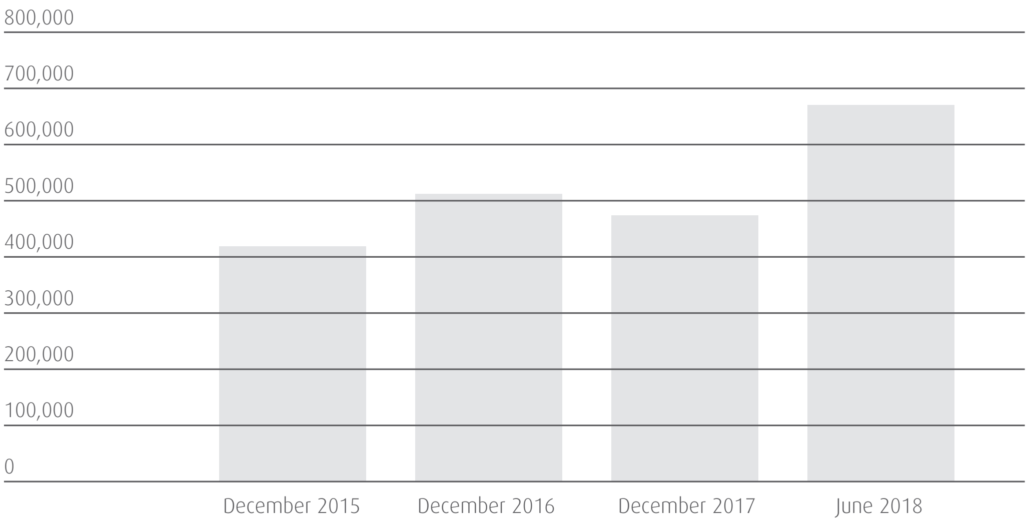
(in thousands of euros)

	December 2015	December 2016	December 2017	June 2018
Direct deposits from customers of the parent company	**417,760**	**510,686**	**472,787**	**669,344**
- Due to customers (current accounts)	331,111	418,331	358,892	504,449
- Time deposits	60,527	68,530	91,301	137,480
- Securities issued	26,122	23,825	22,594	27,415
Indirect deposits of the parent company	**4,609,152**	**4,505,144**	**5,540,931**	**6,085,342**
- Individual management	449,753	459,775	571,803	511,476
- Delegated management	283,646	251,061	285,681	296,146
- Deposits under administration (UCIs and securities)	3,603,627	3,471,594	3,924,304	4,386,698
- Deposits under administration under advice (UCIs and securities)	229,493	255,778	649,060	744,869
- Third-party insurance products	42,633	66,936	110,083	146,153
Trusteeship	**1,408,787**	**1,374,990**	**1,458,411**	**1,485,159**
Real Estate Fund Management	**6,769,365**	**7,001,357**	**7,525,912**	**7,177,331**
Luxembourg-based Sicav fund administration (*)	–	–	**694,087**	**700,827**
Total deposits	**13,205,064**	**13,392,177**	**15,692,128**	**16,118,003**
Luxembourg-based Sicav, the "Promoter" of which is Banca Finnat (currently, New Millennium Sicav and New Millennium Sif).	**725,786**	**677,938**	–	–

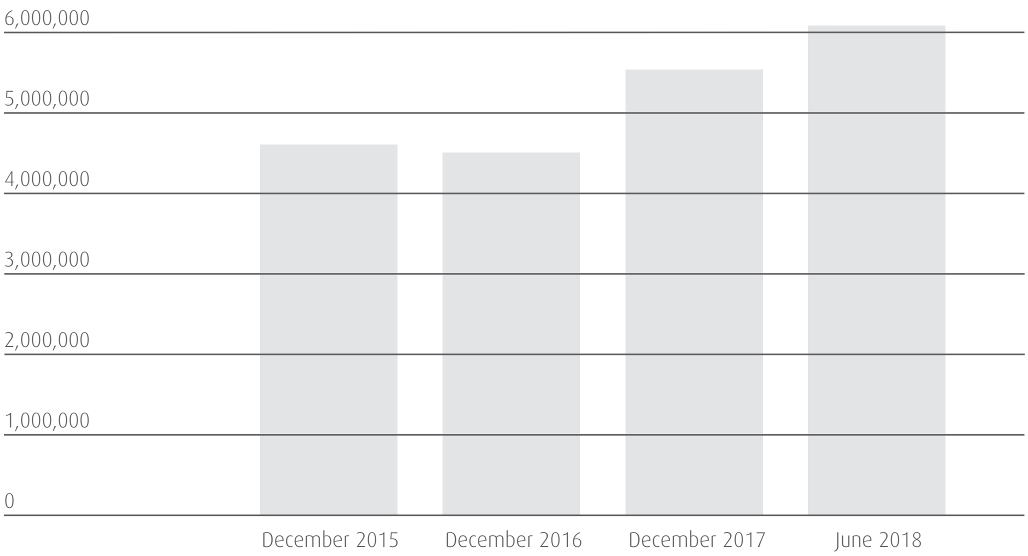
(*) The item concerns the assets under the management of the subsidiary NATAM, previously included under "Luxembourg-based Sicav fund" - posted net of those under delegated management indicated in the indirect deposits of the parent company.

The previous statement shows the changes in the Group's deposits broken down by type. In detail: a) direct and indirect funding from customers refers to the Bank's activity and does not include repos having the Cassa di Compensazione e Garanzia as the counterparty; b) trusteeship includes the funding of Finnat Gestioni S.A.; c) the assets of the subsidiary InvestiRE SGR S.p.A. are measured at the market value of the total managed assets before subtracting debt (GAV).
All assets shown in the statement also take into account the amount invested in them and originating from the other types highlighted with the exception of "Luxembourg-based Sicav fund administration" that does not include the delegated managements already included in the indirect deposits of the Parent Company.

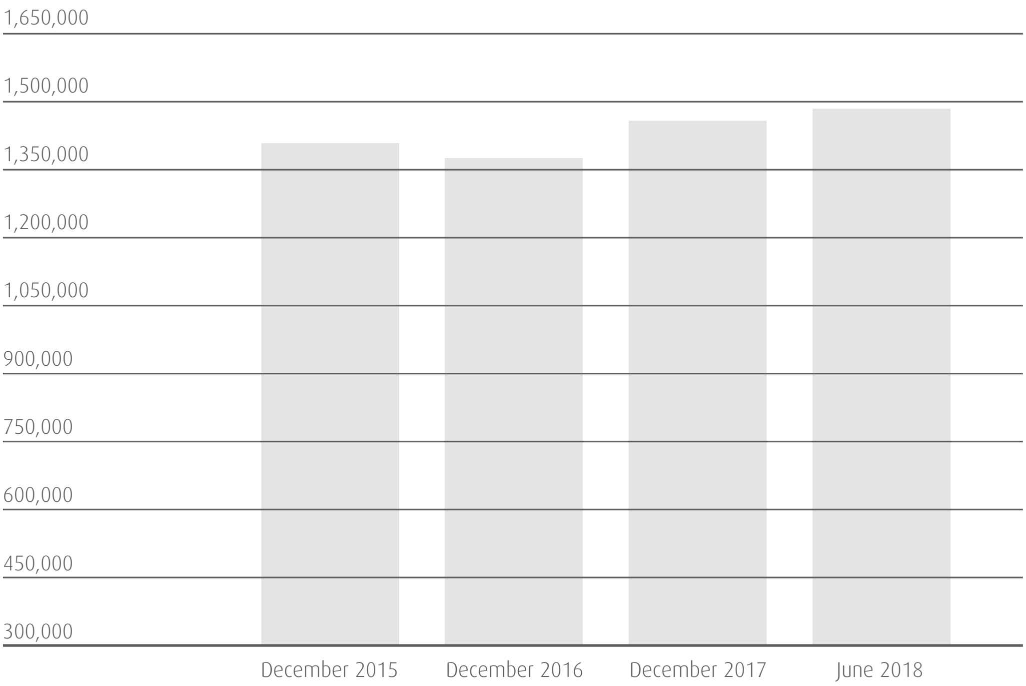
Direct deposits from customers



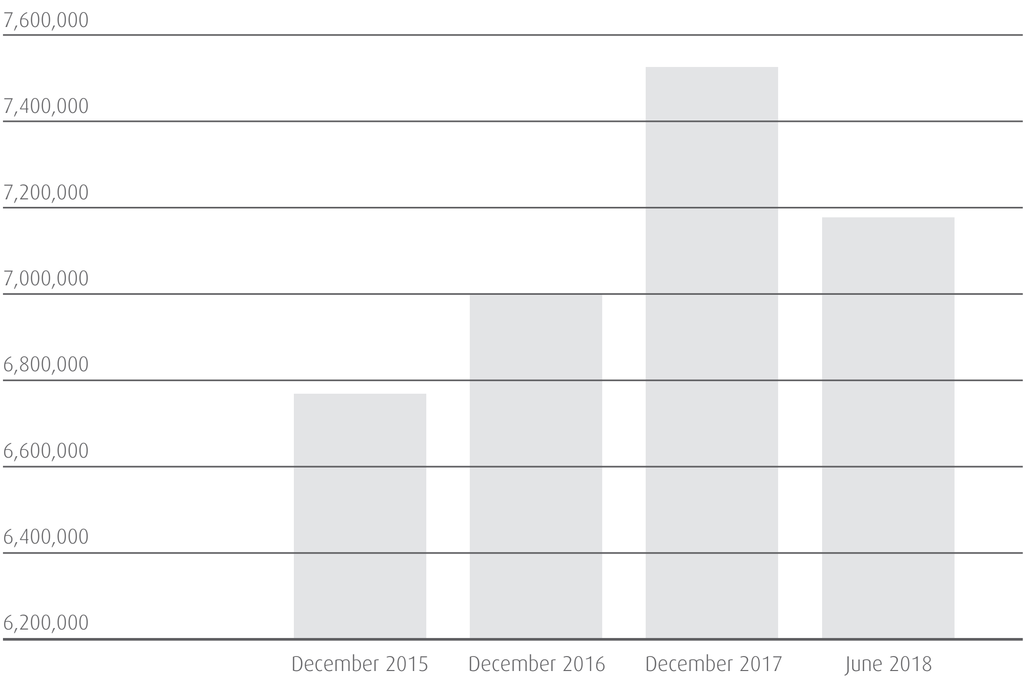
Indirect deposits



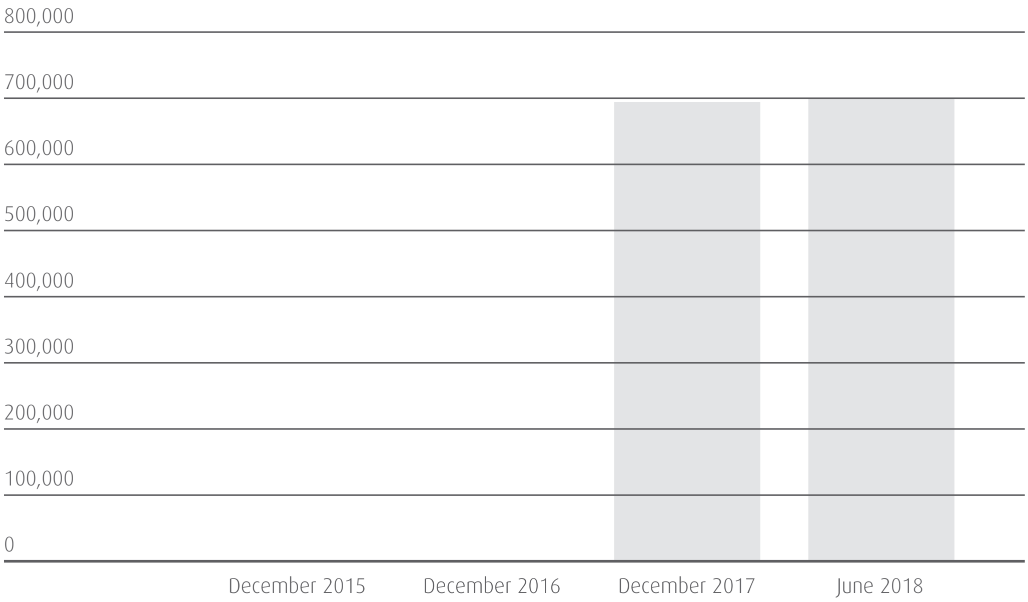
Trusteeship



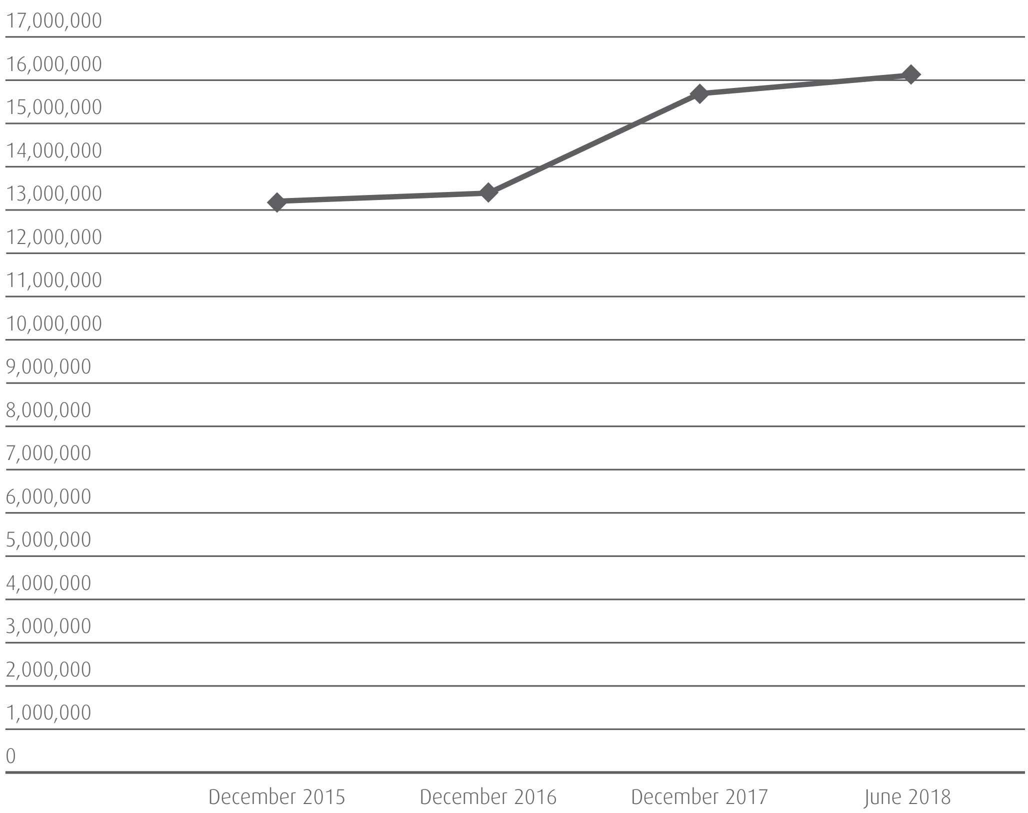
Real Estate Funds



Luxembourg-based Sicav fund administration



Total deposits of the Group



TREASURY SHARES AND SHARE PRICE PERFORMANCE

Treasury shares

At 30 June 2018, 28,810,640 treasury shares were held exclusively by the Parent Company. These shares totalling 14,059 thousand euros, equal to 7.9% of the share capital of the Bank, in application of IAS 32, were used to adjust the shareholders' equity. In the period in question, the Bank did not buy or sell any treasury shares.

Share price performance

SHARES	Market price in euros at 20 July 2018	Market price in euros at 30 June 2018	Market price in euros at 31 March 2018	Market price in euros at 31 December 2017	Market price in euros at 30 September 2017	Market price in euros at 30 June 2017
BFE	0.3720	0.3690	0.4480	0.3994	0.4207	0.3702

PRICE PERFORMANCE OF THE BANCA FINNAT STOCK AND COMPARISON WITH ITALIAN BANKING SECTOR INDEX (source Banca Intesa)

BUSINESS BACKGROUND

Prior to presenting the Consolidated report on operations relating to the first half of 2018, following is an overview of the domestic and international macroeconomic background.

Domestic and international macroeconomic background

After 2017, which was marked by sustained (more than 3% for the first time in ten years) and highly synchronised global growth, stimulated by a finally strong recovery in international trade (average growth rate +4.6% in 2017 compared to +1.5% in 2016), global expansion unexpectedly slowed down in the first half of 2018. Annualised growth in US GDP was moderate at 2% (Q1 2018), after increases of 2.9% in the fourth quarter of 2017 and 3.2% in the third quarter of 2017, and three factors of major disruption suddenly came to bear on the global growth outlook after assumptions had been made at the beginning of the year that the current expansionary cycle would be further strengthened. The first of these factors is undoubtedly represented by the new protectionist policies undertaken by the U.S. Administration, portending the possibility of damaging significantly the current rates of growth of the global economy if the progressive and reciprocal introduction of import duties were to result in obvious trade wars. In fact, in March 2018, President Trump signed a decree that imposed duties of 25 percent on steel imports and 10 percent on aluminium imports. Initially intended to affect Chinese exports of these goods to the USA, these customs duties were then unexpectedly extended also to the detriment of the European Union, Canada and Mexico. The countries concerned then reacted by promising to introduce and/or increase their own duties. The measures initially adopted could have affected only a small proportion of world trade, but the possibility that more far-reaching protectionist measures could be adopted poses a major risk to the development of world expansion. The second disruptive factor of the current economic rate is the possible maturity of the economic cycle itself, with the possibility that 2018 could represent the peak year and therefore the inflection of global growth, while the third factor consists of the incontrovertible signs of macroeconomic slowdown that, regardless of current trade disputes, are already unexpectedly affecting the Eurozone, with an expansion in France to values weaker than the last 16 months, an expansion in Germany to values weaker than the last 20 months and an Italian economy subject, in April 2018, to the strongest contraction in retail sales in the last 5 years.

During the first quarter of 2018, quarterly real GDP growth in the Eurozone thus fell to 0.4%, after three quarters of growth at 0.7%; In Germany, the economy recorded a quarterly growth of 0.3%, after three quarters at 0.6/0.7%; in France, the rate of economic expansion stopped at a quarterly 0.2% after three quarters at 0.7%. Therefore, the slowdown in growth was relatively generalised, due to increased uncertainty in the markets, reduced growth in export (after a strong expansion in the second half of 2017, exports in real terms in the Eurozone fell by 0.4% in the first quarter of 2018) and, to a lesser extent, also in investment, which remains, in real terms, still below pre-crisis levels. The composite purchasing managers' index (PMI) and the European Commission's economic climate index were both down throughout the first quarter of 2018, while the decline in indicators of world trade growth may have been affected by the contraction in foreign demand, the delayed effects of the appreciation of the euro during 2017 (+14% against the US dollar), but it is not excluded that the decline was largely caused by the deterioration in economic expectations resulting from the introduction and increase of customs duties.

In the United Kingdom, economic growth was also significantly moderate in the first quarter of 2018, while Japan recorded a quarterly decline in GDP (-0.2%) for the first time in two years. On the other hand, the Chinese economy (on the basis of data for the first quarter not yet affected by US duties) continued to grow at a steady pace, with GDP up 6.8% on the previous twelve months.
In the longer term, with the product now close to potential in many advanced economies, global activity is expected to slow further. However, as unused capacity is reduced, inflationary pressures should increase across the board (under the auspices of the central banks). World inflation in April 2018 rose to 3.6% (year-on-year), while in OECD countries overall inflation rose to 2.3% and 1.9%, net of the most volatile components such as food and energy.
In the USA, the annual rate of increase in production prices reached 3.4% in June 2018, from 2.6% in December 2017, while consumer prices rose, over the same period, from 2.1% to 2.9%.
In the wake of this latent recovery in inflationary pressures and thanks to a continuously decreasing unemployment rate (which reached 3.8% of the work force in May 2018, with an employment rate increased to 60.4%), the US Federal Reserve raised the reference rates twice during the first half of 2018 (at meetings in March and June), bringing them into the range of 1.75/2% (seventh credit crunch since, in December 2015, the American Central Bank began the process of "normalising" its monetary policy). Also in the Eurozone, overall inflation grew significantly, reaching an annual trend of 2% in June 2018 from 1.4% in December 2017. In the same period of time, the growth in consumer prices in Germany rose from 1.7% to 2.1%, while in Italy it went from a year-on-year rate of 0.9% to a 1.3% growth.
Notwithstanding these trends, the European Central Bank, despite the credit "normalisation" policies already adopted by the FED and in the face of the tensions that emerged at the end of the half-year on the Italian government bond market following the result of the elections judged by the markets not to be properly optimal, decided to leave the policy rates unchanged, after the last reduction ordered in March 2016, with a reference rate (refinancing rate) of zero, the rate on deposits of -0.4% and the marginal lending facility of 0.25%. Until now, the Eurosystem continued to purchase public sector securities, guaranteed bonds, securitised assets and corporate sector securities, as part of its asset purchase programme (APP), for a planned average amount of 30 billion euros per month. However, in the meeting of 14 June 2018, the European Central Bank decided to reduce these purchases from 30 billion euros per month to 15 billion euros per month from October 2018 until the end of December 2018, with the aim of bringing them to zero as from January 2019. However, the ECB assured the markets that, in any event, it will not fail to meet its commitment to reinvest the redeemed capital on the maturing securities under the Securities Purchase Programme for a prolonged period of time even after the conclusion of the net purchases of assets and for as long as it is necessary in order to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The financial markets

After a promising start to the year, on the wake of the increase of the MSCI World global index to close to 20% (the highest increase since 2009 and the fourth best performance since 1993) over the whole of 2017, share prices started to suffer from the negative effects of financial conditions that became progressively tenser at international level. From the end of December 2017 to the beginning of February 2018, the 10-year yield of the US Treasury rose from 2.42% to 2.97% (with implicit yields on the future at around 3.6%), while the 10-year Bund reached the threshold of 0.79% from 0.43%. Global interest rate tensions and higher inflationary expectations in the US, resulting from unexpected hourly wage increases, soon led to generalised corrections that, during the first quarter, affected all the main share prices, losing on average about 10% of their capitalisation. The upward pressure exerted by bond yields was followed in early March by the Trump Administration's decision to impose customs duties of 25% on steel imports and 10% on aluminium imports, thus raising further concerns about the sustainability of global growth in a context of increasing protectionism.

The volatility of the equity markets was particularly high in the January/March quarter and, for the Eurozone, again in May/June, in the context of the strong fluctuations that affected the sovereign bond market in this area.

At the end of the first half-year, the markets of the Eurozone, Asia and the emerging markets offered investors negative returns. On the Eurozone markets, the DJ Eurostoxx 50 index showed a negative performance of 3.1%, penalised by the losses of the German Stock Exchange list and especially of the Italian one that, in the two months of May/June, due to post-election political tensions, managed to totally cancel out the positive performance (over 12%) that from the beginning of the year until May had allowed it to stand out from all the main European Stock Exchange lists. The representative index of the German market, DAX30, recorded a loss of 4.7% in the half-year; the representative index of the Spanish market, IBEX 35, lost 4.2% while the representative index of the French market CAC 40 (+0.21%) managed to remain unchanged. Outside the Eurozone, the capitalisation of the British market index FTSE 100 fell by less than 1% (-0.66%), while the Swiss MKT index of the Zurich stock market fell by 8.2%. On the Asia/Pacific markets, trade disputes with the USA mainly penalised Chinese Stock Exchange lists, with the Shanghai stock market index falling by 14% in the half-year and the Hong Kong Hang Seng index falling by 3.2%. In the region, the Nikkei 225 Index of the Tokyo stock market lost 2%, followed by the Seoul stock market that suffered a devaluation of almost 8%. The worsening of financial conditions in most emerging economies in the half-year, due to the combined effect of the rise in interest rates and the appreciation of the U.S. dollar, penalised a large part of the share prices of these countries, with Turkey down 16.3%; Argentina down 13.4%; Brazil by 4.8%; Mexico by 3.4% and South Africa by 3.2%. Only the stock markets of Russia (+8.8%) and India (+3.4%) were positive.

On the other hand, the differential in economic strength and the expected increases in company profits of more than 20%, especially in the technology segment, enabled the US share prices to close the half-year positively, with the Nasdaq technology index up by 8.8% and the S&P 500 up by 1.67% compared to the end of December 2017.

With regard to the Italian stock market, the FTSE Mib index, after reaching, at the end of the first week of May, a rise of more than 12% since the beginning of the year, against an almost unchanged trend in the European index, began to suffer from the post-election political uncertainties that led the index to burn, in a few sessions, all the accumulated advantage, presenting, at the end of June, a negative return of 1% since the beginning of the year. The total capitalisation of listed companies was equal to 627 billion euros, up by 38 billion euros compared to the previous year, and was equal to 9% of the total capitalisation of the Eurozone, very far from the capitalisation of the French market (31.7% of the Eurozone market) and of the German market (26.9% of the Eurozone market).

On the Commodities markets, only energy products (crude oil +20%, Nymex diesel +18%, ICE diesel +11%), wheat (+17.1%) and cotton (+8.6%) offered satisfactory returns to investors in the half-year. All metals

recorded falling prices (Gold -4.1%; Silver -5.6%; Platinum -9%; Palladium -10.4%; Aluminium -6% and Copper -8.6%) while among agricultural and colonial products, with the sole exception of wheat and cotton, Soya lost 10%; Coffee almost 12% and Sugar 19.2%.
With regard to fixed income markets, long-term bond yields increased in the main advanced economies, with yields on ten-year US government bonds increasing by around 50 basis points from the beginning of the year, such as to keep the spread with the corresponding Eurozone yields at historically high levels. Following the result of the Italian elections, the volatility of the Italian government bond market in May/June was significant. The yield on the two-year bond rose from -0.16% to 1.73% in the aforementioned period, with a spread with respect to the corresponding German bonds, rising from 40 b.p. to 355 b.p.; the yield on the five-year bond reached 2.3%, 4 times the yield in April; the yield of the ten-year bond reached 3.15% from 1.86%, with a spread, on the corresponding ten-year German bond, increasing from 120 b.p. to 270 b.p. and then settling in a calmer market at a yield of 2.6% with a spread at 236 b.p.
With regard to the currency market, the Euro weakened on a trade-weighted basis and its nominal effective exchange rate against the currencies of 38 of the main trading partners of the Eurozone lost about 1.3% in the half-year. As from the average values of December 2017, the Euro depreciated against the US dollar by approximately 1.3%, against the Japanese yen by 3.9%, against the Swiss franc by 1.1% and against the Chinese yuan by 3.2%. The depreciation of the major trading partners of the Eurozone against the currencies was only partially offset by the marked strengthening against the currencies of some emerging markets, including the Russian rouble (+6%), the South African rand (+8%) and the Brazilian real (+13%).
On the currency markets, the real victims of uncertainty on the development of the trade tensions in progress and the appreciation of the US dollar were the currencies of the emerging countries, which from mid-April to the end of June recorded falls of 27% for the Argentine peso, 12% for the Turkish lira, South African rand and Brazilian real and 10% for the Polish zloty against the US dollar.

The property market in the first half of 2018

The year 2017 ended with a favourable result for the Italian property market with a turnover that exceeded 118 billion euros. The same positive trend should continue in 2018, the first half of which confirms the virtuous path that is accompanying the recovery of the Italian real estate.
Compared to previous years, domestic and foreign investors were livelier, thanks to the constant decline of interest rates, but also to the development of new opportunities in the area: the volume invested reached about 3.3 billion euros. While in the first six months of 2018 new elements of uncertainty, also related to the Italian political and economic situation, contributed to slowing down the strong growth in the volume of real estate investments that had been going on for five years now, demand remained high, although more cautious than in the past. Some investors cooled towards Italy, assessing opportunities with greater caution than in the recent past, but interest remained strong, also with a view to European diversification. The slowdown was mainly due to the executive office sector, which has historically been a priority asset class for domestic and international capital, mainly due to limited product availability. International capital continued to represent the main component of investments (around 65%), but the activity of domestic investors (35%) increased compared to 2017. The main players in this market came from France, the UK, the USA and Germany.
Milan, attracting 30% of the total volume in the half-year, continued to be the main pole of attraction for investments and real estate projects, but Rome proved to be a very interesting market with a total of 17%

of investments. The role of the Italian capital will progressively grow, even if only in specific areas such as the centre and the EUR district.

The squeeze in prime returns continued, now at an all-time low of around 3.50% net for offices in Milan and 4.00% net in Rome, a sign of a market in which interest continued to be strong. Finally, the attention paid to real estate development was confirmed, whether it be large urban regeneration projects or individual properties to be enhanced.

With regard to the type of real estate, the product mix confirmed the top positions of retail with 38% and offices with 31%; interest in logistics/light industrial was growing at 11% and in the hotel sector at 10%; Finally, the 'other' sector has come to represent 10% of the volume of transactions. Of these categories, the health care sector was the most important asset class, followed by telephone exchanges. The first category attracted the interest of investors as the aging process of the Italian population and the general increase in the weight of the disease determined a potential growing demand for this product. On the other hand, telephone exchanges were products that were well positioned in urban centres and that could be converted into offices or houses in the future.

* * * * *

EXPLANATORY NOTES TO THE CONSOLIDATED HALF-YEARLY FINANCIAL REPORT

The Consolidated half-yearly financial report was prepared pursuant to Article 154-ter, paragraph 2 of Legislative Decree 195 of 6 November 2007, in accordance with the EU Directive 2004/109/EC (known as Transparency Directive), according to which the listed issuers are required to publish a half-yearly financial report within sixty days from the end of the first half of the financial year.

On 18 March 2016, Italian Legislative Decree no. 25 of 15 February 2016 came into force, for the implementation of directive 2013/50/EU containing amendments to the Transparency Directive. The decree also extended the deadline for the publication of the half-yearly report to three months, from the previous sixty days, specifying that the publication must take place in any event "as soon as is possible". In order to increase the distinctive level of the STAR segment, Borsa Italiana, with the amendment of Article 2.2.3 paragraph 3 of the Regulation for companies listed on the STAR segment, established that, as from 1 January 2018, this half-yearly report must be made available to the public within 75 days of the end of the first half of the financial year.

The Half-yearly financial report to be published together with the audit report, if prepared, includes:

- the Condensed half-yearly financial statements, prepared in accordance with the international accounting standards and in consolidated form, if the listed issuer is required to prepare consolidated financial statements;
- the Interim report on operations, including reference to any relevant events that took place in the first six months of the financial year and their impact on the Condensed consolidated half-yearly financial statements, including a description of the primary risks and uncertainties for the remaining six months of the year, as well as information on any material transactions with related parties;
- a declaration by the manager in charge of preparing the accounting documents.

In compliance with Article 154-ter, paragraph 2, of the Consolidated Financial Law, the present consolidated half-yearly financial report includes:

- an Interim report on operations;
- the Condensed consolidated half-yearly financial statements (in condensed format), pursuant to IAS 34 "Interim Financial Reporting". Therefore, these financial statements do not contain all the information required to be set out in the annual financial statements and should, therefore, be analysed in conjunction with the financial statements for the year ended on 31 December 2017, prepared consistently with the IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Economic Community (see Regulation no. 1606/2002).

  The Condensed consolidated half-yearly financial statements consist of:
  - the set of statements adopted for the Consolidated yearly financial statements: the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows;
  - condensed explanatory notes that also include sections A.3 and A.4 referring respectively to the information on transfers among portfolios of financial assets and on the fair value.

- a declaration by the manager in charge of preparing the accounting documents.

The above tables and the notes to the financial statements comply with the provisions of Bank of Italy's Circular Letter no. 262 "Banking Financial Statements: formats and guidelines" - 5th update of 22 December 2017.
This latest update absorbs the introduction of the international accounting standard IFRS 9 that replaced, with effect from 1 January 2018, IAS 39 for the accounting of financial instruments and also takes into account the new accounting standard IFRS 15 "Revenue from contracts with customers".
The main changes and impacts of the two new standards - already illustrated in the Report on Operations of the 2017 Financial Statements - are analysed in two specific paragraphs, contained in the Notes to the Financial Statements, Part A - Accounting Policies, Section 2 - General financial reporting principles - "The Transaction to the International Accounting Standard IFRS 9" and "Adoption of IFRS 15" in the General financial reporting principles.

With reference to the methods for presenting the effects of first-time adoption of the standard, the Group exercised the option envisaged in paragraph 7.2.15, according to which - without prejudice to the retrospective application of the new rules of measurement and representation required by the standard - the mandatory restatement on a like-for-like basis of the comparison figures in the financial statements of first-time adoption of the new standard is not envisaged.

In order to represent the effects of the first-time adoption of IFRS 9, the following tables are provided in the Notes to the Financial Statements, part A - Accounting Policies, Section 2 - General financial reporting principles - "The Transaction to the International Accounting Standard IFRS 9":

- Reconciliation between the published consolidated financial statements and the consolidated financial statements according to the new Circular 262;
- Reconciliation of the consolidated balance sheet figures at 31 December 2017 according to the new Circular 262 and the opening balances at 1 January 2018.

The Condensed consolidated half-yearly financial statements are subject to a limited audit by the company EY S.p.A.

SUMMARY OF CONSOLIDATED RESULTS

In the first six months of 2018, consolidated net profit amounted to 2,387 thousand euros, down by 9,518 thousand euros compared to the same period of 2017, which amounted to 11,905 thousand euros and was impacted (11,649 thousand euros before tax) by the significant capital gain achieved by the Bank following the sale of London Stock Exchange Group plc shares.

The main components that formed the result for the first half of 2018, compared with the corresponding 2017 figures restated according to the new Circular 262, are shown below:

- **Net banking income** at 30 June 2018 amounted to 32,744 thousand euros, compared to 40,107 thousand euros in the corresponding period of the previous year, down by 7,363 thousand euros. Net of the capital gain realised by the Bank in the previous year on the sale of London Stock Exchange Group plc, amounting to 11,649 thousand euros, the net banking income increased by 4,286 thousand euros.

The decrease in the net banking income is broken down as follows:

increases
- 829 thousand euros for Interest margin (5,098 thousand euros at 30 June 2018, compared to 4,269 thousand euros in the same period of 2017);
- 3,910 thousand euros for Net fees and commissions (24,863 thousand euros at 30 June 2018, compared to 20,953 thousand euros in the same period of 2017);

decreases
- 361 thousand euros for Dividends and similar income (1,993 thousand euros at 30 June 2018, compared to 2,354 thousand euros in the same period of 2017);
- 351 thousand euros as Profit (losses) on trading. At 30 June 2018, the item had a positive balance of 667 thousand euros, versus 1,018 thousand in the same period of 2017;
- 10,856 thousand euros for Profit on disposal of financial assets designated at amortised cost and financial assets designated at fair value through other comprehensive income (816 thousand euros at 30 June 2018, compared to 11,672 thousand euros in the same period of 2017 restated);
- 534 thousand euros for Profits (losses) on other financial assets mandatorily at fair value (a negative balance of 693 thousand euros at 30 June 2018 compared to a negative balance of 159 thousand euros of the same period of 2017 restated). The restated figure at 30 June 2017 refers to adjustments on UCI securities previously included in the item Net Losses on impairment of Financial assets available for sale.

- **Net losses on credit risk** amounted to 1,441 thousand euros at 30 June 2018, compared to 2,141 thousand euros in the same period of 2017. The losses concern the impairment of Financial assets designated at amortised cost of 1,194 thousand euros and of Assets designated at fair value through other comprehensive income of 247 thousand euros. At 30 June 2017, the restated figures included impairment losses on "Loans to customers" of 1,476 thousand euros and on debt securities classified as "Assets designated at fair value through other comprehensive income" (formerly Financial assets available for sale) of 665 thousand euros.

- **Administrative expenses** amounted to 28,415 thousand euros in the first six months of 2018, compared to 25,710 thousand euros in the same period of 2017, up by 2,705 thousand euros overall, and can be broken down as follows:
  - personnel expenses of 17,701 thousand euros grew by 1,423 thousand euros compared to the same period last year (16,278 thousand euros);
  - other administrative expenses of 10,714 thousand euros increased by 1,282 thousand euros compared to the same period of the previous year (9,432 thousand euros).

- **Other operating income/expenses** at 30 June 2018 showed a positive balance of 3,223 thousand euros versus 2,984 thousand euros in the same period of 2017. The item comprises the recoveries of costs from customers of 2,838 thousand euros (2,012 thousand euros in the same period of 2017).

- **Income taxes** amounted to 1,863 thousand euros at 30 June 2018 compared to 1,654 thousand euros at 30 June 2017.

* * *

The overall profit for the first half of 2018, which also includes the change to the "Valuation reserve", is shown in the Statement of comprehensive income.

GROUP BUSINESS SEGMENTS

Following is an overview of the Bank and Group activities carried out in the first half of 2018:

Private Banking - Sales Department

The first half of 2018 was characterised by the start of Mifid2. This meant that all customers had to adapt their contracts - which were concluded last May - to the two service models envisaged by the regulations. On the one hand, advanced consultancy services and, on the other, the offer of mere trading and administration services.

Banca Finnat, in preparation for Mifid2, introduced the advanced consultancy service model a few years ago and our private bankers easily accompanied customers towards this development, which, against a transparent remuneration of the consultancy service, offers customers a structured and advanced asset management service that accompanies and integrates the traditional asset management service and wealth management activities.

The quality and appreciation of our customers for advanced consultancy service is demonstrated by the small number of customers who preferred the mere service of trading and administration and to whom the service of our order collection desk and the online service platform is addressed.

The first half of 2018, although encumbered by the administrative burden of contractual adjustment, showed that Mifid2 with all its administrative burdens but with the focus on cost transparency was a challenging success factor for the Bank. The significant growth in absolute and quality deposits clearly explains the competitive advantage of our model over the HNWI and UHNWI customers, who are increasingly looking for a highly personalised response, reduced pricing and free of conflicts of interest. The professionalism of our team of private bankers and a careful management of costs proved to be successful on increasingly sophisticated customers attentive to the cost/quality ratio of the service that Mifid2 makes transparent.

Net deposits amounted to over 400 million euros in the half-year. In addition to the advanced consultancy service, asset management and class I policies benefited from this.

With regard to marketing, it is worth noting the great success of the celebration of the 120th anniversary of Finnat's foundation, which involved 2,200 participants in two evenings. The heart of the event that took place at the Auditorium Conciliazione was the highly innovative show "Il giudizio universale" by Marco Balich.

We continued our presence in golf with a sharing formula between colleagues and customers in teams in tournaments in several stages at the national level. We continued our presence in the organisation of conferences on economic and social issues and involvement in the artistic field.

With regard to corporate activities, in addition to intensifying extraordinary transactions on the share capital, private banking supported institutional investors in four placement operations on Aim. In this way, we satisfied the requirements of the most sophisticated customers in the search for direct investments in the share capital of innovative companies with high growth rates, since we were able to know directly the entrepreneurs and understand in depth the activity and prospects of their investments.

With regard to credit policy, it was carried out in the wake of a policy of prudence and using as a competitive factor not the price but the ability to conclude sometimes complex transactions set up with competence and rapidity of decision and performance. The clear strategic focus on private banking and on a stable and long-term relationship allowed us to consider operations without falling into the trap

of excess liquidity present on the system that could push the bank towards credit transactions that are opportunistic but not always far-sighted in the correct relationship with the customer. The exceptional solidity of our bank also led us to be cautious in accepting large depositors of liquidity in search of safe havens. In these cases, we accepted customers only if they were willing to bear the cost of negative rates.
Finally, the wealth management services offered constantly involved the group's trustees in terms of customer governance, family planning and escrow accounts.

Investment Banking

In the first half of 2018, the investment banking sector was very dynamic in the bank's investment banking structures.

In particular, **intermediation**, which is part of the Bank's tradition, showed substantially stable data compared to the first half of last year and, looking at some specific aspects, also showed moderate growth. In terms of number of trades, there was an increase of about 9%, while in terms of values, the data - net of Repos - were substantially in line.
Stability compared to the first half of 2017 also in terms of trading commissions. In particular, looking at the main macro asset classes, there was a drop of around 20% in commissions on equity transactions, but this was offset by a 15% growth for those in bonds and 8% for those related to derivatives.
The intermediation of CO_2 certificates was also consolidating and doing better than expected; however, a further development is foreseeable as soon as the process of joining the ICE market is completed (started several months ago, but for which the requirements - mostly bureaucratic - are proving to be more complex and articulated than expected).

Corporate Broking activities i.e. services that the bank provides for small and medium-sized issuers, on which it continued to maintain a strong focus and recorded increasing revenues, almost always not in the form of trading fees but of rents and/or success fees, deserve a separate consideration.
Specialist positions further increased (at 30 June there were 37 mandates, 32 of which were held by AIM alone, which further strengthened the Bank's absolute leadership in this activity).
The number of companies "covered" with analyses has also grown considerably - and continues to do so - and therefore they benefited from professional and systematic support activities aimed at enhancing their value to institutional investors.
Other mandates for further services carried out for listed issuers also increased (from buy-back management to specialist back office positions, to important mandates of NOMAD). In this context, a specific mention should be made of the IPOs on the AIM market carried out by the Bank, which, in these operations, played substantially all the roles envisaged for intermediaries: Nomad, *Global Coordinator, research provider, specialist*. These operations not only generated significant income, but also gave great visibility and increased the credibility of the Bank; which also lead to further developments in activities related, in particular, to the AIM market, of which Banca Finnat was rightly recognised as a leading player.

With regard to **own-account activities**, the market shocks in May, which heavily involved domestic government bonds, also had inevitable impacts on owned portfolios, which were however limited thanks to the particularly prudent profile in terms of risks assumed in terms of both duration and quality of issuers. However, those negative effects were partially offset by some significant capital gains on certain equity positions held by the bank as part of its trading activities.

Deposits under **Consultancy services** increased whereas those in **Asset Management** recorded a partially negative figure that, however, is the result of some closures of institutional mandates (characterised by modest profitability) almost entirely offset by a strong growth in management mandates from "private" customers (decidedly more profitable).
The AUMs of the Sicav New Millennium also increased, thanks to over 34 million of net deposits.

As is natural, the performance of the management lines was affected by negative market trends, even though, thanks to the traditional prudent approach, the performance - although negative - showed modest losses.
The range of products will soon be enriched by a new management line - the establishment of which was finalised in the first half-year - which will have a significant allocation to Absolute Return strategies (own and third party) also in order to offer customers investment opportunities with less correlation with the markets.
In the Sicav sub-funds managed by the Bank, the Balanced World Conservative and Euro Equities sub-funds reported a positive result, with a strong advantage over the Benchmark.
The Balanced RIP, launched in April 2017, which is proving to be one of the best compared to that category of funds both in the rankings since the beginning of the year and in the last 12 months, is also worth mentioning. Finally, a word about the IFS sector dedicated to AIM Italia, the only fund of its kind, which had a performance of about 2.5% from the beginning of the year.

Advisory & Corporate Finance

The Bank provides corporate finance consultancy services and assistance to private and public companies, with a special focus on medium-sized companies, through its Advisory & Corporate Finance department. In 2017, the team dedicated to this activity continued to develop its operational effectiveness with particular attention paid to the forms of alternative finance such as the capital market or structured debt instruments.

The following transactions were successfully concluded in the first half of 2018: i) an appointment for financial assistance to Giglio Group S.p.A., active in the media & entertainment, broadcasting and e-commerce sectors in the process of translisting from the AIM Italia market to the MTA regulated market, STAR segment in which Banca Finnat acted as Sponsor of the issuer; ii) the listing on AIM Italia market of Fervi S.p.A. and Grifal S.p.A., in which Banca Finnat acted as Nomad and Global Coordinator for support in the activities aimed at the organisation, management and carrying-out of private placement of shares to support the price; iii) the listing of Archimede S.p.A., for which Banca Finnat acted as Nomad and Co-Lead Manager. Moreover, the appointment for financial assistance to a company operating in the sector of marketing and selling men's clothing and accessories, directed at a preliminary study and at structuring the group's economic and financial plan was completed.

Among currently ongoing mandates, the following are pointed out: financial assistance to the promoter company involved in the construction of a service infrastructure and of tourist attractions (including an aquarium), within the scope of a project development in the city of Rome; financial assistance to an Italian company active in the health care sector, directed at the search for a partner to obtain the financial resources necessary to support a new development project in the telemedicine sector; financial assistance to a company active in the field of marketing hardware products, directed at obtaining new medium/long term credit facilities; two appointments for assistance in the process of listing on the AIM Italia market to i) a company active in the production and sale of electric two-wheeled vehicles, kits and spare parts on an international scale and ii) a company active in the market for integrated assistance services for air transport passengers through digital platforms and mobile devices; assistance to a listed company for the structuring and completion of a transaction falling, pursuant to Article 2.10.1 of the Regulation of Markets organised and managed by the Stock Exchange, in the case of Reverse Merger transactions and Sponsors, within the scope of the same transaction, for the issue of declarations in accordance with the provisions of Article 2.3.4, paragraph 2, letters c) and d) of the regulation itself; financial assistance for the development of an industrial plan for a company operating in the shipbuilding industry and steel components sectors; assistance for the development of a strategic and financial plan aimed at the consolidation and growth of an international group active in the field of major events, meetings and congresses.

Lastly, in the first half of 2018, the on-going Nomad activities for some companies listed on the AIM continued and, following the admission to AIM Italia of the companies accompanied in the listing process, 2 additional appointments were acquired bringing the number of companies assisted on the AIM Market to 14.

Asset Management - Property Fund Management

InvestiRE SGR S.p.A., the second largest market operator of Italian real estate asset management schemes, manages 44 funds (42 of which are already fully operational), with a total market value at 30 June 2018 of approximately 6.3 billion euros, with real estate assets distributed throughout Italy, mainly to be used for services (offices/logistics/shopping centres) and residential purposes (free market/in social housing). During the first half-year of 2018, the SGR completed acquisitions/contributions amounting to approximately 94 million euros and sales of approximately 262.5 million euros, as well as approximately 48.3 million euros of development/improvement activities (capex).

With regard to the most important activities carried out, during the first half-year the FIP fund disposed of 6 buildings for a value of approximately 9.1 million euros; the Secondo RE fund acquired an office building in Rome for a value of approximately 22 million euros and is currently converting a building in Rome from an office to a hotel with enhancement works worth approximately 9 million euros. The Pegasus fund acquired a set of 7 properties to be used for services or for industrial use for a value of approximately 21 million euros and sold two properties in Milan, used by a car dealership and an office complex, for a total of approximately 92 million euros. The Spazio Sanità fund increased the managed assets completing the purchase of three RSA for approximately 17 million euros; the Obelisco fund sold a property to be used for services in Bari, for a value of approximately 3.6 million euros. The Immobilium 2001 fund sold a property in the province of Bari, for a value of approximately 5.7 million euros.

Funds comprising mainly residential properties FPEP, HELIOS and INPGI continued with fractioned disposal: in particular, the INPGI fund completed notarial deeds for more than 50 million euros, and accepted proposals for a further 40 million euros; the Helios fund also completed the purchase of a services complex in Rome for a value of 15 million euros, completing more than 20 million euros in deeds for the division of the residential part of the portfolio.
The Distressed & Non-Performing Assets (Securis I, II, III, BCC System) area continued its portfolio/properties acquisition and sale activities: in particular, disposals were completed for a total value of approximately 13 million euros; for funds of this type, letting activities continued as well, with the use of both traditional and rent to buy contractual forms. The BCC Roma fund was also launched with a similar real-estate strategy.
Among the funds launched in 2017, the Neptune 1 and Neptune 2, Omega 3 and Omega 4 funds continued their disposal activities in accordance with the relevant divestment plans, completing a total of approximately 26 million euros in deeds for a total of 16 properties sold.
The Social Housing funds completed acquisitions of properties and development initiatives for approximately 3.7 million euros; the development/improvement activity generated more than 40.5 million euros of capex value; the apartment marketing activities completed disposals for a total price of over 16 million euros.

Trusteeship

The first half of 2018 also suffered from the permanent stagnation of the regulations governing the trusteeship sector. Despite this, Finnat Fiduciaria found some spaces in the performance of the activity to meet the demands of the customers of the banking group and of the Trusteeship within the scope of asset planning.
The Company continued to assist its customers in addressing planning, protection and probate questions, related to business activities and to financial and property assets.
At 30 June 2018, managed assets amounted to approximately 1,398 million euros, compared to 1,371 million euros at 31 December 2017 (+2%).
Through the initiatives undertaken in previous periods, the Company continued to recover loans, with results so far achieved that account for 76% of commissions collected in 2018 (1,221,752 euros against 1,616,834 euros), while the remaining 24% (395,082 euros) are still to be collected. On 20 July 2018, commissions relating to previous years were collected for 122,183 euros.
The Company has no short and/or medium/long-term financial exposure.

The purpose of Finnat Gestioni, which operates in the sector of asset management of private and institutional customers and trusteeship services, is to manage and provide financial advice to the assets deposited on the depository bank identified by the customer.
In the first half of 2018, managed assets and profitability of Finnat Gestioni showed interesting signs of consolidation in line with the previous year. The activity of managing cross-border trust accounts was the main commercial lever in this first half-year as well. This growing trend is expected to be maintained and increased at the end of 2018 as well.

Research & Development

In the period in question, the Bank engaged in the following projects.

Organisation Area

- Adoption of a new advanced application in the asset management field, with benefits on the operating processes for the management of activities and control.
- Creation of a new electronic file of the documents concerning the Bank's customers and a more efficient filing and consultation processes.
- Completed various projects and procedural revisions related to the coming into force of the MIFID2, GDPR and IFRS 9 regulations.

IT and Technologies Area

- Technological and network infrastructure enhancement initiatives were completed concerning Bank servers and data lines.
- A system of Mobile Device Management, for the management of Bank policies on "mobile" systems was activated.
- New Firewalls of the latest generation were adopted.

Corporate governance, organisation, internal control, compliance and Manager in charge of preparing the accounting documents

The corporate governance structure of Banca Finnat Euramerica, originally approved by the Board of Directors at the meeting held on 26 June 2009, in accordance with the provisions of the Bank of Italy issued on 4 March 2008 concerning the corporate governance of Banks, and the subsequent Note dated 19 February 2009, is based on a traditional administration and control system, by virtue of which:

- the Board of Directors alone is responsible for the management of the company;
- the Board of Statutory Auditors is responsible for the supervision of the company and, in this position, it monitors compliance with the articles of association and controls the management;
- the Shareholders' Meeting expresses the will of the shareholders.

The governance principles of Banca Finnat Euramerica, besides being grounded in the applicable laws and regulations in force in Italy, are also inspired by international best practices on the matter and by the recommendations of the Corporate Governance Code for Listed Companies.
The Board of Directors preventively identified the composition of the Governing Body that is deemed optimal in qualitative and quantitative terms, in view of the proper and most effective performance of the duties of the Board, in accordance with the prescriptions of the Bank of Italy's Instruction of 11 January 2012 on organisation and corporate governance.

The Board of Directors carries out its own self-assessment with yearly periodicity. This self-assessment was updated, after preparing a new questionnaire, on 16 March 2018.
Pursuant to the applicable Supervisory Provisions laid down by the Bank of Italy and in the light of the regulations issued on 30 March 2011, the Bank reported to the Shareholders' Meeting held on 27 April 2018 about the remuneration policies and incentives adopted.

With regard to the legal obligations set out in the regulation concerning prudential requirements, in April 2018, the Bank of Italy published a consultation document updating Circular 285 "Supervisory Provisions for

banks", on the "Prudential control process" (Part one, Title III, Chapter 1, of Circular no. 285/2013) making significant changes to the provisions previously issued. In this regard, in 2018 the Banca Finnat Group drafted and sent the ICAAP/ILAAP report prepared by the Banca Finnat Group in accordance with the EBA/GL/2016/10 guidelines of the European Banking Authority, as implemented by the measure on which the consultation of the Bank of Italy is concerned.
The Bank adapted to the changes introduced by current legislation by formalising new processes or updating existing processes.

The preparation of these documents, regulated by internal procedures and carried out by the Group's corporate bodies and appointed structures, is the last stage in the much broader and ongoing self-assessment process regarding capital adequacy and its compliance with the RAF, the Group's operational features and the environment in which it operates.
Based on the Supervisory provisions, the Bank monitors its liquidity risk, according to the method formalised in a dedicated document containing the guidelines on Liquidity Risk Governance and Management, and periodically performs stress tests on the credit, market, concentration and interest rate risk. The results of the analysis were evaluated by the Board of Directors.

In compliance with Directive 2014/59/EU - Bank Recovery and Resolution Directive (BRRD), transposed by the Italian Parliament with Legislative Decrees 180 and 181/2015, on 15 June 2017 the Bank prepared and sent the Group Recovery Plan to the Supervisory Authorities after approval by the Board of Directors of the Bank. The document was prepared in compliance with the implementing provisions contained in Title IV, Paragraph 01-I of the Italian Consolidated Law on Banking and with Title IV, Paragraph I-bis of the Italian Consolidated Financial Law (Law pertaining to restructuring plans).
In this regard, in a letter dated 23 January 2018, the Bank of Italy informed the Bank that the Plan was prepared in accordance with the criteria of completeness, quality and credibility indicated in the provisions of the European Union, identifying areas for improvement that were not considered significant for the purposes of implementing the Plan. Therefore, the Plan will be amended by the deadline set by the Bank of Italy in April 2019.

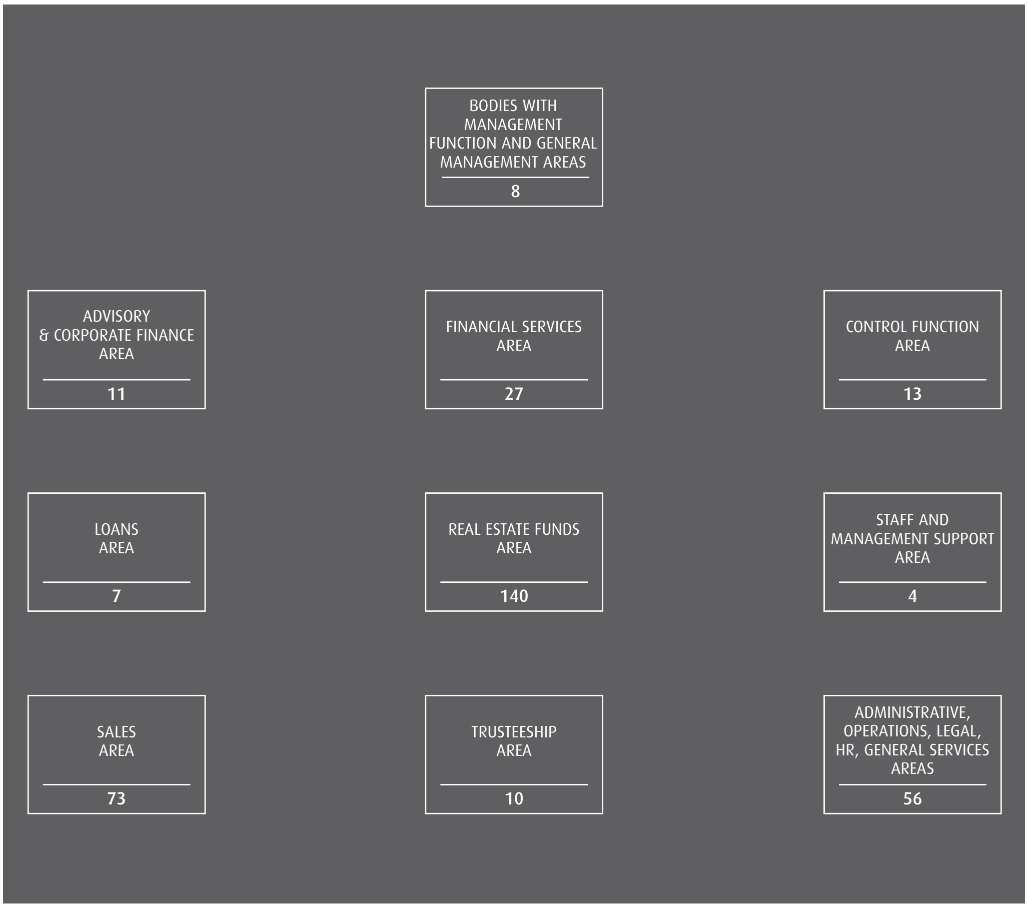
The Shareholders' Meeting held on 27 April 2018 confirmed the Board of Directors, consisting of 11 Directors of which five are Independent Directors, and the Board of Statutory Auditors, whose term of office will expire at the approval of the financial statements at 31 December 2020.

With regard to the provisions of Article 36 of Italian Law Decree no. 201 of 6 December 2011, amended and converted into Italian Law no. 214 of 22 December 2011 laying down "Urgent provisions for the growth, fairness and consolidation of public accounts", and the formalities required by the Criteria for the enforcement of Article 36 of Italian Law Decree "Salva Italia" (known as "Interlocking prohibition"), relating to company employees and the appointed members of the Board of Directors and Board of Statutory Auditors, the Shareholders' Meeting of 27 April 2018 made the necessary assessments of compliance with envisaged criteria.
For the members of the Board of Directors and of the Board of Statutory Auditors, the requirements prescribed by applicable regulations were verified.

In the course of the meetings of the Board of Directors in 2018, the Board was kept constantly informed on compliance with the new European directives concerning MIFID II and Privacy.
All information required by current regulations is published on the website: www.bancafinnat.it in the Investor Relations, Regulated Information section.

THE STRUCTURE OF BANCA FINNAT AND OF THE COMPANIES OF THE GROUP

The allocation of total human resources within the activities carried out by the Bank and the Group subsidiaries can be represented as follows:



The total number of personnel in the Group increased from 341 at 31 December 2017 to 349 at 30 June 2018 as shown in detail below:

	30.06.2018	31.12.2017
personnel employed	**339**	**332**
– executives	54	49
– managers	139	141
– clerical workers	146	142
contractors	**6**	**6**
promoters	**4**	**3**
Total	**349**	**341**

RELATED PARTY TRANSACTIONS

The Bank complies with the Regulations for Related Party Transactions, approved by the Board of Directors on 2 August 2013 to define responsibilities and rules governing the identification, approval and implementation of related party transactions carried out by the Bank or by companies of the Banca Finnat banking group, in accordance with Article 2391-bis of the Italian Civil Code, the Consob Regulation adopted with Resolution no. 17221 of 12 March 2010 and Title V, Chapter 5 of the Bank of Italy Circular no. 263 introducing "New Prudential Supervision Provisions for Banks", respectively.

The Bank entered into transactions with subsidiary companies or companies subject to significant influence and ordinary transactions of lesser significance and under market conditions that have not impacted significantly on the financial position or results of operations of the company and moreover, in the first half of 2018, it did not carry out any transaction with related parties or subjects other than related parties considered to be of an "atypical or unusual" nature, and which, due to their magnitude/relevance might have cast doubts on the safeguarding of the Bank's assets and the protection of minority shareholders' rights.

Information required under IAS 24 is shown in part H of the Notes to the Financial Statements.

MARKET DISCLOSURE INFORMATION

Regarding market disclosure the Group declares that:

- with reference to the request made by the Bank of Italy in its communication of 17 June 2008, the Bank and the other companies of the Group at 30 June 2018 were not exposed to and/or did not hold an interest, either directly or through vehicle companies or other non-consolidated entities, in financial instruments or UCIs characterised by high-risk investments, such as: - SPEs (Special Purpose Entities) - CDOs (Collateralised Debt Obligations) – Other subprime exposures and Alt-A – CMBSs (Commercial Mortgage-Backed Securities) – Leveraged Finance. The only exposure of the Group to financial products perceived by the market as risky comprises the investment in "FIP Funding Class A2-2023" bonds, recorded in the 2017 financial statements of the Parent Company as securities held for trading, totalling 2,151 thousand euros (with a nominal value of 4,000 thousand euros) fully repaid in January 2018. However, the financial instrument owned by the Bank called Senior Fin-Re SPV (issued as part of a securitisation program of an "unsecured non-performing loan") recorded in the amount of 706 thousand euros and reclassified on the first-time adoption of IFRS 9 in the portfolio of financial assets mandatorily at fair value through profit or loss.
- the Board of Directors of Banca Finnat Euramerica S.p.A., pursuant to Consob Resolution No. 18079 of 20 January 2012, decided, on 21 January 2013, to comply with the simplification system set forth in Articles 70 (paragraph 8) and 71 (paragraph 1-bis) of the Regulation adopted by Consob with Resolution No. 11971 of 14 May 1999 as amended and supplemented, by making use of the right, of listed companies, to depart from the obligation to submit the information documents required by Annexe 3B of the Consob Regulation relating to future significant extraordinary operations such as mergers, demergers, capital increase by non-cash contributions, acquisitions and sales;

- with reference to the requests contained in joint Document no. 2 dated 6 February 2009 by the Bank of Italy, Consob and Isvap and in their subsequent Document no. 4 dated 4 March 2010 and the provisions of paragraphs 15 and 25 of IAS 1, regarding disclosures to be made with respect to going concern assumptions, please refer to the commentary provided in Part A, Section 2 – General financial reporting principles and Part E – Information on Risks and Related Hedging Policies of the Notes to the Financial Statements;
- the Bank's 2017 financial year was the last year of application of the sterilisation of "own funds", as envisaged by Bank of Italy Circular 285, which envisaged the right not to include, for the purpose of calculating regulatory capital, unrealised profit and loss referring to exposures towards Central Administrations classified in the category "Financial assets available for sale". This right (known as sterilisation) was valid until the coming into force of IFRS 9 that replaced IAS 39 on financial instruments;
- the Bank, within the prescribed deadline of 1 February 2018, exercised the option for the application of the transitional rules prescribed by the Regulation (EU) 2017/2395, "amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State". The aforesaid transitional rules provide the possibility of including in Common Equity Tier 1 capital a transitional positive component, calculated in percentage terms, of the increase undergone by the allocations for expected losses on receivables by effect of the first adoption of IFRS 9. This benefit is recognised for a period of 5 years according to decreasing rates (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021, 25% in 2022). From 1 January 2023 onwards, the impact deriving from the first-time adoption of IFRS 9 will be fully reflected in the calculation of own funds. In addition to the possibility of delaying the impact deriving from the first-time adoption of the new accounting standard to 1 January 2018, the transitional arrangements provide the possibility of delaying any impacts of the new impairment model also in the first years following the date of first-time adoption of IFRS 9 albeit limited to those deriving from the measuring of performing financial assets.

OPTION FOR THE DOMESTIC CONSOLIDATED TAX SYSTEM

The Bank and its Italian-based subsidiaries have joined the "domestic consolidated tax system", pursuant to Article 117/129 of the TUIR (Consolidated Income Tax Act). The option was renewed in June 2016 also for the 2016/2017/2018 period.

By virtue of this option, the Group companies determine their proportion of the taxes payable and the corresponding tax income (taxable income or tax loss) is transferred to the Parent Company, relating to which a single taxable income or loss is reported (resulting from the arithmetical sum of its own and its participating subsidiaries' incomes/losses) and, consequently, a single income tax debit/credit determined.

CONSOLIDATED OWN FUNDS AND CAPITAL RATIOS

The Consolidated regulatory capital is determined based on the harmonised regulations for Banks and the Investment companies contained in the Regulation ("CRR") and in the EU Directive ("CRD IV") of 26 June

2013 which transfer to the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3).
In order to enact the regulations, the Bank of Italy issued, on 17 December 2013, Circular no. 285 "Prudential Supervision Provisions for Banks".

Own funds at 30 June 2018 amounted to 163,607 thousand euros (172,493 thousand euros at 31 December 2017), whereas the Total capital ratio, CET1 capital ratio and Tier1 ratio stood at **29.6%** (32.6% at 31 December 2017). The Bank exercised the option to apply the transitional provisions for the deferment over time of the impacts of the application of the new accounting standard on own funds - illustrated in the section "Market disclosure information". Without this application, Own funds would have been equal to 160,250 thousand euros, while the Total capital ratio, the CET1 capital ratio and Tier1 ratio would have been equal to **29.2%**.

These indices widely exceed minimum capital requirements at consolidated level mandated for us by the Bank of Italy at the conclusion of the supervisory review and evaluation process (SREP) established by Directive 2013/36/EU (CRD IV).

ADOPTION OF IFRS 9

Please refer to Part A - Accounting policies - Section 2 - General financial reporting principles of the Notes to the Financial Statements in which the transition to the new accounting standard is presented.

PERFORMANCE OF SUBSIDIARIES

InvestiRE SGR S.p.A.
The company, based in Rome and incorporated on 4 February 2002 has the purpose of establishing and managing real estate funds and was authorised by the Bank of Italy on 9 May 2002.
On 29 December 2014, the merger by absorption of Beni Stabili Gestioni SGR S.p.A. and Polaris Real Estate SGR S.p.A. within Investire Immobiliare SGR S.p.A. was finalised, with accounting and tax effects as from 1 January 2015.
As a result of this transaction, the share capital was increased from 8,600,000 euros to 14,770,000 euros and the company is owned by Banca Finnat Euramerica with 50.16%, by Beni Stabili Siiq with 17.90%, by Regia S.r.l. (G. Benetton Group) with 11.64%, by Fondazione Cariplo with 8.65%, by Cassa Italiana di Previdenza e Assistenza Geometri with 7.72%, by ICCREA Holding with 2.38% and by Fondazione Cassa dei Risparmi di Forlì with 1.55%.
At 30 June 2018, the company managed 42 real estate funds, with the GAV of the managed assets totalling 7,177 million euros, compared to 7,526 million euros at 31 December 2017.
The half year statements at 30 June 2018 show a profit of 2,327 thousand euros compared to 2,604 thousand euros at 30 June 2017 and a shareholders' equity of 77,049 thousand euros at 30 June 2018 compared to 84,468 thousand euros at 31 December 2017.

In the first half of 2018, the company achieved fee and commission income of 13,421 thousand euros compared to 12,814 thousand euros in the same period of 2017.

Finnat Fiduciaria S.p.A.

The company – incorporated in accordance with Italian Law no. 1966 of 23 November 1939 – is based in Rome and operates as an equity and security trust company. It has a share capital of 1,500,000 euros held entirely by Banca Finnat Euramerica S.p.A.

At 30 June 2018, assets under management totalled 1,398 million euros, versus 1,372 million euros at 31 December 2017.

The half year statements at 30 June 2018 show a profit of 77 thousand euros compared to one thousand euros at 30 June 2017 and shareholders' equity of 2,005 thousand euros at 30 June 2018, compared to 1,970 thousand euros at 31 December 2017.

During the first half of 2018, the company generated revenues for fee and commission income of 786 thousand euros compared to 761 thousand euros in the same period of 2017.

Finnat Gestioni S.A.

The company, established on 10 April 2008, is based in Lugano and provides financial management and consultancy services including, in particular, asset and portfolio management services.

The Bank holds a 70% stake in the company's share capital, which amounts to CHF 750,000, while the remaining stake is held by Banca per la Svizzera Italiana absorbed by EFG Bank Ltd. Managed assets at 30 June 2018 totalled CHF 101.2 million, compared to CHF 101.7 million at 31 December 2017.

The half year statements at 30 June 2018 show a profit of CHF 259 thousand compared to CHF 135 thousand at 30 June 2017 and shareholders' equity at 30 June 2018 amounted to CHF 2,039 thousand compared to CHF 2,093 thousand at 31 December 2017.

During the first half of 2018, the company generated fee and commission income of CHF 503 thousand compared to CHF 327 thousand in the same period of 2017.

Natam Management Company S.A.

The company, established on 30 August 2016, has its registered office in Luxembourg and share capital 750,000 euros divided into 750 shares with a face value of 1,000 euros each, entirely subscribed by Banca Finnat.

The purpose of Natam is to perform collective asset management both in favour of harmonised funds and of alternative investment schemes.

The half year statements at 30 June 2018 show a profit of 77 thousand euros compared to 23 thousand euros at 30 June 2017 and a shareholders' equity of 617 thousand euros at 30 June 2018 compared to 541 thousand euros at 31 December 2017.

In the first half of 2018, the company achieved fee and commission income of 837 thousand euros compared to 655 thousand euros in the same period of 2017.

RECLASSIFIED KEY BALANCE SHEET AND INCOME STATEMENT FIGURES

Following is an overview of the key financial statement figures at 30 June 2018 and the corresponding comparative figures at 1 January 2018 after FTA reclassifications and adjustments for the Balance Sheet and to those at 30 June 2017 after reclassification for the Income statement, thus allowing a uniform comparison.

The tables reflect the minimum mandatory layout provided for in Circular Letter 262/2005 issued by the Bank of Italy.

CONSOLIDATED BALANCE SHEET

(in thousands of euros)

	30.06.2018	01.01.2018 (*)	Absolute change
ASSETS			
Cash and cash equivalents	533	633	(100)
Financial assets designated at fair value through profit or loss:	95,779	70,306	25,473
a) financial assets held for trading	72,763	45,712	27,051
c) other financial assets mandatorily at fair value	23,016	24,594	(1,578)
Financial assets designated at fair value through other comprehensive income	213,547	202,016	11,531
Financial assets designated at amortised cost:	1,565,551	1,447,431	118,120
a) due from banks	155,447	88,070	67,377
b) loans to customers	1,410,104	1,359,361	50,743
Equity investments	6,457	6,457	–
Property and equipment	4,958	5,079	(121)
Intangible assets	40,969	41,012	(43)
Tax assets	16,431	13,858	2,573
Other assets	18,805	20,420	(1,615)
TOTAL ASSETS	**1,963,030**	**1,807,212**	**155,818**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial liabilities designated at amortised cost:	1,690,271	1,518,615	171,656
a) due to banks	1,121	1,474	(353)
b) due to customers	1,661,735	1,494,547	167,188
c) securities issued	27,415	22,594	4,821
Financial liabilities held for trading	126	143	(17)
Tax liabilities	3,838	3,652	186
Other liabilities	20,207	17,986	2,221
Provisions for termination indemnities	5,125	4,970	155
Provisions for risks and charges:	893	635	258
a) commitments and guarantees given	345	87	–
c) other provisions for risks and charges	548	548	–
Equity of minority interests	39,007	41,441	(2,434)
Group shareholders' equity	203,563	219,770	(16,207)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,963,030**	**1,807,212**	**155,818**

(*) Figures at 31 December 2017 after IFRS 9 FTA adjustments restated at 1 January 2018 according to the new set of statements of the Bank of Italy (5th update).

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)

	1st half 2018	1st half 2017 (*)	Absolute change	Percent change
Interest margin	**5,098**	**4,269**	**829**	**19%**
Net fees and commissions	**24,863**	**20,953**	**3,910**	**19%**
Dividends and similar income	1,993	2,354	(361)	
Profits (Losses) on trading	667	1,018	(351)	
Fair value adjustments in hedge accounting	–	–	–	
Profit (Loss) on disposal or repurchase of:	816	11,672	(10,856)	
a) financial assets designated at amortised cost	96	–	96	
b) financial assets designated at fair value through other comprehensive income	720	11,672	(10,952)	
Profits (losses) on other financial assets and liabilities designated at fair value through profit or loss:	(693)	(159)	(534)	
b) other financial assets mandatorily at fair value	(693)	(159)	(534)	
Net banking income	**32,744**	**40,107**	**(7,363)**	**-18%**
Net losses/recoveries on credit risk of:	(1,441)	(2,141)	700	
a) financial assets designated at amortised cost	(1,194)	(1,476)	282	
b) financial assets designated at fair value through other comprehensive income	(247)	(665)	418	
Net income from financial operations	**31,303**	**37,966**	**(6,663)**	**-18%**
Personnel expenses	(17,701)	(16,278)	(1,423)	
Other administrative expenses	(10,714)	(9,432)	(1,282)	
Net provisions for risks and charges	(258)	–	(258)	
Net losses/recoveries on property and equipment and intangible assets	(314)	(312)	(2)	
Other operating income/expenses	3,223	2,984	239	
Operating costs	**(25,764)**	**(23,038)**	**(2,726)**	**12%**
Profit (loss) from equity investments	**(72)**	**(33)**	**(39)**	**118%**
Profit (loss) from continuing operations before taxes	**5,467**	**14,895**	**(9,428)**	**-63%**
Taxes on income from continuing operations	(1,863)	(1,654)	(209)	
Profit (loss) from continuing operations after taxes	**3,604**	**13,241**	**(9,637)**	**-73%**
Profit (loss) of minority interests	(1,217)	(1,336)	119	
Net profit (loss) for the period pertaining to the Parent Company	**2,387**	**11,905**	**(9,518)**	**-80%**

(*) Figures restated according to the new set of statements of the Bank of Italy (5th update).

A series of Group operating ratios at 30 June 2018 compared with those for the same period in the previous year after IFRS 9 reclassifications are presented below.

	1st half 2018 %	1st half 2017 %
Interest margin/net banking income	15.57	10.64
Net fees and commissions/net banking income	75.93	52.24
Cost/income ratio (operating costs/net banking income)	78.68	57.44
ROE (profit for the year/shareholders' equity)	1.17	5.40
ROA (profit for the year/total assets)	0.12	0.65

GROUP SHAREHOLDERS' EQUITY AND RECONCILIATION BETWEEN THE PARENT COMPANY'S AND THE GROUP'S SHAREHOLDERS' EQUITY AND RESULTS

Group shareholders' equity

The Group shareholders' equity at 30 June 2018, including the profit for the period, totalled 203,563 thousand euros and changed as follows:

Trend in Group Shareholders' Equity

(in thousands of euros)

Shareholders' Equity at 1 January 2018	**219,770**
Dividend distribution	(10,887)
Change in valuation reserves	(7,733)
Changes in other reserves	26
Changes for sale of treasury shares	–
Profit (loss) for the period	2,387
Shareholders' equity at 30 June 2018	**203,563**

Reconciliation between the Parent Company's and the Group's shareholders' equity and results

(in thousands of euros)

	Shareholders' equity	of which: Profit (loss) for the period
Balance as per the Parent Company's financial statements at 30 June 2018	**227,655**	**5,620**
Results of investee companies as per the statutory financial statements:		
- fully consolidated companies	1,476	1,476
- valued by equity method	–	(72)
Amortisation of positive differences:		
- previous years	(984)	
Surplus over the book value related to:		
- fully consolidated companies	26,887	
Elimination of dividends	–	(4,646)
Other consolidation adjustments:	(51,471)	9
Balances resulting from the consolidated financial statements of the Group at 30 June 2018	**203,563**	**2,387**

MAIN TRANSACTIONS IN THE HALF-YEAR, SIGNIFICANT SUBSEQUENT EVENTS AND OPERATING OUTLOOK

The main transactions and significant subsequent events in the half-year

Concerning the transactions and most significant events in the period, it should be pointed out that:

- on 26 March 2018, the Board of Directors of the Bank examined and approved the Group's 2018-2020 Business Plan;
- on 27 April 2018, the Shareholders' Meeting of the Bank:
  - approved the financial statements at 31 December 2017 and the distribution, to the Shareholders, of a gross dividend of 0.03 euro per share, due for payment from 16 May 2018 (coupon date: 14 May 2018);
  - appointed the Directors and Statutory Auditors for the 2018-2020 period as well as the Honorary Chairman in the person of Carlo Carlevaris;
  - approved the Remuneration Policy prepared in pursuance of Article 123-ter of Italian Legislative Decree 58/98;
- on 27 April 2018, the Bank's Board of Directors appointed Mrs. Flavia Mazzarella as Chairman, Mr. Leonardo Buonvino and Mr. Marco Tofanelli as Deputy Chairmen and Mr. Arturo Nattino as Managing Director. The Board also appointed the members of the Remuneration Committee, of the Risk Committee, of the Appointment Committee and the Supervisory Body, as well as director Mr. Marco Tofanelli as Lead Independent Director.

The new company positions are illustrated on page 4.

Significant events occurring after the end of the half-year period

After the end of the first half of 2018, and until the date of preparation of this Report, no significant events occurred, such as to influence or, indeed, affect the Group's operations, financial position and equity in any way.

Operating outlook

Based on the current forecasts formulated by the Bank's offices, the consolidated result for the year 2018 is expected to be positive but lower than that of 2017, which was significantly impacted by the gain realised by the sale of shares present in the Bank's AFS portfolio.

CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(in thousands of euros)

New 262 Item No. (Item No. 31.12.2017)	Asset items	30.06.2018	31.12.2017
10. (10.)	Cash and cash equivalents	533	633
(20.)	Financial assets held for trading	–	45,712
(40.)	Financial assets available for sale	–	1,219,533
(60.)	Due from banks	–	88,150
(70.)	Loans to customers	–	370,478
20.	Financial assets designated at fair value through profit or loss	95,779	–
	a) financial assets held for trading	72,763	–
	c) other financial assets mandatorily at fair value	23,016	–
30.	Financial assets designated at fair value through other comprehensive income	213,547	–
40.	Financial assets designated at amortised cost	1,565,551	–
	a) due from banks	155,447	–
	b) loans to customers	1,410,104	–
70. (100.)	Equity investments	6,457	6,457
90. (120.)	Property and equipment	4,958	5,079
100. (130.)	Intangible assets	40,969	41,012
	of which:		
	- goodwill	37,729	37,729
110. (140.)	Tax assets	16,431	13,053
	a) current	675	605
	b) advance	15,756	12,448
130. (160.)	Other assets	18,805	20,420
	Total assets	**1,963,030**	**1,810,527**

CONSOLIDATED BALANCE SHEET

(in thousands of euros)

New 262 Item No. (Item No. 31.12.2017)	Liabilities and shareholders' equity	30.06.2018	31.12.2017
(10.)	Due to banks	–	1,474
(20.)	Due to customers	–	1,494,547
(30.)	Securities issued	–	22,594
(120.)	Provisions for risks and charges	–	548
	b) other provisions	–	548
10.	Financial liabilities designated at amortised cost	1,690,271	–
	a) due to banks	1,121	–
	b) due to customers	1,661,735	–
	c) securities issued	27,415	–
20. (40.)	Financial liabilities held for trading	126	143
60. (80.)	Tax liabilities	3,838	4,017
	a) current	3,361	2,972
	b) deferred	477	1,045
80. (100.)	Other liabilities	20,207	17,988
90. (110.)	Provisions for termination indemnities	5,125	4,970
100.	Provisions for risks and charges:	893	–
	a) commitments and guarantees given	345	–
	c) other provisions for risks and charges	548	–
120. (140.)	Valuation reserves	(6,169)	2,182
150. (170.)	Reserves	148,828	125,101
170. (190.)	Share capital	72,576	72,576
180. (200.)	Treasury shares (-)	(14,059)	(14,059)
190. (210)	Minority interests (+/-)	39,007	42,138
200. (220)	Profit (Loss) for the year (+/-)	2,387	36,308
	Total liabilities and shareholders' equity	**1,963,030**	**1,810,527**

CONSOLIDATED INCOME STATEMENT

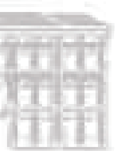
(in thousands of euros)

New 262 Item No. (Item No. 30.06.2017)	Items	1st half 2018	1st half 2017
10. (10.)	Interest income and similar income	5,872	3,242
20. (20.)	Interest expense and similar expense	(774)	1,027
30. (30.)	Interest margin	5,098	4,269
40. (40.)	Fee and commission income	26,035	22,168
50. (50.)	Fee and commission expense	(1,172)	(1,215)
60. (60.)	Net fees and commissions	24,863	20,953
70. (70.)	Dividends and similar income	1,993	2,354
80. (80.)	Profit (Losses) on trading	667	1,018
90. (90.)	Fair value adjustments in hedge accounting	–	–
(100.)	Profits (losses) on disposal or repurchase of:		
	b) financial assets available for sale	–	11,672
100.	Profits (losses) on disposal or repurchase of:	816	–
	a) financial assets designated at amortised cost	96	–
	b) financial assets designated at fair value through other comprehensive income	720	–
110.	Profits (losses) on other financial assets and liabilities designated at fair value through profit or loss	(693)	–
	b) other financial assets mandatorily at fair value	(693)	–
120. (120.)	Net banking income	32,744	40,266
(130.)	Net Losses/Recoveries on impairment of:	–	(2,300)
	a) receivables	–	(1,476)
	b) financial assets available for sale	–	(824)
130.	Net losses/recoveries on credit risk relating to:	(1,441)	–
	a) financial assets designated at amortised cost	(1,194)	–
	b) financial assets designated at fair value through other comprehensive income	(247)	–
150. (140.)	**Net income from financial operations**	**31,303**	**37,966**
190. (180.)	Administrative expenses:	(28,415)	(25,710)
	a) personnel expenses	(17,701)	(16,278)
	b) other administrative expenses	(10,714)	(9,432)
200. (190)	Net provisions for risks and charges	(258)	–
	a) commitments and guarantees given	(258)	–
210. (200.)	Net losses/recoveries on property and equipment	(229)	(230)
220. (210.)	Net losses/recoveries on intangible assets	(85)	(82)
230. (220.)	Other operating income/expenses	3,223	2,984
240. (230.)	**Operating costs**	**(25,764)**	**(23,038)**
250. (240.)	Profit (loss) from equity investments	(72)	(33)
290. (280.)	**Profit (loss) from continuing operations before taxes**	**5,467**	**14,895**
300. (290.)	Taxes on income from continuing operations	(1,863)	(1,654)
310. (300.)	**Profit (loss) from continuing operations after taxes**	**3,604**	**13,241**
330. (320.)	**Profit (loss) for the year**	**3,604**	**13,241**
340. (330.)	Profit (loss) for the year of minority interests	(1,217)	(1,336)
350. (340.)	**Net profit (loss) for the year pertaining to the Parent Company**	**2,387**	**11,905**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)

New 262 Item No. (Item No. 30.06.2017)	Items	1st half 2018	1st half 2017
10.	**Profit (loss) for the year**	**3,604**	**13,241**
	Other comprehensive income that may not be reclassified to the income statement		
20.	Equity designated at fair value through other comprehensive income	(152)	
70. (40.)	Defined-benefit plans	(125)	41
90. (60.)	Share of valuation reserves connected with investments carried at equity	72	(112)
	Other income items after taxes with reclassification to the income statement		
(100.)	Financial assets available for sale		(5,191)
140.	Financial assets (other than equity) designated at fair value through other comprehensive income	(7,572)	
170. (130.)	**Total other income items after taxes**	**(7,777)**	**(5,262)**
180.(140.)	**Comprehensive income (Item 10+170)**	**(4,173)**	**7,979**
190. (150.)	Consolidated comprehensive income pertaining to minority interests	1,173	1,280
200.(160.)	**Consolidated comprehensive income pertaining to the Parent Company**	**(5,346)**	**6,699**



STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30 JUNE 2018

(in thousands of euros)

	Total shareholders' equity at 31.12.2017	Change in opening balances (*)	Total shareholders' equity at 01.01.2018	Allocation of previous FY profit	
				Reserves	Dividends and other allocations
Share capital:	**72,576**		**72,576**	**–**	**–**
a) ordinary shares	72,576		72,576	–	–
b) other shares	–		–	–	–
Share issue premium	**–**		**–**	**–**	**–**
Reserves:	**163,950**	**(2,938)**	**161,012**	**29,300**	**–**
a) profit	100,684	(1,708)	98,976	29,267	
b) other	63,266	(1,230)	62,036	33	–
Valuation reserves	**1,592**	**(97)**	**1,495**	**–**	**–**
Capital instruments	**–**		**–**	**–**	**–**
Treasury shares	**(14,059)**	**–**	**(14,059)**	**–**	**–**
Net Profit (Loss) for the year	**40,187**	**–**	**40,187**	**(29,300)**	**(10,887)**
Total shareholders' equity	**264,246**	**(3,035)**	**261,211**	**–**	**(10,887)**
of which: Group shareholders' equity	**222,108**	**(2,338)**	**219,770**	**–**	**(10,887)**
of which: Minority interests	**42,138**	**(697)**	**41,441**	**–**	**–**

(*) Change in opening balances concerns adjustments made on the first-time adoption of IFRS 9.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 30 JUNE 2017

(in thousands of euros)

	Total shareholders' equity at 31.12.2016	Change in opening balances	Total shareholders' equity at 01.01.2017	Allocation of previous FY profit	
				Reserves	Dividends and other allocations
Share capital:	**72,576**		**72,576**	**–**	**–**
a) ordinary shares	72,576		72,576	–	–
b) other shares	–		–	–	–
Share issue premium	**–**		**–**	**–**	**–**
Reserves:	**160,526**	**–**	**160,526**	**6,321**	**–**
a) profit	100,353		100,353	3,015	
b) other	60,173		60,173	3,306	–
Valuation reserves	**29,814**		**29,814**	**–**	**–**
Capital instruments	**–**		**–**	**–**	**–**
Treasury shares	**(14,392)**		**(14,392)**	**–**	**–**
Net Profit (Loss) for the year	**9,950**		**9,950**	**(6,321)**	**(3,629)**
Total shareholders' equity	**258,474**	**–**	**258,474**	**–**	**(3,629)**
of which: Group shareholders' equity	**217,504**	**–**	**217,504**	**–**	**(3,629)**
of which: Minority interests	**40,970**	**–**	**40,970**	**–**	**–**

Changes during the year									Shareholders' equity at 30.06.2018		
	Shareholders' equity transactions										
Changes in reserves	New share issue	Purchase of treasury shares	Extra dividend distribution	Change in capital instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income of the first half of 2018	Total	Group	Minority interests
–	–	–	–	–	–	–	–	–	**72,576**	**72,576**	–
–	–	–	–	–	–	–	–	–	72,576	72,576	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
(3,581)	–	–	–	–	–	–	–	–	**186,731**	**148,828**	**37,903**
(3,613)	–	–		–	–	–	–	–	124,630	114,569	10,061
32	–	–		–	–	–	–	–	62,101	34,259	27,842
–	–	–	–	–	–	–	–	**(7,777)**	**(6,282)**	**(6,169)**	**(113)**
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	**(14,059)**	**(14,059)**	–
–	–	–	–	–	–	–	–	**3,604**	**3,604**	**2,387**	**1,217**
(3,581)	–	–	–	–	–	–	–	**(4,173)**	**242,570**	–	–
26	–	–	–	–	–	–	–	**(5,346)**	–	**203,563**	–
(3,607)	–	–	–	–	–	–	–	**1,173**	–	–	**39,007**

Changes during the year									Shareholders' equity at 30.06.2017		
	Shareholders' equity transactions										
Changes in reserves	New share issue	Purchase of treasury shares	Extra dividend distribution	Change in capital instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income of the first half of 2017	Total	Group	Minority interests
–	–	–	–	–	–	–	–	–	**72,576**	**72,576**	–
–	–	–	–	–	–	–	–	–	72,576	72,576	–
–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–
(2,738)	–	–	–	–	–	–	–	–	**164,109**	**125,224**	**38,885**
(2,684)	–	–		–	–	–	–	–	100,684	89,669	11,015
(54)	–	–	–	–	–	–	–	–	63,425	35,555	27,870
–	–	–	–	–	–	–	–	**(5,262)**	**24,552**	**25,218**	**(666)**
–	–	–	–	–	–	–	–	–	–	–	–
–	–	**77**	–	–	–	–	–	–	**(14,315)**	**(14,315)**	–
–	–	–	–	–	–	–	–	**13,241**	**13,241**	**11,905**	**1,336**
(2,738)	–	**77**	–	–	–	–	–	**7,979**	**260,163**	–	–
(43)	–	**77**	–	–	–	–	–	**6,699**	–	**220,608**	–
(2,695)	–	–	–	–	–	–	–	**1,280**	–	–	**39,555**

CONSOLIDATED STATEMENT OF CASH FLOWS (indirect method)

(in thousands of euros)

	Amount	
	30.06.2018	30.06.2017 (*)
A. OPERATING ACTIVITIES		
1. Management	**(830)**	**12,724**
- net profit (loss) for the year (+/-)	2,387	11,905
- capital gains/losses on financial assets held for trading and on other financial assets and liabilities designated at fair value through profit or loss (-/+)	471	(462)
- capital gains/losses on hedging assets (-/+)	–	(461)
- net losses/recoveries on credit risk (+/-)	1,441	2,300
- net losses/recoveries on property and equipment and intangible assets (+/-)	332	337
- net provisions for risks and charges and other costs/revenues (+/-)	1,227	630
- net premiums not received (-)	–	–
- other insurance income/expenses not received (-/+)	–	–
- taxes, duties and tax credits not liquidated (+/-)	(1,863)	(1,654)
- net losses/recoveries on discontinued operations net of tax effect (+/-)	–	–
- other adjustments (+/-)	(4,825)	129
2. Cash generated by/used in financial assets	**(151,320)**	**(16,408)**
- financial assets held for trading	(26,829)	(4,646)
- financial assets designated at fair value	–	–
- other assets mandatorily at fair value	885	–
- financial assets designated at fair value through other comprehensive income	(11,778)	–
- financial assets designated at amortised cost	(115,194)	–
- (financial assets available for sale)	–	8,492
- (due from banks: on demand)	–	(42,778)
- (due from banks: other receivables)	–	79,074
- (loans to customers)	–	(51,136)
- other assets	1,596	(5,414)
3. Cash generated by/used in financial liabilities	**173,131**	**9,754**
- financial liabilities designated at amortised cost	171,656	–
- (due to banks: on demand)	–	(451)
- (due to banks: other payables)	–	1,989
- (due to customers)	–	4,436
- (securities issued)	–	(596)
- financial liabilities held for trading	(19)	(9,818)
- financial liabilities designated at fair value	–	–
- other liabilities	1,494	14,194
Cash generated by/used in operating activities	**20,981**	**6,070**

	Amount	
	30.06.2018	30.06.2017 (*)
B. INVESTING ACTIVITIES		
1. Cash generated by	**9**	**2,922**
- disposals of equity investments	–	–
- dividends received on equity investments	–	923
- (disposal of financial assets held to maturity)	–	1,999
- disposals of property and equipment	9	–
- disposals of intangible assets	–	–
- disposals of subsidiaries and business units	–	–
2. Cash used in	**(159)**	**(266)**
- purchases of equity investments	–	–
- purchases of property and equipment	(117)	(126)
- purchases of intangible assets	(42)	(140)
- purchases of subsidiaries and business units	–	–
Cash generated by/used in investing activities	**(150)**	**2,656**
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	–	77
- issues/purchases of capital instruments	–	–
- dividend distribution and other purposes	(20,931)	(8,877)
- sale/purchase of third-party control	–	
Cash generated by/used in financing activities	**(20,931)**	**(8,800)**
CASH GENERATED/USED DURING THE YEAR	**(100)**	**(74)**

Key:

(+) generated

(-) used

(*) The figures for the previous period were prepared in accordance with IAS 39 classification and measurement criteria and are therefore not fully comparable with the figures for the current period.
Items measured only in the comparative period and no longer envisaged as from the 5th update of Bank of Italy Circular 262, in force as from 1 January 2018, are shown in brackets.

RECONCILIATION	30.06.2018	30.06.2017
FINANCIAL STATEMENT ITEMS		
Cash and cash equivalents at the beginning of the year	633	475
Total net cash generated/used during the year	(100)	(74)
Cash and cash equivalents: effect of exchange rate changes	–	–
Cash and cash equivalents at the end of the year	533	401

NOTES TO THE FINANCIAL STATEMENTS

The sections of the notes to the financial statements applicable to the Group are shown below.

Part A – Accounting policies

A.1 – General information

Section 1 - Statement of compliance with international accounting standards
Section 2 - General financial reporting principles
Section 3 - Scope and methods of consolidation
Section 4 - Subsequent events
Section 5 - Other information

A.2 – Information on the main financial statement items

A.3 – Information on transfers between portfolios of financial assets

A.4 – Information on fair value

A.5 – Report on the so-called "day one profit/loss"

Part B – Information on the consolidated balance sheet

ASSETS

Section 1 - Cash and cash equivalents – Item 10
Section 2 - Financial assets designated at fair value through profit or loss – Item 20
Section 3 - Financial assets designated at fair value through other comprehensive income – Item 30
Section 4 - Financial assets designated at amortised cost – Item 40
Section 7 - Equity investments – Item 70
Section 9 - Property and equipment – Item 90
Section 10 - Intangible assets – Item 100
Section 11 - Tax assets and liabilities – Item 110 (assets) and Item 60 (liabilities)
Section 13 - Other assets – Item 130

LIABILITIES

Section 1 - Financial liabilities designated at amortised cost – Item 10
Section 2 - Financial liabilities held for trading – Item 20
Section 6 - Tax liabilities – Item 60
Section 8 - Other liabilities – Item 80
Section 9 - Provisions for termination indemnities – Item 90
Section 10 - Provisions for risks and charges – Item 100
Section 13 - Group equity – Items 120,150,170 and 180
Section 14 - Minority interests – Item 190

Part C – Information on the consolidated income statement

Section 1 - Interest – Items 10 and 20

Section 2 - Fees and commission – Items 40 and 50
Section 3 - Dividends and similar income – Item 70
Section 4 - Profit (losses) on trading – Item 80
Section 6 - Profit (losses) from disposal/repurchase – Item 100
Section 7 - Profits (loss) on other financial assets and liabilities designated at fair value through profit or loss – Item 110
Section 8 - Net losses/recoveries on credit risk – Item 130
Section 12 - Administrative expenses – Item 190
Section 13 - Net provisions for risks and charges – Item 200
Section 14 - Net losses/recoveries on property and equipment – Item 210
Section 15 - Net losses/recoveries on intangible assets – Item 220
Section 16 - Other operating income/expenses – Item 230
Section 17 - Profit (losses) from equity investments – Item 250
Section 21 - Taxes on income from continuing operations – Item 300
Section 23 - Profit (losses) for the year for minority interests – Item 340
Section 25 - Earnings per share

Part F – Information on the consolidated net equity

Section 1 - Consolidated net equity
Section 2 - Own funds and capital ratios

Part H – Related party transactions

Part L – Segment Reporting

A – Primary reporting
B – Secondary reporting

Significant non-recurring operations and positions or transactions descending from atypical and/or unusual operations

Part A – Accounting policies

A.1 – General information

Section 1 - Statement of compliance with international accounting standards

The Condensed consolidated financial statements at 30 June 2018 of Banca Finnat Euramerica Group have been prepared applying the International Accounting Standard (IAS) and the International Financial Reporting Standards (IFRS), as amended by the International Accounting Standards Board (IASB) and approved by the European Commission, in force at 30 June 2018, in accordance with the procedures laid down in EC Regulation No. 1606/02.

The international accounting standards have been applied taking into account, where necessary, the "Framework for the Preparation and Presentation of financial statements" (the Framework).

For further guidance on the application of the new accounting standards, the Company has also referred to the interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC), as well as the documents issued to support the introduction of the IAS/IFRS in Italy by the Organismo Italiano di Contabilità (OIC) – the Italian Accounting Board – and the documents produced by the Italian Bankers' Association (ABI).

If no standard or applicable interpretation applied specifically to a transaction, other event or condition, reference was made to the provisions and guidelines contained in the standards and interpretations dealing with similar and related issues, taking into account the Framework provisions.

Section 2 – General financial reporting principles

In accordance with the requirements jointly issued by the Bank of Italy, Consob and Isvap no. 2 of 6 February 2009 and paragraphs 25 and 26 of IAS 1, the Directors of the Bank have taken into account with the utmost caution and attention – for the purpose of preparing the Condensed consolidated half-yearly financial statements – a series of financial, management and other indicators, in order to identify the existence of any circumstance that may be relevant for assessing the compliance with the going concern requirement.

As a result of the audits carried out in respect of the realisable value of the assets – based on prudent and weighted assessments – and in consideration of the reliability and results of the risk measurement systems, the Directors of the Bank are confident there is no evidence that could cast doubts in respect of the Group's going concern assumption. Given the size of the Group's assets, the substantial financial resources owned and the breakdown, quality and liquidity of the portfolio of financial assets, the Directors of the Bank have prepared these Consolidated half-yearly financial statements in the full conviction that the Group meets the requirements of a going concern in the foreseeable future.

The Group's consolidated half-yearly financial statements at 30 June 2018 have been prepared in the condensed format, consistently with IAS 34 on "Interim Financial Reporting". Therefore, these financial statements do not contain all the information required by the annual financial statements and should be examined jointly with the financial statements at 31 December 2017, also prepared in accordance with the IFRS standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission pursuant to its regulation No. 1606/2002.

These Condensed consolidated half-yearly financial statements were prepared by applying the provisions laid down by Circular no. 262 of 22 December 2005 "Banks' financial statements: layouts and preparation" – update 5 of 22 December 2017 - issued by the Bank of Italy.
This latest update absorbed the introduction of the international accounting standard IFRS 9 that replaced, with effect from 1 January 2018, IAS 39 for the accounting of financial instruments and also took into account the new accounting standard IFRS 15 "Revenue from contracts with customers".
The main changes and impacts of the two new standards - already illustrated in the 2017 Financial Statements - are analysed in two specific paragraphs "Adoption of IFRS 9" and "Adoption of IFRS 15" illustrated below.
The Condensed consolidated half-yearly financial statements consist of:

- Consolidated balance sheet;
- Consolidated income statement;
- Consolidated statement of comprehensive income;
- Consolidated statement of changes in shareholders' equity;
- Consolidated statement of cash flow;
- Notes to the Financial Statements.

The Group exercised the option envisaged in paragraph 7.2.15 of IFRS 9 and in paragraphs E1 and E2 of IFRS 1 "*First-Time Adoption of International Financial Reporting Standards*", according to which - without prejudice to the retrospective application of the new rules of measurement and representation required by the standard - the mandatory restatement on a like-for-like basis of the comparison figures in the financial statements of first-time adoption of the new standard is not envisaged. According to the indications contained in the deed of issue of the 5th update of Circular 262, banks using the exemption from the obligation to restate the comparative values must, however, include, in the first financial statements drawn up on the basis of the new Circular 262, a reconciliation statement that provides a reconciliation between the figures of the last approved financial statements and the first financial statements drawn up based on the new provisions. The form and content of this report are independently up to the competent company bodies.

Therefore, the following statements are provided in the part relating to the Transition to the International Accounting Standard IFRS 9, reported below:

- Reconciliation between the published consolidated financial statements and the consolidated financial statements according to the new Circular 262
- Reconciliation of the consolidated balance sheet figures at 31 December 2017 according to the new Circular 262 and the opening balances at 1 January 2018.

In the light of the above, some items have been added to the new financial statements that refer to the 4th update of Bank of Italy Circular 262 and are exclusively measured with the figures for 2017 (30 June 2017 for the income statement and 31 December 2017 for the balance sheet), when this update of Circular 262 was in force. Moreover, by convention, the numbers identifying these items valued in the comparative period were indicated in the balance sheet and income statement in brackets to distinguish them from the items envisaged in the 5th update of the Bank of Italy's Circular 262, in force since 1 January 2018.

The Statement of Comprehensive Income for the first half of 2018 was compared with the figures for the same period of the previous year reclassified according to the new items.

The reclassified financial statements, indicated in the report on operations, were compared with the figures as at 1 January 2018 after FTA adjustments.

The accounting standards adopted for the preparation of these condensed Consolidated half-yearly financial statements are the same as those used for the preparation of the 2017 consolidated financial statements, to which reference should be made for further details, except for the entry into force, as from 1 January 2018, of the following international accounting standards:

- IFRS 9 "Financial instruments", issued by the IASB in July 2014 and approved by the European Commission with Regulation (EU) 2067/2016, which replaced IAS 39 with regard to the regulation of classification and measurement of financial instruments, as well as the related impairment *process*;
- IFRS 15 "Revenue from Contracts with Customers", approved by the European Commission with Regulation (EU) 1905/2016, which led to the cancellation and replacement of IAS 18 "Revenue" and IAS 11 "Construction contracts".

These Condensed consolidated half-yearly financial statements have been prepared pursuant to IAS 1 Presentation of financial statements, based on the respect of such concepts as going concern, the accrual basis of accounting and the consistent presentation and classification of the relevant items. The assets and liabilities, income and expenses have not been offset, except where required or allowed by a standard or interpretation. The cost of inventory and of the financial instruments was calculated using the weighted average daily cost method, as required by IAS 2, paragraph 25.

In accordance with Article 5 of Italian Legislative Decree 38 of 28 February 2005, the Condensed consolidated half-yearly financial statements were prepared using the Euro as the presentation currency. Regarding the contents of the tables, all figures are expressed in thousand euros, unless otherwise specified.

As regards disclosures to be provided in the consolidated financial statements, the directors of the Bank have also considered that indicated in the joint document no. 4 of 4 March 2010 issued by Bank of Italy, Consob and Isvap.

The Consolidated half-yearly financial statements for Banca Finnat Euramerica were subjected to a limited audit by EY S.p.A., to whose report attached hereto specific reference is made.

The European Commission endorsed the following Regulations that will apply from 1 January 2018 onwards:

- Regulation no. 2067/2016 – IFRS 9 Financial Instruments.
- Regulation no. 1905/2016 – IFRS 15 Revenue from Contracts with Customers.
- Regulation no. 1988/2017 – IFRS 4 Joint application of IFRS 9 Financial Instruments and of IFRS 4 Insurance Contracts.
- Regulation No. 182/2018 – IFRS 2014-2016 annual improvements cycle.
- Regulation no. 289/2018 – Amendments to the IFRS 2 Share-based payment.
- Regulation no. 400/2018 – Amendments to IAS 40 Investment Property – Change in use of investment property.

The European Commission has endorsed the following Regulations that will apply from 1 January 2019 onwards:

- Regulation no. 1986/2017 – IFRS 16 Leasing.
- Regulation no. 498/2018 – Amendments to IFRS 9 Financial instruments – Prepayment features with negative compensation.

IFRS 16 introduces new rules for the accounting presentation of leases for both lessors and lessees with the aim of improving their reporting. With the coming into force of the new standard, the application of the previous standard IAS 17 and the related interpretations (IFRIC 4, SIC 15 and SIC 27) will cease.

IFRS 16 defines a lease as a contract the performance of which depends on the use of an identified asset and which gives the right to control the use of the asset for a period of time in exchange for consideration. It will apply to all transactions involving a right to use the property for a certain period of time in exchange for a certain consideration, regardless of the contractual form (it will therefore apply to both leases and rental agreements).

The lessee will be required to recognise under assets the right to use the asset subject-matter of the lease and under liabilities the present value of future lease payments. Subsequent to initial recognition, the value recorded under assets will be subject to depreciation for the duration of the contract or for the useful life of the asset, in accordance with IAS 16, or alternatively measured at fair value; as a result of the lease payments, the present value of the future lease payments recorded under liabilities will be progressively reduced against the interest to be recorded in profit or loss. The accounting representation obligations for the lessee introduced by IFRS 16 will not apply to contracts with a duration of no more than 12 months and to contracts with a low unit value.

With regard to the accounting representation of the lessor, the models envisaged by IAS 17 continue to be applied, differentiated according to whether it is a finance or operating lease; the main differences will concern sale & lease back and sublease contracts, the definition of leases and disclosure.

During the second half of the year, the Banca Finnat Group will launch an analysis aimed at defining the scope of application of the new standard with respect to existing contracts and the new accounting rules.

The main changes and impacts of the adoption of the two new accounting standards that came into force on 1 January 2018 are reported below.

The Transition to the International Accounting Standard IFRS 9

IFRS 9 replaced, with effect from 1 January 2018, IAS 39 for the recognition of financial instruments. The main changes introduced by the new standard were already illustrated in the 2017 Financial Statements, to which reference should be made.

The effects of first-time adoption of the IFRS 9 - like all impacts of new IAS/IFRS accounting standards - are recognised in shareholders' equity through the recognition of first-time adoption reserves (FTA Reserves).

The Bank and other companies of the Group carried out the following activities with reference to the main changes introduced by the new standard.

A) Classification and measurement of financial assets

With regard to the portfolio of receivables, the Bank and the other companies of the Group adopted a single business model directed at the collection of the cash flows as prescribed contractually ("Held to Collect" model).

In relation to the Bank's own portfolios invested in financial instruments other than equity investments in associates and controlling interests, the Bank, taking into account the different areas of operations, adopted the three envisaged business models ("Held to Collect", "Held to Collect & Sell" and "Held to Sell") associating each model to the homogeneous portfolios on the basis of the current procedures for managing the underlying assets identified in the IAS 39 portfolios.

The adoption of the new accounting standard brought about the following effects for the Bank:

- The shares belonging to the current "Financial assets available for sale" portfolio, whose book value amounted to 5,226 thousand euros were classified for the same amount at "fair value through other comprehensive income" (no recycling) exercising the irrevocable option upon initial recognition. This reclassification did not result in changes in shareholders' equity.
  Following the exercise of this option, which allows the reclassification of capital instruments not held for trading in this category (always in compliance with the reference business), only dividends are recognised in profit or loss, while the valuations and results deriving from the sale are recognised in shareholders' equity and no impairment is envisaged.

- The UCI units (funds and Sicav) belonging to the "Financial assets available for sale" portfolio whose book value was 22,360 thousand euros were classified for the same amount in "Held to Sell" and measured mandatorily at "fair value through profit or loss" because, although these instruments were associated to the business model whose investment strategy has the objective of realising the contractual cash flows both by holding them and selling them, the characteristics of the contractual cash flows are not consistent with the criteria prescribed to pass the SPPI test. As a consequence of this classification, the cumulative gain recognised previously in Valuation reserves amounting to 606 thousand euros before tax effects (406 thousand euros), was recognised in FTA reserve. Therefore, also this reclassification did not result in changes in shareholders' equity.

- The securities issued by the Italian State that belong to the "Financial assets available for sale" portfolio, whose book value is 1,160,270 thousand euros, were classified in the "Held to collect & Sell" category for a value of 166,621 thousand euros and in the "Held to collect" category for a value of 992,187 thousands euros (net of the cumulative gain at 31 December 2017 recorded in the Valuation reserves, equal to 1,462 thousand euros). As a result of this classification, these Valuation reserves of 978 thousand euros before tax effects were eliminated from the book value of shareholders' equity and adjusted against the fair value of the financial assets at the date of initial recognition; therefore, financial instruments were classified as if they had always been measured at amortised cost.

- The other bond securities belonging to "Financial assets available for sale" of 28,907 thousand euros were classified for the same amount in the "Held to collect & Sell" category.

- The financial instrument called FINRE SPV 25 8% SEN, whose book value was 726 thousand euros, previously classified as "Loans to customers", was reclassified for the same amount in the "Held to Sell" category and mandatorily measured at "fair value through profit or loss" since the characteristics of the contractual cash flows are not consistent with the criteria for passing the SPPI test.

The adoption of the new accounting standard brought about the following effect for InvestiRE SGR S.p.A.:

- The UCI units (Funds and Sicav) belonging to the “Financial assets available for sale” portfolio whose book value was 1,508 thousand euros were classified mandatorily at “fair value through profit or loss”. As a consequence of this classification, the cumulative loss recognised at 31 December 2017 in Valuation reserves amounting to 1,378 thousand euros before tax effects (1,047 thousand euros), was recognised in FTA reserve. Therefore, this reclassification did not result in changes in shareholders’ equity.
- The equity investment of one thousand euros in the “Financial assets available for sale” portfolio was classified at “fair value through other comprehensive income” (no recycling), exercising the irrevocable option upon initial recognition. This reclassification also did not result in changes in shareholders’ equity.

For the other Group companies, the application of the new accounting standard relating to the reclassification of portfolios did not result in changes in shareholders’ equity.

B) Impairment

Upon first adoption, performing financial assets were distinguished between those that can be classified in the first category (Bucket 1) and those that can be classified in the second category (Bucket 2) whereas non-performing financial assets were classified in the third category (Bucket 3) in accordance with the Staging Allocation Policy adopted by the Group.

The scope of the new staging allocation rules pertains to:

- financial assets designated at amortised cost (CA). This category includes loans to customers (including trade receivables and receivables for margins from Cassa di Compensazione e Garanzia), due from banks and debt securities;
- financial assets designated at fair value through other comprehensive income (FVOCI) represented by debt securities (receivables or bonds);
- irrevocable commitments to lend funds;
- unsecured loans of a financial nature or of a commercial nature.

Upon first-time adoption of the accounting standard, the Bank and the other Group companies carried out a detailed analysis of all performing positions, identifying the exposures that recorded a significant increase in credit risk compared to the date of disbursement at the time of initial adoption of the new accounting standard. To this end, the following main simplifications were adopted:

- for exposures due for more than 30 days at the date of first-time adoption of the new accounting standard, the assumption of a significant increase in credit risk was adopted, so these exposures were classified in Bucket 2;
- forborne performing exposures were classified in Bucket 2;
- all positions that at the date of first-time adoption were associated with prejudicial information were classified in Bucket 2 and for the purposes of the recognition of the significant increase in credit risk, the first available recognition was considered as the initial one.

The effect of the adoption of the new impairment rules was recognised in net equity through changes in dedicated first-time adoption reserves (FTA reserves) as envisaged by the new accounting standard. The impact of all impairment losses on performing financial assets amounted to a total of 3,101 thousand euros before taxes and to a total of 2,297 thousand euros after taxes (1,599 thousand euros pertaining to the Group). Total impairment losses after taxes are detailed as follows:

Impairment after taxes

(in thousands of euros)

	Banca Finnat	InvestiRE SGR	Other companies	Total
Held to collect				
Loans to customers	151	1,389	2	1,542
Due from banks	70	11		81
Securities	349			349
Held to collect and sell				–
Securities	239		1	240
Irrevocable commitments to lend funds and unsecured loans of a financial nature or of a commercial nature	**85**			**85**
Total impairment	**894**	**1,400**	**3**	**2,297**

The above impairment losses led to a reduction in total shareholders' equity of 2,057 thousand euros in that the impairments on Held to collect and sell securities were offset by the valuation reserve and therefore did not lead to changes in shareholders' equity.

C) Hedge Accounting

IFRS 9 contains the provisions related to the so-called "General Hedge Accounting Model" aimed at better reflecting the risk management policies adopted by management in financial reporting.

Therefore, by way of example but not by way of limitation, the standard extends the scope of risks for which hedge accounting of non-financial elements can be applied, eliminates the need for quantitative effectiveness tests, no longer requires retrospective assessment of the effectiveness of the hedge and no longer provides for the possibility of voluntarily revoking the application of hedge accounting once designated.

In connection with the greater flexibility introduced, the new standard envisages an even more detailed information on risk management activities by Risk Management.

At 31 December 2017, the Bank and the other Group companies had no hedge accounting transactions.

* * * *

In summary, in the light of the above, the new accounting standard on first-time adoption led to a reduction in shareholders' equity, after taxes, of 3,035 thousand euros (2,338 thousand euros pertaining to the Group), broken down as follows:

- for the Bank, a reduction due both to reclassifications and to impairment totalling 1,633 thousand euros;
- for the subsidiary InvestiRE SGR S.p.A., a reduction by 1,399 thousand euros (of which 702 thousand pertaining to the Group). The reduction is due exclusively to the impairment on receivables;
- for all the other Group companies, the adoption of the standard had an impact of 3 thousand euros due to impairment of receivables and securities.

As a result of the aforementioned reductions in the book value of consolidated shareholders' equity, the

consolidated Common Equity Tier 1 ratio, at the date of first-time adoption of the standard, decreased by 160 basis points compared to that of the Financial Statements as at 31 December 2017.
To delay in time the impacts deriving from the adoption of the new accounting standards on own funds, the Bank exercised the option to apply the transitional provisions - illustrated in the section "Market disclosure information"; as a result, at the date of first-time adoption of the standard, the consolidated Common Equity Tier 1 ratio decreased by approximately 128 basis points compared to the Financial Statements as at 31 December 2017.

* * *

In order to represent the effects of the first-time adoption of IFRS 9, the following tables are shown below:

- Reconciliation between the published consolidated financial statements and the consolidated financial statements according to the new Circular 262;
- Reconciliation of the consolidated balance sheet figures at 31 December 2017 according to the new Circular 262 and the opening balances at 1 January 2018.

RECONCILIATION BETWEEN THE PUBLISHED CONSOLIDATED FINANCIAL STATEMENTS AND THE CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO THE NEW CIRCULAR 262

Reconciliation statement between the published consolidated balance sheet assets at 31 December 2017 and the balance sheet according to the new Bank of Italy Circular Letter no. 262 after reclassifications

(in thousands of euros)

31 December 2017 new 262 / 31 December 2017 published	10. Cash and cash equivalents	20. Financial assets designated at fair value through profit or loss		30. Financial assets designated at fair value through other comprehensive income
		a) financial assets held for trading	c) other financial assets mandatorily at fair value	
10. Cash and cash equivalents	633			
20. Financial assets held for trading		45,712		
40. Financial assets available for sale			23,868	202,016
60. Due from banks				
70. Loans to customers			726	
100. Equity investments				
120. Property and equipment				
130. Intangible assets				
140. Tax assets				
a) current				
a) advance				
160. Other assets				
TOTAL ASSETS	633	45,712	24,594	202,016

	40. Financial assets designated at amortised cost		70. Equity investments	90. Property and equipment	100. Intangible assets	110. Tax assets		130. Other assets	TOTAL ASSETS
	a) due from banks	b) loans to customers				a) current	b) advance		
									633
									45,712
		993,649							**1,219,533**
	88,150								**88,150**
		369,752							**370,478**
			6,457						**6,457**
				5,079					**5,079**
					41,012				**41,012**
						605			**605**
							12,448		**12,448**
								20,420	**20,420**
									1,810,527
	88,150	**1,363,401**	**6,457**	**5,079**	**41,012**	**605**	**12,448**	**20,420**	**1,810,527**

Reconciliation statement between the published consolidated balance sheet liabilities at 31 December 2017 and the balance sheet according to the new Bank of Italy Circular Letter no. 262 after reclassifications

(in thousands of euros)

31 December 2017 new 262 / 31 December 2017 published	10. Financial liabilities designated at amortised cost			20. Financial liabilities held for trading	60. Tax liabilities	
	a) due to banks	b) due to customers	c) securities issued		a) current	b) deferred
10. Due to banks	1,474					
20. Due to customers		1,494,547				
30. Securities issued			22,594			
40. Financial liabilities held for trading				143		
80. Tax liabilities						
a) current					2,972	
b) deferred						1,045
100. Other liabilities						
110. Provisions for termination indemnities						
120. Provisions for risks and charges b) other provisions						
140. Valuation reserves						
170. Reserves						
190. Share capital						
200. Treasury shares (-)						
210. Minority interests (+/-)						
220. Profit (Loss) for the year (+/-)						
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,474**	**1,494,547**	**22,594**	**143**	**2,972**	**1,045**

80. Other liabilities	90. Provisions for termination indemnities	100. Provisions for risks and charges		120. Valuation reserves	150. Reserves	170. Share capital	180. Treasury shares (-)	190. Minority interests (+/-)	200. Profit (Loss) for the year (+/-)	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY
		a) commitments and guarantees given	c) other provisions for risks and charges							
										1,474
										1,494,547
										22,594
										143
										2,972
										1,045
17,986		2								**17,988**
	4,970									**4,970**
			548							**548**
				2,182						**2,182**
					125,101					**125,101**
						72,576				**72,576**
							(14,059)			**(14,059)**
								42,138		**42,138**
									36,308	**36,308**
17,986	**4,970**	**2**	**548**	**2,182**	**125,101**	**72,576**	**(14,059)**	**42,138**	**36,308**	**1,810,527** **1,810,527**

Reconciliation statement between the published consolidated income statement at 30 June 2017 and the income statement according to the new Bank of Italy Circular Letter no. 262 after reclassifications - Statement 1 of 2

(in thousands of euros)

30 June 2017 new 262 / 30 June 2017 published	10. Interest income and similar income	20. Interest expense and similar expense	**30. Interest margin**	40. Fee and commission income	50. Fee and commission expense	**60. Net fees and commissions**	70. Dividends and similar income
10. Interest income and similar income	3,242						
20. Interest expense and similar expense		1,027					
30. Interest margin							
40. Fee and commission income				22,168			
50. Fee and commission expense					(1,215)		
60. Net fees and commissions							
70. Dividends and similar income							2,354
80. Profit (Losses) on trading							
100. Profits (losses) on disposal or repurchase of:							
b) financial assets available for sale							
120. Net banking income							
130. Net Losses/Recoveries on impairment of:							
a) receivables							
b) financial assets available for sale							
140. Net income from financial operations							
	3,242	1,027	**4,269**	22,168	(1,215)	**20,953**	2,354

	80. Profit (Losses) on trading	100. Profits (losses) on disposal or repurchase of:		110. Profits (losses) on other financial assets and liabilities designated at fair value through profit or loss	120. Net banking income	130. Net losses/recoveries on credit risk relating to:		150. Net income from financial operations	
		a) financial assets designated at amortised cost	b) financial assets designated at fair value through other comprehensive income	b) other financial assets mandatorily at fair value		a) financial assets designated at amortised cost	b) financial assets designated at fair value through other comprehensive income		
									3,242
									1,027
									4,269
									22,168
									(1,215)
									20,953
									2,354
	1,018								1,018
			11,672						11,672
									40,266
						(1,476)			(1,476)
				(159)			(665)		(824)
									37,966
	1,018	–	11,672	(159)	**40,107**	(1,476)	(665)	**37,966**	

Reconciliation statement between the published consolidated income statement at 30 June 2017 and the income statement according to the new Bank of Italy Circular Letter no. 262 - Statement 2 of 2

(in thousands of euros)

30 June 2017 new 262 / 30 June 2017 published	190. Administrative expenses:		210. Net losses/ recoveries on property and equipment	220. Net losses/ recoveries on intangible assets	230. Other operating gestione income/ expenses
	a) personnel expenses	b) other administrative expenses			
180. Administrative expenses:					
a) personnel expenses	(16,278)				
b) other administrative expenses		(9,432)			
200. Net losses/recoveries on property and equipment			(230)		
210. Net losses/recoveries on intangible assets				(82)	
220. Other operating income/expenses					2,984
230. Operating costs					
240. Profit (loss) from equity investments					
280. Profit (loss) from continuing operations before taxes					
290. Taxes on income from continuing operations					
300. Profit (loss) from continuing operations after taxes					
320. Profit (loss) for the year					
330. Profit (loss) for the year of minority interests					
340. Net profit (loss) for the year pertaining to the Parent Company					
	(16,278)	(9,432)	(230)	(82)	2,984

240. Operating costs	250. Profit (loss) from equity investments	**290. Profit (loss) from continuing operations before taxes**	300. Taxes on income from continuing operations	**310. Profit (loss) from continuing operations after taxes**	**330. Profit (loss) for the year**	340. Profit (loss) for the year of minority interests	**350. Net profit (loss) for the year pertaining to the Parent Company**	
								(16,278)
								(9,432)
								(230)
								(82)
								2,984
								(23,038)
	(33)							(33)
								14,895
			(1,654)					(1,654)
								13,241
								13,241
						(1,336)		(1,336)
								11,905
(23,038)	(33)	**14,895**	(1,654)	**13,241**	**13,241**	(1,336)	**11,905**	

RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET FIGURES AT 31 DECEMBER 2017 ACCORDING TO THE NEW CIRCULAR 262 AND THE OPENING BALANCES AT 1 JANUARY 2018.

Reconciliation statement between Consolidated Balance Sheet at 31 December 2017 according to the new Bank of Italy Circular no. 262 and the Balance Sheet at 1 January 2018 IFRS 9.

(in thousands of euros)

	Asset items	TOTAL ASSETS 31.12.2017 after reclassifications to new items Circ. 262
10.	Cash and cash equivalents	633
20.	Financial assets designated at fair value through profit or loss	45,712
	a) financial assets held for trading	45,712
	c) other financial assets mandatorily at fair value	
30.	Financial assets designated at fair value through other comprehensive income	1,219,533
40.	Financial assets designated at amortised cost	458,628
	a) due from banks	88,150
	b) loans to customers	370,478
70.	Equity investments	6,457
90.	Property and equipment	5,079
100.	Intangible assets	41,012
110.	Tax assets	13,053
	a) current	605
	b) advance	12,448
130.	Other assets	20,420
	Total assets	**1,810,527**

	Reclassifications of financial instruments from transition to IFRS 9		TOTAL ASSETS 31.12.2017 after reclassifications IFRS 9 FTA	Changes in book values due to transition to IFRS 9		TOTAL ASSETS 01.01.2018
	40. Financial assets available for sale	70. Loans to customers		Change in measurement bases	Impairment	
			633			633
	23,868	726	70,306			70,306
			45,712			45,712
	23,868	726	24,594			24,594
	(1,017,517)		202,016			202,016
	993,649	(726)	1,451,551	(1,462)	(2,658)	1,447,431
			88,150		(80)	88,070
	993,649	(726)	1,363,401	(1,462)	(2,578)	1,359,361
			6,457			6,457
			5,079			5,079
			41,012			41,012
			13,053		805	13,858
			605			605
			12,448		805	13,253
			20,420			20,420
	–	**–**	**1,810,527**	**(1,462)**	**(1,853)**	**1,807,212**

Reconciliation statement between Consolidated Balance Sheet at 31 December 2017 according to the new Bank of Italy Circular no. 262 and the Balance Sheet at 1 January 2018 IFRS 9.

(in thousands of euros)

	Liabilities and shareholders' equity	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY 31.12.2017 after reclassifications to new items Circ. 262
10.	Financial liabilities designated at amortised cost	1,518,615
	a) due to banks	1,474
	b) due to customers	1,494,547
	c) securities issued	22,594
20.	Financial liabilities held for trading	143
30.	Financial liabilities designated at fair value	
40.	Hedging derivatives	
50.	Value adjustment to financial liabilities subject to macro-hedging (+/-)	
60.	Tax liabilities	4,017
	a) current	2,972
	b) deferred	1,045
70.	Liabilities associated to discontinued operations	
80.	Other liabilities	17,988
90.	Provisions for termination indemnities	4,970
100.	Provisions for risks and charges	548
	a) commitments and guarantees given	
	c) other provisions for risks and charges	548
120.	Valuation reserves	2,182
150.	Reserves	125,101
170.	Share capital	72,576
180.	Treasury shares (-)	(14,059)
190.	Minority interests (+/-)	42,138
200.	Profit (Loss) for the year (+/-)	36,308
	Total liabilities and shareholders' equity	**1,810,527**

	Reclassifications of financial instruments from transition to IFRS 9	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY 31.12.2017 after reclassifications IFRS 9 FTA	Effect of transition to IFRS 9	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY 01.01.2018
	80. Other liabilities			
		1,518,615		1,518,615
		1,474		1,474
		1,494,547		1,494,547
		22,594		22,594
		143		143
		4,017	(365)	3,652
		2,972		2,972
		1,045	(365)	680
	(2)	17,986		17,986
		4,970		4,970
	2	550	85	635
	2	2	85	87
		548		548
		2,182	(619)	1,563
		125,101	(1,719)	123,382
		72,576		72,576
		(14,059)		(14,059)
		42,138	(697)	41,441
		36,308		36,308
	–	**1,810,527**	**(3,315)**	**1,807,212**

Adoption of the IFRS 15

Starting from 18 November 2016, Regulation (EU) no. 2016/1905, adopting IFRS 15 - Revenue from contracts with customers, came into force.

IFRS 15 replaces the following Standards: IAS 11 Construction Contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue—Barter Transactions Involving Advertising Service.

The companies will adopt the standard starting from the financial statements of years starting on or after 1 January 2018. Early adoption is permitted.

The accounting standard IFRS 15 sets out the rules for the recognition of revenues deriving from contractual obligations with customers. IFRS 15 must be applied only if the counterparty is a customer. The customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

The new accounting standard requires revenue to be recognised using an approach based on the following 5 steps:

- identify the contracts with a customer: the contract is an agreement between two or more parties that creates enforceable rights and obligations. The contract may be written, oral or implicitly derived from the entity's usual commercial practices;

- identify the performance obligations in the contract: a single contract may contain a promise to transfer more than one good or service to the customer. On recognition of the contract, the entity assesses the goods or services explicitly or implicitly promised in the contract and identifies as a performance obligation each commitment to transfer a distinct good or service;

- determine the transaction price: the price is the amount to which an entity expects to be entitled in exchange for the transfer of goods or services to the customer. The expected price may be a fixed amount, include variable components or non-monetary components. With regard to this case, the standard introduces, with reference to the variable component, potential elements of estimation in the determination of the overall transaction price;

- allocate the transaction price to the performance obligations in the contract: where a contract has multiple performance obligations, an entity will allocate the transaction price to the performance obligations in the contract by reference to their relative standalone selling prices. The standalone selling price is the price at which the entity would sell the promised good or service separately to the customer. The best indication of the standalone selling price is the price of the good or service that can be observed when the entity sells the good or service separately in similar circumstances and to similar customers;

- recognise revenue when (or as) the entity satisfies a performance obligation: the revenue is recognised when control of the goods or services is passed to the customer. The amount of revenue to be recognised is the one allocated to the performance obligation satisfied at a point in time or over time. In case of performance obligations satisfied over time, the entity recognises the revenue over time, using an appropriate method to measure progress against full satisfaction of the obligation.

The analyses show that, for the Banca Finnat Group, Private Banking, Institutional Customers, Advisory and Corporate Finance and property UCI management sectors are potentially affected by the new provisions of the standard. The main cases examined include: contracts characterised by a plurality of contractual obligations; contracts that provide for variable considerations, such as commissions related to the achievement of certain objectives; contracts that provide for the recognition of revenue when the performance obligation is satisfied at a point in time or over time. The procedures for determining revenue from contracts with customers are defined in a specific policy adopted by the companies of the Banca Finnat Group.

The impacts of the FTA of the new standard were zero in terms of effects on shareholders' equity.

In fact, note that the accounting treatment applied by the Bank to these cases - prior to the introduction of the new standard - was already in line with the provisions of IFRS 15 and consequently, when fully implemented, there were no significant impacts in accounting terms.

Following the introduction of the new standard, significant impacts were identified in terms of greater demand for information relating to the above-mentioned revenue; therefore, the Bank and the Group companies are preparing to provide the most detailed information requested in the 2018 financial statements.

Section 3 – Scope and methods of consolidation

Equity investments in exclusively controlled subsidiaries

Company names	Place of business	Registered office	Type of relationship (1)	Investment relationship		Voting rights % (2)
				Investor company	% stake	
1. InvestiRE SGR S.p.A.	Rome	Rome	1	Banca Finnat	50.16	50.16
2. Finnat Fiduciaria S.p.A.	Rome	Rome	1	Banca Finnat	100.00	100.00
3. Finnat Gestioni S.A.	Lugano	Lugano	1	Banca Finnat	70.00	70.00
4. Natam Management Company S.A.	Luxembourg	Luxembourg	1	Banca Finnat	100.00	100.00

Key:

(1) Type of relationship:
1 = majority voting rights in ordinary shareholders' meetings; 2 = considerable influence in ordinary shareholders' meetings; 3 = agreements with other shareholders; 4 = other forms of control; 5 = sole direction as per article 39, paragraph 1 of Italian Legislative Decree no. 136/2015; 6= sole direction as per article 39, paragraph 2 of Italian Legislative Decree no. 136/2015.

(2) Voting rights in ordinary shareholders' meetings, with a distinction between effective and potential rights.

The percentage of voting rights in the shareholders' meeting is effective.

Significant evaluations and assumptions to determine the scope of consolidation

The scope of consolidation includes:

- the financial statements of the Parent Company Banca Finnat Euramerica S.p.A. and of the subsidiaries, consolidated on a line-by-line basis;
- the financial statements of directly and indirectly associated companies stated at equity, or the last financial report available at the time of preparation of the consolidated financial statements.

The scope of consolidation includes all subsidiary companies, regardless of their legal status, and of whether they are going concerns or being wound up and there are no jointly controlled entities.

The scope of consolidation has not changed compared to the financial statements for the year ended 31 December 2017.

Subsidiaries

Subsidiaries are companies whose financial and operating policies are directly or indirectly determined and controlled by the Group to which they belong and which Group can, therefore, benefit from their activities. When determining control, account should also be taken of the companies in which Banca Finnat directly or indirectly holds more than half of the voting rights. The voting rights also include the so-called "potential" rights, which can be consistently exercised or converted into effective voting rights at any time.

The financial statements of subsidiaries are consolidated from the date on which the parent company obtains control over the company until the date on which that control ceases.

Associated companies

Associated companies are entities whose financial and operating policies are significantly influenced by the Group, but which it does not control, either jointly or separately; they are included in the consolidation according to the equity method. The profit or losses of the Group are recorded in the consolidated income statement from the date on which the significant influence started and up to the date on which it ceases. If the loss by the Group exceeds the book value of the equity investment then the value of the equity investment is derecognised and, if the investing company is committed to performing legal or implicit obligations of the investee company, or in any event to hedging its losses, any surplus is recognised in a specific liability fund.

Line-by-line consolidation

All the financial statements of the part-owned companies used to prepare the consolidated financial statements were drawn up on 30 June and, if necessary, adjusted to ensure the uniform application of the same accounting standards applied by the Parent Company.

The assets and liabilities, expenses and income of the companies consolidated according to the line-by-line method are fully recognised in the consolidated financial statements ("line-by-line" recognition of the balance sheet and income statement aggregates of the subsidiaries), after the recording of any minority interests in specific items; the book value of the equity investments is written off for the corresponding fraction of the shareholders' equity of the part-owned companies, recording the single asset and liability items (including the provisions for risks and charges) at their current value on the date of acquisition of control. Any positive difference resulting from the said writing off is recorded as goodwill, under the asset item "Intangible assets", at the date of the first consolidation and, thereafter, among the shareholders' equity reserves. Any negative difference is recorded in the income statement.

All intra-group balances (assets, liabilities, revenues and costs) and transactions, including any unrealised profit or loss resulting from intra-group transactions, are written off minus their theoretical tax effect, if significant. The Group's share of unrealised profit and loss with associated companies is written off.

Unrealised losses are written off only if they represent impairment losses.

The presentation currency of the Group's financial statements is the Euro, which is also the functional currency of all the companies included in the consolidated financial statements.

Non-monetary assets and liabilities in foreign currencies, recorded at historical cost, are translated using the exchange rate at the date on which the transaction was originally recorded.

The financial statements of the consolidated companies expressed in foreign currencies were translated according to the exchange rate at the reporting date for the assets and liabilities; for the income statement items, the average exchange rates in the period were used, and the historical exchange rates for the shareholders' equity items. The differences between the values of the shareholders' equity items at the historical exchange rates and those descending and resulting from the translation thereof at the current exchange rates are recorded and, indeed, posted at the current exchange rates in the shareholders' equity item called "Other reserves".

Equity consolidation method

This method provides for the initial recording of the investee company at cost. The book value is then periodically adjusted to take into account changes in the investee company's shareholders' equity. The pro quota allocation of the net income of the investee company is recorded in a specific item of the consolidated income statement. The shareholders' equity of the associates is inferred from the latest available financial statements or from the latest financial report available at the time of preparation of the consolidated financial statements.

The difference – if any – between the book value and the recovery value of the equity investment, estimated based on the present value of the future cash flows generated by the investment itself, is recorded in the income statement.

Section 4 – Subsequent events

In the period spanning from the end of the first six months, at 30 June 2018, to the date on which these Condensed consolidated half-yearly financial statements were prepared, no significant events or factors that could affect the financial and equity position or results of operations of the Group emerged.

Section 5 – Other information

Information on risks and related hedging policies

Regarding the risks that can affect the management of the Finnat Group, and the monitoring systems put into place, to date, to strengthen the systems aimed at ensuring the full and effective protection of savers and investors, reference should be made to the in-depth exposition on the matter contained in the consolidated financial statements at 31 December 2017.

Risks and uncertainties linked to the use of estimates

In compliance with the IAS/IFRS standards, the Bank and the other Group companies carry out evaluations, estimates and assumptions in support of the application of the accounting standards and for the determination of the amounts of the assets, liabilities, costs and revenues reported in the consolidated financial statements. In respect of the preparation of these Condensed consolidated half-yearly financial statements, the Bank and the other companies of the Group have used estimates (based on the most recent available data), in respect of both several balance sheet and several income statement items.

A.2 – Information on the main financial statement items

The accounting standards adopted in preparing the Condensed consolidated half-yearly financial statements at 30 June 2018 changed significantly with respect to those adopted for the preparation of the 2017 financial statements as concerns classification, measurement and derecognition criteria, and the methods for recognising costs and revenue.
These amendments were introduced for the application of the new accounting standards that came into force on 1 January 2018: IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers". In particular, the adoption of IFRS 9 had significant impacts on the Group in accounting terms as well.
In the light of the above, the new accounting standards adopted as from 1 January 2018 are illustrated with regard to recognition/classification, measurement and derecognition of the main items in the financial statements.

1. Financial assets designated at fair value through profit or loss (FVTPL)

Classification criteria

This category includes financial assets other than those recognised as Financial assets designated at fair value through other comprehensive income and Financial assets designated at amortised cost. In particular, the item includes:

- financial assets held for trading, mainly represented by debt securities, UCIs and equities and the positive value of derivative contracts held for trading (*Other/Trading*);
- other financial assets mandatorily at fair value, represented by financial assets that do not meet the requirements for measurement at amortised cost ("Held to Collect") or at fair value through other comprehensive income ("Held to Collect and Sell").

These are financial assets whose contractual terms do not exclusively envisage capital repayments and interest payments on the amount of capital to be repaid (known as "SPPI test" not passed) or that are not held within the framework of a business model whose objective is the possession of assets aimed at collecting contractual financial flows or within the framework of a business model whose objective is achieved both through the collection of contractual financial flows and through the sale of financial assets;
- financial assets designated at fair value, i.e. financial assets thus defined at the time of initial recognition and where the requirements are met. In relation to this case, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss at the time of recognition if, and only if, by doing so, it eliminates or significantly reduces a valuation inconsistency.
According to the general rules envisaged by IFRS 9 on the reclassification of financial assets (with the exception of equities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity modifies its business model for the management of financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through profit or loss into one of the other two categories envisaged by IFRS 9 (Financial assets designated at amortised cost or Financial assets designated at fair value through other comprehensive income). The transfer value is the fair value at the time of reclassification and the effects of reclassification operate prospectively from the date of reclassification. In this case, the effective interest rate of the reclassified financial asset is determined on

the basis of its fair value on the date of reclassification, and that date is considered as the date of initial recognition for the allocation to the various stages of credit risk (stage assignment) for the purposes of determining impairment.

Recognition criteria

Financial assets are initially recognised on the settlement date for debt securities and equity, on the disbursement date for loans and on the subscription date for derivative contracts.

Upon initial recognition, financial assets designated at fair value through profit or loss are recognised at fair value, without considering transaction costs or income directly attributable to the instrument itself.

Measurement criteria

Subsequent to initial recognition, financial assets designated at fair value through profit or loss are measured at fair value. The effects of the application of this measurement criteria are charged to the income statement.

Market prices are used to determine the fair value of financial instruments listed on an active market. In the absence of an active market, commonly adopted estimation methods and valuation models are employed that take into account all risk factors correlated with the instruments and that are based on market data, such as: valuation of listed instruments with similar characteristics, discounted cash flow calculations, option price calculation models, values posted in recent comparable transactions, etc. For equities and derivative instruments involving equities not listed on an active market, the cost method is used as a fair value estimate only in a residual way and limited to a few circumstances, i.e. in the case of non-applicability of all the measurement methods mentioned above (since the most recent information available to measure fair value is insufficient), or in the presence of a wide range of possible fair value assessments, in which the cost represents the most significant estimate.

For further information on the criteria for determining fair value, please refer to the specific "Information on fair value" section.

Derecognition criteria

Financial assets are derecognised only if the contractual rights to cash flows deriving from the financial asset expired or if the entity transferred the financial asset and the sale resulted in the substantial transfer of all risks and benefits related to the assets. On the other hand, if a significant portion of risks and benefits related to the financial assets sold has been maintained, these assets will continue to be recognised, even if the legal ownership of the assets has actually been transferred.

If it is not possible to determine the substantial transfer of risks and benefits, financial assets are derecognised when the control thereof is transferred. Otherwise, the fact that even partial control has been retained means that the assets must be carried for an amount proportional to the remaining involvement, which is measured by the exposure to changes in the value of the assets sold and the changes in their cash flows.

Finally, the financial assets sold are derecognised if the contractual rights to receive the relative cash flows are retained, but an obligation is concurrently assumed to pay out to other third parties the above-mentioned flows.

2. Financial assets designated at fair value through other comprehensive income (FVOCI)

Classification criteria

This category includes financial assets that meet both of the following conditions:

- the financial asset is held according to a business model whose objective is achieved both through the collection of contractual cash flows and through sale (Held to Collect and Sell);
- the contractual terms of the financial asset envisage, at certain dates, cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (known as passed "SPPI test").

The item also includes capital instruments, not held for trading, for which the option to be designated at fair value with an impact on comprehensive income was exercised at the time of initial recognition.
In particular, this item includes:

- debt securities that are part of a Held to Collect and Sell business model and passed the SPPI test;
- equity investments that do not qualify as establishing control or joint control over or association with companies and are not held for trading, for which the option to be designated at fair value through other comprehensive income was exercised;
- loans that are part of a Held to Collect and Sell business model and passed the SPPI test.

According to the general rules envisaged by IFRS 9 on the reclassification of financial assets (with the exception of equities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity modifies its business model for the management of financial assets.
In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through other comprehensive income into one of the other two categories envisaged by IFRS 9 (Financial assets designated at amortised cost or Financial assets designated at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification operate prospectively from the date of reclassification. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is recognised as an adjustment to the fair value of the financial asset at the date of reclassification. Whereas in the event of reclassification in the category of fair value through profit or loss, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from shareholders' equity to the income statement (in the item "Profit (losses) on trading").

Recognition criteria

Financial assets are initially recognised on the settlement date for debt securities and equities, and on the disbursement date for loans. Upon their initial recognition, assets are designated at fair value, which generally corresponds to the price paid. Any transaction costs or income directly attributable to the instrument itself are included in the purchase cost.

Measurement criteria

Subsequent to initial recognition, Assets classified at fair value through other comprehensive income, other than equities, are measured at fair value, with impacts deriving from application of amortised cost, the

effects of impairment and any exchange rate effect recognised in the income statement, whereas other gains or losses arising from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. Upon disposal, in whole or in part, the cumulative gain or loss in the valuation reserve is reversed to the income statement.
The capital instruments chosen for classification in this category are measured at fair value and the amounts recognised with corresponding item in shareholders' equity must not be subsequently transferred to the income statement, even in the event of disposal. The only component relating to the equities in question that is recognised in the income statement is represented by the related dividends.
Fair value is determined on the basis of the criteria already illustrated for Financial assets designated at fair value through profit or loss.
For further information on the criteria for determining fair value, please refer to the "Information on fair value" section.
Financial assets designated at fair value through other comprehensive income - both in the form of debt securities and loans - are subject to checking the significant increase in credit risk (impairment) required by IFRS 9, as are Assets at amortised cost, with the consequent recognition in the income statement of an adjustment to cover expected losses. More specifically, on instruments classified in stage 1 (i.e. on financial assets at the time of origination, where performing, and on instruments for which there has been no significant increase in credit risk compared to the initial recognition date), a 12-month expected loss is recorded at the initial recognition date and at each subsequent reporting date. On the other hand, for instruments classified as stage 2 (performing positions for which there has been a significant increase in credit risk compared to the date of initial recognition) and stage 3 (non-performing exposures), an expected loss is recognised over the life of the financial instrument.
Vice versa, equities are not subject to impairment.

Derecognition criteria

Financial assets are derecognised only if the contractual rights to the cash flows from the financial asset expired or if the entity transferred the financial asset and the sale resulted in the substantial transfer of all the risks and benefits related to the assets. On the other hand, if a significant portion of risks and benefits related to the financial assets sold has been maintained, these assets will continue to be recognised, even if the legal ownership of the assets has actually been transferred.
If it is not possible to determine the substantial transfer of risks and benefits, financial assets are derecognised when the control thereof is transferred. Otherwise, the fact that even partial control has been retained means that the assets must be carried for an amount proportional to the remaining involvement, which is measured by the exposure to changes in the value of the assets sold and the changes in their cash flows.
Finally, the financial assets sold are derecognised if the contractual rights to receive the relative cash flows are retained, but an obligation is concurrently assumed to pay out to other third parties the above-mentioned flows.

3. Financial assets designated at amortised cost

Classification criteria

This category includes financial assets (in particular, loans and debt securities) that meet both of the following conditions:

- the financial asset is held according to a business model whose objective is achieved both through the collection of contractual cash flows, and the contractual terms of the financial asset envisage, at certain dates, cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (known as passed "SPPI test"). More specifically, this item includes:
  - receivables due from banks and customers in different categories and debt securities meeting the requirements set out in the previous paragraph.

This category also includes operating loans related to the supply of financial activities and services as established by the Italian Consolidated Law on Banking and the Italian Consolidated Financial Law.

According to the general rules envisaged by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted unless the entity modifies its business model for the management of financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at amortised cost into one of the other two categories envisaged by IFRS 9 (Financial assets designated at fair value through other comprehensive or Financial assets designated at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification operate prospectively from the date of reclassification. Gains and losses resulting from the difference between the amortised cost of the financial asset and its fair value are recognised in the income statement in the event of reclassification as Financial assets designated at fair value through profit or loss and Shareholders' equity, in the specific valuation reserve, in the event of reclassification as Financial assets designated at fair value through other comprehensive income.

Recognition criteria

Financial assets are initially recognised on the settlement date for debt securities and on the disbursement date for loans. Upon initial recognition, assets are recorded at fair value, including transaction costs or income directly attributable to the instrument itself.

In particular, with regard to loans, the date of disbursement normally coincides with the date of signing of the agreement. If such a coincidence does not occur, a commitment to disburse funds is recorded at the time of signing the agreement, which ends on the date of disbursement of the loan. The loan is recognised on the basis of its fair value, equal to the amount disbursed, or subscription price, including costs/income directly attributable to the individual loan and determinable from the start of the transaction, even if settled at a later date.

Costs that, despite having the above characteristics, are reimbursed by the debtor counterparty or classified as ordinary internal administrative costs are excluded.

Measurement criteria

Following their initial recognition, the financial assets in question are designated at amortised cost, using the effective interest rate method. In these terms, the asset is recognised in the financial statements at an amount equal to its initial recognition value, less principal repayments, plus or minus the cumulative amortisation (calculated using the effective interest rate method referred to above) of the difference between this initial amount and the amount at maturity (typically attributable to costs/income charged directly to the individual asset). The effective interest rate is determined by calculating the rate that equals the present value of the future cash flows of the asset, for principal and interest, to the amount disbursed including costs/income related to the financial asset itself. This accounting method, which is based on a financial approach, allows the economic effect of costs/income directly attributable to a financial asset to be distributed over its expected residual life.

The amortised cost method is not used for assets - measured at historical cost - whose short duration makes the effect of the application of the discounting logic negligible, for those without a defined maturity or revocable loans.

The measurement criteria are strictly related to the inclusion of the instruments in question in one or the three stages (stages of credit risk) envisaged by IFRS 9, the last of which (stage 3) includes non-performing financial assets and the remaining (stages 1 and 2) performing financial assets.

With reference to the accounting representation of the above valuation effects, impairment losses relating to this type of asset are recognised in the income statement:

- upon initial recognition, for an amount equal to the 12-month expected credit loss;
- upon subsequent measurement of the asset, where the credit risk has not significantly increased compared to initial recognition, in relation to changes in the amount of impairment for losses expected in the following twelve months;
- upon subsequent measurement of the asset, where the credit risk significantly increased compared to initial recognition, in relation to the recognition of impairment for expected losses over the life of the asset as provided for in the contract;
- upon subsequent measurement of the asset, where – after a significant increase in credit risk since initial recognition – the "significance" of this increase has since disappeared, in relation to the adjustment of cumulative impairment losses to take account of the change from a full lifetime expected credit loss of the instrument to a 12-month expected credit loss.

If the financial assets in question are performing, they are measured in order to determine the impairment losses to be recorded in the financial statements at the level of the individual credit relation (or security "tranche"), depending on the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD).

If, in addition to a significant increase in credit risk, there is evidence of impairment, the amount of the loss is measured as the difference between the book value of the asset - classified as "impaired", like all other transactions with the same counterparty - and the present value of the expected future cash flows, discounted at the original effective interest rate. The amount of the loss to be recognised in the income statement is defined on the basis of an analytical valuation process or determined by homogeneous categories and, therefore, analytically applied to each position and considers, as described in detail in the chapter "Impairment losses of financial assets", forward looking information and possible alternative recovery scenarios.

Non-performing assets include financial instruments that have been granted the status of bad loans, unlikely to pay or past due/overdue by more than ninety days according to the rules of the Bank of Italy, consistent with IAS/IFRS and European Supervisory regulations.

The expected cash flows take into account the expected recovery time and the estimated realisable value of any guarantee.

The original effective interest rate of each asset remains unchanged over time even though the relationship has been restructured resulting in a change in the contractual interest rate and even if the relationship ceases to bear the contractual interest for practical purposes.

If the reasons for impairment no longer apply due to an event occurring after the impairment was recognised, value recoveries are recognised in the income statement. The value recovery cannot exceed the amortised cost that the financial instrument would have had in the absence of previous adjustments.

Revaluations related to the passing of time are recognised in net interest income.

In some cases, during the life of the financial assets in question and, in particular, of receivables, the original contractual terms can be amended by the parties to the contract. When, over the life of an instrument, the contractual clauses are amended, it is necessary to check whether the original asset must continue to be recognised in the financial statements or, on the contrary, whether the original instrument must be derecognised from the financial statements.

In general, changes in a financial asset lead to its derecognition and to the recognition of a new asset when they are "substantial". The assessment of whether the change is "substantial" must be subject to qualitative and quantitative considerations. In fact, in some cases it may be clear, without resorting to complex analyses, that the changes introduced substantially modify the characteristics and/or contractual flows of a given asset while, in other cases, further analyses (including quantitative analyses) will have to be carried out in order to appreciate their effects and check the need to derecognise or not the asset and to recognise a new financial instrument.

Therefore, qualitative and quantitative analyses aimed at defining the "substantiality" of the contractual changes made to a financial asset will have to consider:

- the purposes for which the changes were made: for example, renegotiations for commercial reasons and forbearance due to financial difficulties of the counterparty:
  - the first, aimed at "retaining" the customer, involve a debtor who is not in financial difficulty. This case study includes all the renegotiation operations that are aimed at adjusting the cost of the debt to market conditions.
  - the latter, carried out for "credit risk reasons" (forbearance measures), are attributable to the bank's attempt to maximise the recovery of the cash flows of the original loan. As a rule, the underlying risks and benefits are not substantially transferred after the changes and, consequently, the accounting representation that provides the most relevant information for the reader of the financial statements (except for what will be said below on the subject of objective elements), is that made through "modification accounting" and not through "derecognition" that implies the recognition in the income statement of the difference between the book value and the present value of the modified cash flows discounted at the original interest rate.
- the presence of specific objective elements ("triggers") that affect the characteristics and/or contractual flows of the financial instrument (such as, for example, a change in the currency or a change in the type of risk to which one is exposed, when correlated with equity and commodity parameters), which are deemed to entail derecognition in view of their impact (expected to be significant) on the original contractual flows.

Derecognition criteria

Financial assets are derecognised only if the contractual rights to the cash flows from the financial asset expired or if the entity transferred the financial asset and the sale resulted in the substantial transfer of all the risks and benefits related to the assets. On the other hand, if a significant portion of risks and benefits

related to the financial assets sold has been maintained, these assets will continue to be recognised, even if the legal ownership of the assets has actually been transferred.
If it is not possible to determine the substantial transfer of risks and benefits, financial assets are derecognised when the control thereof is transferred. Otherwise, the fact that even partial control has been retained means that the assets must be carried for an amount proportional to the remaining involvement, which is measured by the exposure to changes in the value of the assets sold and the changes in their cash flows.

Finally, the financial assets sold are derecognised if the contractual rights to receive the relative cash flows are retained, but an obligation is concurrently assumed to pay out to other third parties the above-mentioned flows.

4 - Hedging Transactions

Classification criteria

Risk hedging transactions are directed at neutralising potential losses, attributable to a determined risk, and recognisable on a determined element or group of elements, if that specific risk should actually manifest itself.
IFRS 9 envisages, at the time of its introduction, the possibility of continuing to apply in full the provisions of the former IAS 39 on hedge accounting (in the carved-out version approved by the European Commission) for each type of hedge (both for specific hedges and for macro hedges).

Recognition criteria

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at fair value.

Measurement criteria

Hedging derivatives are measured at fair value. In the case of fair value hedging, the change in fair value of the hedged element is offset with the change in fair value of the hedging instrument. This offset is recognised through the recognition in the income statement - under item 90 “Fair value adjustments in hedge accounting” - of said value changes, referred both to the hedged element (with regard to the changes caused by the underlying risk factor), and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, consequently constitutes its net economic effect.
The derivative is designated as a hedging derivative if there is a formalised documentation of the relationship between the hedged instrument and the hedging instrument and if it is effective at the time when the hedge starts and, prospectively, throughout the time of its validity.
The effectiveness of the hedge depends on the extent to which the changes in fair value of the hedged instrument are offset by those of the hedging instrument. Therefore, the effectiveness is determined by the comparison between the aforesaid changes, taking into account the intent pursued by the company when the hedge was established.
If the hedge is ineffective, hedge accounting, as set out above, is stopped, the hedging derivative is reclassified among trading instruments and the hedged financial instrument reacquires the measurement criteria that matches its classification in the financial statements.

5 - Equity investments

Classification criteria

The item “Equity investments” includes investments in associated companies.

Equity interests in other companies in which the Parent Company does not exercise control or over which it has no significant influence, either directly or through its subsidiaries, but which are acquired as long-term investments and not held for the purpose of trading, are classified as “Financial assets designated at fair value through other comprehensive income”.

Recognition criteria

Equity investments are recorded at their settlement date and at purchase – or subscription – cost, including the additional charges and subsequent adjustment, on the basis of the stake held in the investee company.

Measurement and recognition criteria of income statement items

After initial recognition, the book value will be adjusted to reflect changes in the shareholders’ equity of the investee company. The pro quota share of the net income of the investee company is recorded under item 250 “Profit/loss from equity investments” of the consolidated income statement.

Derecognition criteria

Equity investments are derecognised when they are transferred, with the substantial transfer of all related risks and benefits, or when the contractual rights to cash flows deriving from them expire.

6 - Property and equipment

Classification criteria

This item includes the assets for permanent use held to generate income and the property held for investment purposes.

Property and equipment also include advance payments made for the purchase and revamping of assets that are not yet part of the production process and hence not yet subject to depreciation.

Recognition criteria

All classes of property, plant and equipment recognised as assets are initially recorded at cost, insofar as it is representative of their fair value. The cost includes the purchase price, non-recoverable purchase taxes and any cost directly descending from the installation of the asset for its intended use, minus any trade discount.

Financial expenses are recorded according to IAS 23 and, therefore, recognised as a cost in the year in which they were incurred.

Overheads and administrative expenses are not included in the initial cost of the assets in question, unless they are directly descended from the purchase of the asset or its installation.

Measurement criteria

Following their initial recognition, instrumental fixed assets and fixed investments are measured at cost minus the accumulated depreciation and taking into account any value impairment and/or revaluation.

This principle has been adopted because it was deemed more appropriate than the redetermination of value method provided by the reference accounting standard.

Property and equipment are depreciated each year, at rates calculated by reference to the residual possibility of using the assets, their related useful life and realisable value, except for land (incorporated in the asset value) and works of art, insofar as they have an indefinite life. In the case of land whose value is incorporated in the value of the tangible fixed asset, the relevant separation is made only for free-standing buildings. For assets acquired during the year, the amortisation is calculated on a daily basis starting on the date on which the asset was first used.

Tangible fixed assets featuring an unlimited useful life cannot be depreciated.

Subsequent expenses relating to property, plant and equipment, already recorded, are added to the book value of the asset when it is likely that the future economic benefits exceed the previously established ordinary performance of the asset.

At the end of each reporting period, an impairment test is carried out on the assets. More specifically, a comparison is made between the book value of the asset (purchase cost less accumulated depreciation) and its recoverable amount, equal to the greater of the fair value, minus any sales cost, and the related value of use of the asset, meaning the present value of the future cash flows expected from the asset. Adjustments are recorded in the income statement under item 210 “Net losses/recoveries on property and equipment”. If the reasons that led to the recognition of the loss cease to apply, a value recovery is recorded that may not exceed the value that the asset would have had minus the depreciation calculated in the absence of previous losses in value.

Derecognition criteria

The book value of a tangible asset must be derecognised on its disposal, or when no future economic benefit is expected from its use.

7 - Intangible assets

Classification criteria

Intangible assets include long-term application software. The positive difference between the value of the assets and liabilities acquired following a business combination and the related purchase price of the combined business entity is recorded under the intangible assets as goodwill.

Recognition criteria

Intangible assets are recorded at cost. The purchase cost may be adjusted for ancillary charges. The costs incurred for the purchase of intangible assets are recognised only if they are identifiable, their cost can be measured reliably, they can be controlled and they are able to generate future economic benefits. Otherwise, the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.

Measurement and recognition criteria of income statement items

Following their initial recognition, intangible assets are measured at cost, less the accumulated amortisation and any impairment of value. The “at cost” measurement method was deemed more appropriate than the “redetermination of value” method. The cost of intangible assets is amortised, minus the recoverable

amount, on the basis of their estimated useful life. For assets acquired during the year, the amortisation is calculated on a daily basis starting on the date on which the asset was first used. In the case of assets transferred and/or disposed of during the year, the amortisation is calculated on a daily basis until the date of transfer and/or disposal.
If the useful life of the fixed asset cannot be established and appears to be indefinite (goodwill), the asset is not amortised, however it is periodically tested for impairment and, in any case, each time objective evidence is found to this effect its initial recognition value may have to be changed. The performance of this test entails the prior allocation of goodwill to a cash-generating unit, whose value can be reliably estimated. Goodwill impairment is calculated as the difference between its book value and the estimated recoverable amount, determined by reference to the cash-generating unit to which the goodwill in question has been allocated. Any impairment calculated as the difference between the book value of the fixed asset and its recoverable amount is recorded in the income statement under item 270 "Goodwill impairment losses". Goodwill impairment may not be reversed in future accounting periods as required by IAS 36.
Regarding intangible assets other than goodwill, if there is evidence of impairment, an estimate is made each year of the recoverable amount of the assets. The amount of the loss, recorded in the income statement, is equal to the difference between the book value of the asset and its recoverable amount. If the recoverable amount of a specific intangible asset cannot be determined, then the asset must be assigned to the smallest independent cash-flow-generating unit (CGU), and it is by reference to the latter that the recoverable value is estimated and compared with the book value, to establish the possible impairment loss.

Derecognition criteria

Intangible assets are derecognised when they are sold or when no future economic benefits are expected from their use.

8 - Current and deferred tax

Current and deferred income taxes, calculated in accordance with the applicable domestic regulations, is recorded in the income statement, except in the case of items directly charged or credited to shareholders' equity. Tax provisions are calculated on a prudential basis and also include the risk provisions set aside in connection with the ongoing disputes.
Since 2004, the Bank and its Italian-based subsidiaries have decided to join the "domestic consolidated tax system", pursuant to Articles 117/129 of the TUIR. The option was renewed during June 2016 also for the 2016/2017/2018 period.
By virtue of this option, the Group companies determine their proportion of the taxes payable and the corresponding tax income (taxable income or tax loss) is transferred to the Parent Company, relating to which a single taxable income or loss is reported (resulting from the arithmetical sum of its own and its participating subsidiaries' incomes/losses) and, consequently, a single income tax debit/credit determined.
Deferred tax is calculated based on the tax effect of the temporary differences between the book value of the assets and liabilities and their tax value, resulting in future taxable amounts or tax deductions. For this purpose, "temporary taxable differences" means those that, in the future, will determine taxable amounts,

while "temporary deductible differences" those that, in the future, will determine deductible amounts. Deferred tax assets are recorded in the financial statements insofar as they are likely to be recovered, based on the capability of the Bank, and of the other Group companies belonging to the "domestic consolidated tax system", to generate taxable income, in the future, on a regular basis.
Deferred taxation is calculated based on the applicable rates, with respect to, (i) the temporary taxable differences, with respect to which there is the likelihood of effectively incurring taxes, and (ii) the temporary deductible differences, with respect to which there is the reasonable certainty of recovering tax money back.
Deferred taxes are calculated taking into account the rates expected when payment falls due.
If the deferred tax assets and liabilities relate to income statement items, the balancing item is represented by income tax.
When advance and deferred taxes concern transactions recorded in shareholders' equity, without affecting the income statement, the directly balancing entry is recorded in shareholders' equity, in the specific reserves where provided (Valuation reserves).
Current tax assets/liabilities related to income tax for the year are recognised net of any tax paid in advance and any withholding tax incurred.
Advance tax assets and deferred tax liabilities are recorded in the financial statements, respectively under "Tax assets" and "Tax liabilities".

9 - Provisions for risks and charges

Provisions for risks and charges against commitments and guarantees given

The sub-item of provisions for risks and charges under examination includes the provisions for credit risk recognised against commitments to disburse funds and guarantees given that fall within the scope of application of the rules on impairment in accordance with IFRS 9. For these cases, in principle, the same methods of allocation between the three stages of credit risk and calculation of the expected loss shown with reference to financial assets designated at amortised cost or at fair value through other comprehensive income, are adopted.

Other provisions

The other provisions for risks and charges include the allocations relating to legal obligations or connected with employment agreements or with disputes, including those of a tax-related nature, originated from a past event for which it is likely that economic resources will be expended to comply with said obligations, provided that a reliable estimate of the related amount can be obtained.
If the time element is significant (expected outlay beyond 12 months), the allocations are discounted to the present with reference to current market rates. The allocation and any subsequent increases in the provisions due to the time factor are recognised in the income statement.
The allocated provisions are subject to periodic reviews and when it becomes unlikely that possible costs may be incurred, the allocations are fully or partly reversed to the benefit of the income statement.

10 - Financial liabilities designated at amortised cost

Classification criteria

Due to banks, Due to customers and Securities issued include the various forms of interbank and customer funding, repurchase agreements with the obligation to repurchase forward bonds and other funding instruments issued, net of any amounts repurchased.

Recognition criteria

The initial recognition of these financial liabilities occurs on the date the contract is signed, which normally coincides with the date of receipt of the sums collected or the date of issue of the debt securities.

Initial recognition is carried out based on the fair value of the liabilities, generally equal to the amount received or the issue price, plus any additional costs/income directly attributable to the individual funding or issue transaction. Internal administrative costs are excluded.

Measurement criteria

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

Exceptions are short-term liabilities, for which the time factor is negligible, which remain recorded at the value received.

Derecognition criteria

Financial liabilities are derecognised when they expire or are extinguished. Derecognition takes place also in the event of the repurchase of bonds previously issued. The difference between the book value of liabilities and the amount paid to purchase them is posted in the income statement.

The replacement on the market of treasury shares after they have been repurchased is considered tantamount to a new issue, with the entry of the new placement price.

11 - Financial liabilities held for trading

Classification criteria

This item includes financial liabilities, regardless of their technical form, classified in the trading portfolio.

In particular, this category of liabilities includes trading derivatives with a negative fair value as well as embedded derivatives with a negative fair value that are present in complex contracts - where the primary contract is a financial liability - but not strictly related to them. Liabilities that originate from uncovered short positions generated by securities trading are also included.

Recognition criteria

These liabilities are recognised at the subscription or issue date at a value equal to the fair value of the instrument, without considering any directly attributable transaction cost or income.

Measurement criteria

All trading liabilities are measured at fair value with the result of the measurement recognised in the income statement.

Derecognition criteria

Financial liabilities held for trading are derecognised from the financial statements when the contractual rights to the corresponding cash flows expire or when the financial liability is sold substantially transferring all related risks and benefits. The resulting difference is recorded in the income statement.

12 - Foreign-currency transactions

Foreign-currency transactions are recorded in Euro, at their initial recognition, applying the spot exchange rate in force at the date of the transaction.

When preparing the financial statements, items in foreign currencies are recorded as follows:

- in the case of monetary instruments, at the spot exchange rate on the date of preparation of the financial statements, with foreign exchange differences recorded in the income statement under the item "Profit (losses) on trading";
- in the case of non-monetary instruments, they are measured at historical cost, at the exchange rate in force at the time of the original transaction;
- in the case of non-monetary instruments measured at fair value, at the spot exchange rate in force at the time of preparation of the financial statements.

Exchange rate differences relating to non-monetary items are recorded applying the accounting standards used for the profits and losses relating to the original instruments.

13 - Other information

1. Treasury shares

Treasury shares held are stated in the financial statements at cost, adjusting shareholders' equity by a corresponding amount. No profit or loss is recorded in the income statement in connection with the purchase, sale, issue and derecognition of instruments that represent the Bank's capital. The consideration paid or received is recognised directly in shareholders' equity.

Any marginal cost incurred for the repurchase of treasury shares is recorded as a reduction of shareholders' equity, as long as it is directly related to the capital transaction that otherwise would not have been incurred.

2. Provisions for termination indemnities

Provisions for termination indemnities are determined as the Group's present obligation towards its employees, in terms of the related severance indemnity. The amount of this obligation on the date of the financial statements is estimated using actuarial methods and time-discounted using the "Projected unit credit method" whereby each period of service is viewed as giving rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. Once the final obligation is obtained, the Group needs to calculate its present value, even if part of the obligation falls in the twelve-month period after the date of the financial statements. Actuarial profits/losses deriving from defined benefit plans are stated in shareholders' equity under Valuation reserves. All other components of the provisions for termination indemnities accrued during the year are posted in the income statement under item 190. Administrative expenses: a) personnel expenses in "Termination indemnities", for the amounts paid to the INPS Treasury; "payments to defined contribution supplementary external pension funds" for payments made to Supplementary Retirement Plans and "provisions for termination indemnities" for the adjustment of the fund present in the company.

3. Recognition of revenue and costs

REVENUE

Revenues are gross flows of economic benefits deriving from the carrying on of the normal company business, when such flows determine increases in shareholders' equity other than the increases deriving from the contribution of shareholders. Revenues are recognised on an accrual basis.

In particular, fee and commission income and other income from services are recognised in the financial statements only if all the following criteria are met:

1) identifying the contract with a customer;
2) identifying the performance obligations;
3) determining the transaction price;
4) allocating the transaction price to the performance obligations;
5) recognising revenue when (or as) the entity satisfies a performance obligation.

Revenues configured as variable considerations are recognised in the income statement if they can be reliably estimated and only if it is highly probable that this consideration must not be reversed from the income statement in future periods in whole or in a significant part.

In the event of a strong prevalence of uncertainty factors related to the nature of the consideration, it will be recognised only when this uncertainty is resolved. Factors that could increase the likelihood and extent of the downward adjustment of revenue include, among other things, the following:

a. the amount of the consideration is very sensitive to factors beyond the control of the entity (e.g.: market volatility);
b. experience with the type of contract is limited;
c. t is the practice to offer a wide range of price concessions or to change the terms and conditions of payment of similar contracts in similar circumstances;
d. the contract has a large number and a wide range of possible amounts of remuneration.

The consideration for the contract, the collection of which must be probable, is allocated to the individual obligations arising from the contract. The allocation must be based on the selling prices that would have been applied in a transaction involving the individual contractual commitment (standalone selling price). The best indication of the standalone selling price is the price of the good or service that can be observed when the Bank sells the good or service separately in similar circumstances and to similar customers. If the standalone selling price is not directly observable, it must be estimated.

In the event that the customer obtains a discount for the purchase of a bundle of goods or services, the discount must be allocated between all the performance obligations provided for in the contract; the discount can only be attributed to one or more obligations if all of the following criteria are met:

a. the entity normally sells separately each distinct good or service;
b. the entity normally also sells separately the bundle(s) of some of the distinct goods or services, giving a discount on the standalone selling prices of the goods or services of each bundle, and the discount is substantially the same discount provided for in the contract.

Revenue is recognised over time when the goods or services have been transferred (satisfaction of performance obligations); an asset is transferred when the customer has control of the asset, i.e. when it can use the goods or service directly and obtain all the benefits. Depending on the timing of the satisfaction of the performance obligations, the revenue can be recognised:

- when control is passed at a certain point in time; factors that may indicate the point in time at which control passes include:
  - the entity has a present right to payment for the asset;
  - the customer has legal title to the asset;
  - the entity has transferred physical possession of the asset;
  - the customer has the significant risks and benefits related to the ownership of the asset;
  - the customer has accepted the asset.
- or, alternatively, over time if one of the following criteria is met:
  - the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs;
  - the entity's performance creates or enhances an asset that the customer controls or from which it can derive all the benefits (potential cash flows);
  - the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Interests are recognised on an accrual basis that considers the effective yield of the asset.
The positive economic components accrued on financial liabilities are recognised under the item "Interest income and similar income".
Default interests are recorded under the item "Interest income and similar income" when they are actually collected.
Dividends are recorded in the accounts in accordance with the shareholders' right to receive payment.

COSTS

Costs are recognised when they are incurred in compliance with the criterion of correlation between costs and revenues that derive directly and jointly from the same transactions or events. Costs (including impairment losses) that cannot be related to revenues are immediately recognised in the income statement.
Costs directly attributable to financial instruments measured at amortised cost and determinable from the start, regardless of the moment when they are paid, are included in the income statement by applying the effective interest rate.
Interests are recognised on an accrual basis that considers the effective yield of the asset.
Negative income components accrued on financial assets are recognised in the item "Interest expense and similar expense".

4. Classification of financial assets

The classification of financial assets in the three categories envisaged by IFRS 9 depends both on the business model with which the financial instruments are managed (or business model) and on the contractual characteristics of the financial flows of the financial assets (or SPPI Test). The combination of these two elements results in the classification of financial assets as follows:

- Financial assets designated at amortised cost: assets that pass the SPPI test and fall within the Held to Collect (HTC) business model;
- Financial assets designated at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and fall within the Held to Collect and Sell (HTCS) business model;

- Financial assets designated at fair value through profit or loss (FVTPL): it is a residual category that includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test on the characteristics of the contractual flows (SPPI test not passed).

SPPI test

The Standard requires financial assets to be classified also on the basis of the characteristics of the contractual cash flows. The SPPI test requires the determination of whether the contractual cash flows consist of Solely Payments of Principal and Interest on the principal amount outstanding (IFRS 9 - B4.1.7).

Contractual cash flows may be consistent with the definition of a “basic lending arrangement” even if the credit risk will be offset. Moreover, the interest rate can also include an additional fee that takes into account other risks such as liquidity risk or administrative costs. The possibility of obtaining a profit margin is also consistent with the definition of “basic lending arrangement” (IFRS 9 - B4.1.7A).

Contractual features that introduce an exposure to risks or volatility unrelated to “basic lending arrangements”, such as exposure to changes in equity prices or commodity prices, do not meet the definition of Solely Payments of Principal and Interest on the principal amount outstanding.

Therefore, the SPPI test is aimed at identifying all the contractual characteristics that may show payments other than those relating to the principal and interest accrued on the principal amount outstanding.

Only if the test is successful can the instrument be accounted for, depending on the business model identified, at amortised cost or at fair value through OCI.

The test will only be necessary if the adopted business model is “Collect” or “Collect and Sell”. Conversely, if the instrument is managed according to the residual business model, the instrument will be accounted for at fair value regardless of the characteristics of the contractual cash flows.

BUSINESS MODEL

The business model represents the way in which the Bank manages its financial assets, i.e. with which it intends to realise the cash flows of debt instruments. It reflects the way in which groups of financial assets are collectively managed to pursue a particular business objective and does not depend on management’s intentions with respect to a single instrument but is set at a higher level of aggregation.

The definition of the Group’s business model takes into consideration all the useful elements that emerge both from the strategic objectives defined by the Bank’s top management and from elements relating to the organisational structure of the structures proposed for the management of assets and the methods for defining the budget and evaluating their performance. The method of management is defined by the top management through the appropriate involvement of the business structures. The business model does not depend on the intentions of the management with respect to a single instrument, but rather refers to the way in which homogeneous portfolios are managed in order to achieve a given objective.

The business model is defined on the basis of several elements, such as (IFRS 9 - B4.1.2B):

- how the performance of the business model and the financial assets held within that business model are assessed and reported to the entity’s key executives;
- the risks that affect the performance of the business model and the ways those risks are managed;

how managers of the business are remunerated – e.g. whether the remuneration is based on the fair value of the assets managed or on the cash flows collected.

The drivers used to assess the performance of the various business models identified and the type of reporting produced are elements to be considered for the correct attribution of the business model. In particular, performance and reporting could be based on information on fair value or interest received, depending on the purpose for which the assets are held.

Adequate monitoring, escalation and reporting is essential to ensure proper management of risks that may affect portfolio performance.

The possible business models set out in the Standard are as follows:

- "Held to collect": requires the realisation of contractually envisaged cash flows. This business model is attributable to assets that will presumably be held until their natural maturity (IFRS 9 - B4.1.2C).
- "Collect and Sell": envisages the realisation of cash flows as provided for in the contract or through the sale of the instrument. This business model is attributable to assets that may be held to maturity, but also sold (IFRS 9 - B4.1.4).
- "Held to Sell": this model is directed at realising cash flows by selling the instrument. This business model is attributable to assets managed with the objective of realising cash flows through sale - known as "trading" - (IFRS 9 - B4.1.5).

The measurement of the business model to be attributed to the portfolios is carried out on the basis of the scenarios that could reasonably occur (IFRS 9 B4.1.2A), considering all relevant and objective information available at the measurement date.

In the event that the cash flows are realised in a way that is different from initial expectations considered in the definition of the business model, this realisation will not:

- change the classification of the remaining assets held in that business model;
- give rise to a prior-period error in the entity's financial statements.

However, information on how the cash flows of the target portfolio were realised in the past, together with other relevant information, will necessarily have to be taken into account prospectively when classifying the subsequent purchase/recognition of a new asset in the financial statements. The business model must be attributed at the level of the portfolio, sub-portfolio or individual instrument, where these best reflect the way assets are managed. (IFRS 9 - B4.1.2).

5. Manner of determination of the amortised cost

The amortised cost of a financial asset or a financial liability is in general the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

The effective interest rate is the rate that equalises the present value of future contractual cash payments or receipts until the expiry or the following recalculation date of the price to the net carrying amount of the financial asset or financial liability. In order to calculate the present value, the effective interest rate is applied to the flow of future receipts or payments estimated during the useful life of the financial asset or liability - or a shorter period in the presence of certain conditions (for example, the review of market rates).

If it is not possible to estimate reliably the cash flows or the expected life, the Group uses the expected contractual cash flows for all the period of validity of the contract.
Subsequent to initial recognition, the amortised cost allows to allocate revenues and costs deducted from or summed to the instruments during its expected life through amortisation. The method of determination of the amortised cost depends on whether the measured financial assets/liabilities have a fixed or variable rate.
For fixed-rate instruments, future cash flows are quantified based on the interest rate known during the life of the loan. For variable-rate financial assets/liabilities, whose variability is not known a priori (because, for example, linked to an index), cash flows are determined by maintaining constant the last variable rate recorded. At each date of review of the rate, the redemption plan and the effective interest rate are recalculated over the entire useful life of the instrument, i.e. until the date of expiry.
Measurement at amortised cost is carried out for financial assets and liabilities measured at amortised cost (due from/to banks and loans/due to customers) and for financial assets designated at fair value through other comprehensive income. For the latter, the amortised cost is calculated for the sole purpose of recognising in the income statement the interests based on the effective interest rate; the difference between the fair value and the amortised cost is recorded in a specific shareholders' equity reserve.

6. Methods for determining impairment losses

IFRS 9 envisages a model for determining prospectively impairment losses, which requires the immediate recognition of losses on receivables even if only expected, contrary to IAS 39 that requires for their recognition the examination of past events and current conditions.

At the end of each reporting period, in accordance with IFRS 9, financial assets other than those designated at fair value through profit or loss are measured to determine whether there is any evidence that the book value of the assets may not be fully recoverable. A similar analysis is also carried out for commitments to disburse funds and guarantees issued that fall within the scope of impairment pursuant to IFRS 9.
In the event that such evidence exists (known as "impairment evidence"), the financial assets in question - consistently, where existing, with all the remaining assets pertaining to the same counterparty - are considered impaired and are included in stage 3. Against these exposures, represented by financial assets classified - in accordance with the provisions of Bank of Italy Circular no. 262/2005 - in the categories of bad loans, unlikely to pay and past due by more than ninety days, impairment equal to the full lifetime expected credit loss must be recognised.
For financial assets for which there is no evidence of impairment (performing financial instruments), it is necessary, instead, to check whether there are indicators such that the credit risk of the individual transaction is significantly increased compared to the time of initial recognition. The consequences of this check from the point of view of classification (or, more properly, staging) and measurement, are as follows:

- where such indicators exist, the financial asset is included in stage 2. In this case, the measurement, in accordance with the international accounting standards and even in the absence of an evident impairment, envisages the recognition of impairment equal to the full lifetime expected credit loss of the financial instrument. These adjustments are reviewed at the end of each subsequent reporting period both to periodically check their consistency with the constantly updated loss estimates and to take into account - in the event that the indicators of a "significantly increased" credit risk are no longer available - the changed forecast period for calculating the expected loss;

– where such indicators do not exist, the financial asset is included in stage 1. In this case, the measurement, in accordance with the international accounting standards and even in the absence of an evident impairment, envisages the recognition of 12-month expected credit losses for the specific financial instrument. These adjustments are reviewed at each subsequent reporting date both to periodically check their consistency with the constantly updated loss estimates and to take into account - in case of indicators of a "significantly increased" credit risk - the changed forecast period for calculating the expected loss.

With regard to the measurement of financial assets and, in particular, the identification of the "significant increase" in credit risk (a necessary and sufficient condition for the classification of the asset being measured in stage 2), the elements that - pursuant to the standard and its operational breakdown carried out by the Banca Finnat Euramerica Group - constitute the main determinants to be taken into consideration are as follows:

- Quantitative criteria:
  a. if the counterparty's rating deteriorates by at least three classes compared to the value at the date of origin;
  b. for exposures backed by collateral, where there is a 50% reduction in the value of the collateral compared with its value at the date of origin;
  c. exposures with a past due date of more than 30 days (even partial) recognised at the report date in the monthly survey (or in the previous 5 monthly surveys) regardless of the counterparty and without tolerance thresholds;
  d. on-demand loans with both of the following irregular trends:
     1. presence of operating tension: average percentage of use of the credit line granted, calculated over the last 180 days, of more than 80%;
     2. absence of changes in assets in the last 180 days.
- Qualitative criteria:
  a. forborne performing exposures in relation to a financial difficulty of the debtor;
  b. exposures with irregular trends monitored by the Credits Committee of the Bank;
  c. exposures to counterparties for which prejudicial information has been acquired. This requirement is to be considered valid also for prejudicial information relating to the guarantors.

A financial asset is considered non-performing and allocated to stage 3 if one or more events that have a negative effect on expected cash flows occurred. In particular, the observable data relating to the following events constitute evidence of impairment of the financial asset:

- significant financial difficulties of the debtor (also based on the financial statement analysis such as, for example, negative changes in the debt ratio and in the capacity to cover financial expenses);
- breach of contractual clauses (such as a default or past-due event of more than 90 days);
- classification in category "D - Defaulted" within the CSE outsourcing rating model;
- a lender having granted a concession to the debtor – for economic or contractual reasons relating to the debtor's financial difficulty – that the lender would not otherwise consider;

- disappearance of an active market for that financial asset because of financial difficulties;
- the purchase or issue of a financial asset at a deep discount that reflects the incurred credit losses;
- the debtor is likely to declare bankruptcy or be subject to another financial reorganisation.

A performing financial asset at the time of initial recognition and for which one or more of the above events occur must be considered non-performing and placed in stage 3; the allocation in this bucket envisages that:

- the allowance for doubtful receivables is determined as an amount equal to full lifetime expected credit losses of the financial asset;
- interest revenue is calculated based on the amortised cost i.e. gross book value less the allowance for doubtful receivables;
- the time value is determined, and the expected date of collection is estimated.

For these financial assets, the method for determining the loss is calculated in accordance with IFRS 9 and in line with the provisions of the credit regulations.

Once the allocation of exposures to the various stages of credit risk has been defined, the determination of expected credit losses (ECL) is carried out, at the level of individual transactions or security tranche, starting from the IRB/management approach, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), on which appropriate corrective action is taken to ensure compliance with the requirements of IFRS 9.

The determination of the values and calculation methods are detailed in the appropriate Group Policy.

7. Assets/liabilities designated at fair value

The Group did not use the so-called fair value option referred to in IFRS 9: therefore, the relevant asset and liability items in the balance sheet and income statement are not shown in the financial statements as they are not measured.

A.3 – Information on transfers between portfolios of financial assets

According to the general rules envisaged by IFRS 9 on the reclassification of financial assets (with the exception of equities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity modifies its business model for the management of financial assets. However, such cases are expected to be highly infrequent.

No transfers were made between portfolios of financial assets during the period due to a change in the business model.

A.4 – Information on fair value

Levels of fair value 2 and 3: valuation techniques and inputs used

The techniques, valuation processes of the financial instruments and the methods for determining the fair value used by the Group are shown below.

The fair value of financial instruments is determined based on the prices acquired by the financial markets, in the case of instruments listed on active markets (**Level 1**), or on internal valuation models, in the case of all other financial instruments.

If the instrument is not listed on an active market, or if there is no regularly functioning market, i.e. the market does not feature a sufficient and ongoing number of transactions, bid-ask spread and a volatility that is not sufficiently curbed, the fair value of the financial instruments is generally determined based on the use of valuation techniques the purpose of which is to establish the price of a hypothetical independent transaction, motivated by normal market consideration, at the date of valuation.

Regarding the valuation techniques, the following are taken into account:

- if available, the prices of recent transactions involving similar instruments, suitably adjusted to reflect the changed market conditions and the technical differences between the valued instrument and the instrument selected as similar in nature (comparable approach);
- valuation models widely used by the financial community, which have proved over the years capable of producing reliable estimates of prices, with respect to the current market conditions (Mark-to-Model).

Financial instruments classified as **Level 1** instruments include:

- stocks and bonds listed on active markets. The principal 'price source' of securities listed on regulated markets is the relevant stock exchange, and generally corresponds to the price published by the regulated market on which the security is negotiated. For financial instruments listed on the Italian Stock Exchange, the value is determined using the posted price;
- UCI with official prices expressed by an active market; open-ended UCI (including ETF) for which a price listed on an active market is available at the measurement date;
- foreign exchange spot transactions;
- derivatives for which prices are available on an active market (e.g., futures and options).

Lacking prices on an active market, the fair value of financial instruments is calculated according to the so-called "comparable approach" (**Level 2**), based on the use of valuation models making use of parameters that can be directly observed on the market. In this case, the valuation is not based on the prices of the actual financial instruments being valued, but on prices or credit spreads taken from the official listings of substantially similar instruments, in terms of risk-yield factors, using a certain calculation method (pricing model). This approach translates into the search for transactions on the active markets involving instruments that, in terms of their risk factors, are comparable with the valued instrument.

Following is an overview of the valuation techniques used:

- the use of current market prices of other substantially similar instruments, if they are deemed to be highly comparable (based on the country and sector to which they belong, along with their rating, maturity and degree of seniority of the securities), such as to avoid any substantial alteration of the prices or the use of trading prices – with respect to the same financial instrument – concerning market transactions between independent counterparties;

- the use of prices of similar instruments, in terms of their calibration;
- discounted cash flow models;
- option pricing models.

Financial instruments classified as **Level 2** instruments include:

- UCI for which prices recorded in an inactive market whose values are deemed to be representative of fair value are available. If these prices are based on the NAV, this value, if available at the measurement date, may be taken into consideration for fair value purposes;
- bonds that are not traded on an active market, but which can be priced based on the prices of comparable securities, as inputs for a valuation model. The fair value of bonds without official prices expressed by an active market is calculated by using an appropriate credit spread, determined based on liquid financial instruments with similar features. Moreover, in the case of market transactions – concerning the same financial instrument – between independent counterparties account will be taken of the known trading price;
- OTC derivatives valued based on observable parameters and market models. Interest rate, exchange, share, inflation and commodity derivatives – if they are not traded on regulated markets – are known as Over the counter (OTC) instruments, i.e. instruments that are bilaterally negotiated with market counterparties, and their valuation is conducted based on specific pricing models, fed by inputs (such as rate, exchange and volatility curves) observed on the market.

Lastly, the determination of the fair value of certain types of financial instruments is based on valuation models that require the use of parameters that cannot be directly observed on the market and which, therefore, require estimates and assumptions by the valuer (**Level 3**).

Financial instruments classified as **Level 3** instruments include:

- unlisted equities. Equity investments held at cost are also conventionally included among the Level 3 instruments;
- UCI lacking prices expressed by a market (active and inactive) and similar listed securities. This category includes the open-end UCI whose last measured NAV is not reported near the measurement date and the closed-end UCI whose fair value is derived exclusively on the basis of the NAV. For these UCI, the NAV used for measurement must prudentially be rectified to take into account any risk of not being able to carry out a transaction unless it is at prices that are significantly lower than the value of the assets represented by the NAV;
- bonds not listed on active markets, for which there are no comparable instruments, or which require the use of significant assumptions, such as the knowledge of trading prices between independent counterparties;
- OTC derivatives valued using non-market models, or market models based on parameters that cannot be observed on the market.

Level 3 instruments also include financial instruments priced by the Group based on internal valuation models using inputs that cannot be observed on the market and personal assumptions made by the valuer.

Fair value hierarchy

With the introduction of IFRS 13, the rules for measuring the fair value previously included in different accounting principles were set out in a single document.

The fair value is defined as the price that is received for the sale of an asset or that would be paid for the transfer of a liability in an orderly transaction between market participants at the measurement date.

When measuring the fair value of a financial instrument, IFRS 13 refers to the concept of hierarchy of the measurement criteria used, which was at the time introduced by an amendment to IFRS 7 that required the company to classify the measurements based on a hierarchy of levels that reflects the significance of the inputs used in the measurement of financial instruments.

This classification aims to establish a hierarchy in terms of reliability of fair value depending on the degree of discretion applied by enterprises, giving priority to the use of parameters observable on the market reflecting the assumptions that market participants would use when pricing the asset/liability.

IFRS 13 identifies three different input levels:

- Level 1: inputs represented by quoted prices (without adjustment) on active markets - as defined by IFRS 13 - for assets and liabilities subject to measurement;
- Level 2: inputs other than quoted market prices set forth above, which are observable for the asset or liability, either directly (prices) or indirectly (derived from prices);
- Level 3: inputs that are unobservable inputs for the asset or liability subject to measurement.

The choice between these types is not optional but must be done in a hierarchical order since priority is given to official prices on active markets (level 1); in the absence of such inputs, we use valuation techniques based on parameters that cannot be observed on the market (level 2); with a lower and more discretionary priority, the fair value of assets and liabilities calculated with valuation techniques based on parameters that cannot be observed on the market (level 3).

The valuation method and as a result transfers among the levels of the fair value hierarchy of a financial instrument are altered only if there are significant changes in the market or subjective conditions of the issuer of the financial instrument.

IFRS 13 contemplates that, as already indicated by IFRS 7, the instruments measured at amortised cost are provided with fair value disclosure.

Within the Group, the following approaches were identified for calculating the fair value:

Assets designated at amortised cost

For financial assets recognised in the financial statements at amortised cost, classified in the accounting category of "Financial assets designated at amortised cost" (due from banks and loans to customers) in particular:

- for medium/long-term performing loans (mainly mortgages and leases), the fair value is determined on the basis of cash flows, suitably adjusted for expected losses, on the basis of the PD and LGD parameters. These cash flows are discounted on the basis of a market interest rate adjusted to take account of a premium deemed to express risks and uncertainties;

- for "non-performing" loans (bad loans, unlikely to pay, past due), the fair value is assumed to be equal to the net book value. In this regard, it should be noted that the market for non-performing loans is characterised by a significant illiquidity and a high dispersion of prices according to the specific characteristics of the loans. The absence of observable parameters that could be used as a reference for measuring the fair value of exposures comparable to those being measured could therefore lead to a wide range of possible fair values; for this reason, for the purposes of financial reporting, the fair value of non-performing loans is shown as the book value;
- for debt securities classified in the "Due from banks or Loans to customers" portfolio or "Securities issued" portfolio, the fair value was determined by using prices obtained on active markets or by using valuation models, as described in the previous paragraph "Fair value levels 2 and 3: valuation techniques and inputs used".

The fair value of loans to customers and due from banks with undefined contractual expiry, in that they are on demand, is represented by the nominal value of the receivables net of the risk component represented by the calculated probability of default, in accordance with what was previously defined.

Due to banks and customers

They are entered at their nominal value that is usually equal to the amount received initially by the Bank. This value can be reasonably approximated to the fair value in that the Bank can meet its payables thanks to high capital instruments.

Securities issued

The item pertains to bonds issued by the Bank and entered at amortised cost. The fair value is calculated by using a model that considers the loan indexation parameter and a target spread.

Assets and liabilities measured at fair value on recurring basis: breakdown by level of fair value

Financial assets/liabilities measured at fair value	30.06.2018		
	L1	L2	L3
1. Financial assets designated at fair value through profit or loss	66,022	27,312	2,445
a) financial assets held for trading	64,842	7,916	5
b) financial assets designated at fair value	–	–	–
c) other financial assets mandatorily at fair value	1,180	19,396	2,440
2. Financial assets designated at fair value through other comprehensive income	209,115	–	4,432
3. Hedging derivatives	–	–	–
4. Property and equipment	–	–	–
5. Intangible assets	–	–	–
Total	**275,137**	**27,312**	**6,877**
1. Financial liabilities held for trading	–	126	–
2. Financial liabilities designated at fair value	–	–	–
3. Hedging derivatives	–	–	–
Total	**–**	**126**	**–**

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

The table below, although not fully comparable, shows at 31 December 2017 the fair value hierarchy of financial assets and liabilities measured at fair value on a recurring basis drawn up in compliance with IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular No. 262 (4th update).

Assets/liabilities measured at fair value	31.12.2017		
	L1	L2	L3
1. Financial assets held for trading	32,805	12,902	5
2. Financial assets measured at fair value	–	–	–
3. Financial assets available for sale	1,192,686	20,587	6,260
4. Hedging derivatives	–	–	–
5. Property and equipment	–	–	–
6. Intangible assets	–	–	–
Total	**1,225,491**	**33,489**	**6,265**
1. Financial liabilities held for trading	–	143	–
2. Financial liabilities measured at fair value	–	–	–
3. Hedging derivatives	–	–	–
Total	**–**	**143**	**–**

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by level of fair value

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	30.06.2018			
	BV	L1	L2	L3
1. Financial assets designated at amortised cost	1,565,551	995,474	–	580,720
2. Investment property	–	–	–	–
3. Non-current assets held for sale and discontinued operations	–	–	–	–
Total	**1,565,551**	**995,474**	**–**	**580,720**
1. Financial liabilities designated at amortised cost	1,690,271	–	–	1,690,175
2. Liabilities associated to discontinued operations	–	–	–	–
Total	**1,690,271**	**–**	**–**	**1,690,175**

Key :
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The table below, although not fully comparable, shows at 31 December 2017 the fair value hierarchy of financial assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis drawn up in compliance with IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular No. 262 (4th update).

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2017			
	BV	L1	L2	L3
1. Financial assets held to maturity	–	–	–	–
2. Due from banks	88,150	–	–	88,150
3. Loans to customers	370,478	–	–	373,451
4. Investment property	–	–	–	–
5. Non-current assets held for sale and discontinued operations	–	–	–	–
Total	**458,628**	**–**	**–**	**461,601**
1. Due to banks	1,474	–	–	1,474
2. Due to customers	1,494,547	–	–	1,494,547
3. Securities issued	22,594	–	–	22,526
4. Liabilities associated to discontinued operations	–	–	–	–
Total	**1,518,615**	**–**	**–**	**1,518,547**

Key :
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 Report on the so-called "day one profit/loss"

The Bank and other Group companies have not recorded in the financial year under review any positive/negative items arising from the initial fair value measurement of financial instruments.

Part B – Information on the consolidated balance sheet

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cassa e disponibilità liquide: composizione

	Total 30.06.2018	Total 31.12.2017
a) Cash	384	481
b) Demand deposits at central banks	149	152
Total	**533**	**633**

Section 2 - Financial assets designated at fair value through profit or loss – Item 20

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 30.06.2018		
	L1	L2	L3
A. Cash assets			
1. Debt securities	60,715	1,033	–
1.1 Structured securities	–	–	–
1.2 Other debt securities	60,715	1,033	–
2. Equity	3,756	34	5
3. UCI units	190	6,700	–
4. Loans	–	–	–
4.1 Reverse repurchase agreements	–	–	–
4.2 Other	–	–	–
Total A	**64,661**	**7,767**	**5**
B. Derivatives			
1. Financial derivatives:	181	149	–
1.1 held for trading	181	149	–
1.2 related to the fair value option	–	–	–
1.3 other	–	–	–
2. Credit derivatives	–	–	–
2.1 held for trading	–	–	–
2.2 related to the fair value option	–	–	–
2.3 other	–	–	–
Total B	**181**	**149**	**–**
Total (A+B)	**64,842**	**7,916**	**5**

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

The financial assets held for trading refer exclusively to the Bank and amounted to 72.763 thousand euros. The balance at 1 January 2018 amounted to 45,712 thousand euros and corresponds to the balance at 31 December 2017 in that the item did not change during the FTA.

The item “A.1. Debt securities” amounting to 61,748 thousand euros (33,116 thousand euros at 1 January 2018) consists of the following financial instruments:

- Level 1: government bonds of 44,495 thousand euros and bonds of 16,220 thousand euros;
- Level 2: only bond “CDP 10.1.2019 3.5% of 1,033 thousand euros.

The item “A.3 UCI units” amounting to 6,890 thousand euros (9,736 thousand euros at 1 January 2018) includes in Level 1: 4AIM SICAF units of 145 thousand euros, New Millennium Funds of 27 thousand euros and other funds for the difference; in Level 2: New Millennium Fund units of 6,700 thousand euros.

The item “B.1. Financial derivatives” of 330 thousand euros includes exclusively in Level 1: warrants and in Level 2: the positive valuation of currency forwards.

The table below, although not fully comparable, shows at 31 December 2017 the Financial assets held for trading drawn up in compliance with IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular No. 262 (4th update).

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	**Total 31.12.2017**		
	Level 1	**Level 2**	**Level 3**
A. Cash assets			
1. Debt securities	29,891	3,225	–
1.1 Structured securities	–	–	–
1.2 Other debt securities	29,891	3,225	–
2. Equity	2,566	–	5
3. UCI units	165	9,571	–
4. Loans	–	–	–
4.1 Reverse repurchase agreements	–	–	–
4.2 Other	–	–	–
Total A	**32,622**	**12,796**	**5**
B. Derivatives			
1. Financial derivatives:	183	106	–
1.1 held for trading	183	106	–
1.2 related to the fair value option	–	–	–
1.3 other	–	–	–
2. Credit derivatives	–	–	–
2.1 held for trading	–	–	–
2.2 related to the fair value option	–	–	–
2.3 other	–	–	–
Total B	**183**	**106**	**–**
Total (A+B)	**32,805**	**12,902**	**5**

2.5 Other financial assets mandatorily at fair value: breakdown by product

Items/Amounts	Total 30.06.2018		
	L1	L2	L3
1. Debt securities	**–**	**–**	**706**
1.1 Structured securities	–	–	–
1.2 Other debt securities	–	–	706
2. Equity	**–**	**–**	**–**
3. UCI units	**1,180**	**19,396**	**1,734**
4. Loans	**–**	**–**	**–**
4.1 Repos	–	–	–
4.2 Other	–	–	–
Total	**1,180**	**19,396**	**2,440**

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

Financial assets mandatorily at fair value amounted to 23.016 thousand euros (24,594 thousand euros at 1 January 2018).

The item 1.2 Other debt securities Level 3 is related to the FINRE SPV 25 8% SEN security owned by the Bank of 706 thousand euros classified at 31 December 2017 as “Loans to customers” of 726 thousand euros.

Item 3. UCI units is related to units owned by the Bank - in Level 2 and 3 - of 21,130 thousand euros (22,360 thousand euros at 1 January 2018) and to those owned by InvestiRE SGR - in Level 1 - of 1,180 thousand euros (1,508 thousand euros at 1 January 2018). These securities were classified at 31 December 2017 as “Financial assets available for sale”.

Section 3 - Financial assets designated at fair value through other comprehensive income – Item 30

3.1 Financial assets designated at fair value through other comprehensive income: breakdown by product

Items/Amounts	Total 30.06.2018		
	L1	L2	L3
1. Debt securities	**208,751**	**–**	**–**
1.1 Structured securities	–	–	–
1.2 Other debt securities	208,751	–	–
2. Equity	**364**	**–**	**4,432**
3. Loans	**–**	**–**	**–**
Total	**209,115**	**–**	**4,432**

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

Financial assets designated at fair value through other comprehensive income totalled 213,547 thousand euros (202,016 thousand euros at 1 January 2018).
During FTA, this portfolio included for the same amount:

- all equities in the "Financial assets available for sale" portfolio exercising the irrevocable option upon initial recognition;
- some debt securities belonging to the "Financial assets available for sale" portfolio, of the Bank and of the subsidiary Finnat Fiduciaria.

Item 1 Debt securities - Level 1 - consists mainly of Government Bonds held by the Bank. At 30 June 2018, total net losses for credit risk on these securities amounted to 554 thousand euros of which 247 thousand euros accrued in the first half of 2018 and were almost entirely attributable to the Bank. The value is recognised in item 120. Valuation reserves (after taxes) instead of as an adjustment to this item.
Item 2 Equity includes the following strategic investments of the Bank:

- Level 1: Net Insurance S.p.A. (364 thousand euros);
- Level 3: Fideuram Investimenti SGR S.p.A. (811 thousand euros), SIA S.p.A. (1,120 thousand euros), Calipso S.p.A. (44 thousand euros), CSE Consorzio Servizi Bancari S.r.l. (2,437 thousand euros), SIT S.p.A. of 15 thousand euros and Liphe S.p.A. of 5 thousand euros.

The table below, although not fully comparable, shows at 31 December 2017 the Financial assets available for sale drawn up in compliance with IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular No. 262 (4th update).

4.1 Financial assets available for sale: breakdown by product

Items/Amounts	Total 31.12.2017		
	L1	L2	L3
1. Debt securities	**1,190,703**	**–**	**–**
1.1 Structured securities	–	–	–
1.2 Other debt securities	1,190,703	–	–
2. Equity	**475**	**–**	**4,487**
2.1 Measured at fair value	475	–	–
2.2 Measured at cost	–	–	4,487
3. UCI units	**1,508**	**20,587**	**1,773**
4. Loans	**–**	**–**	**–**
Total	**1,192,686**	**20,587**	**6,260**

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

Section 4 – Financial assets designated at amortised cost – Item 40

4.1 Financial assets designated at amortised cost: breakdown by product of due from banks

Type of transactions/Amounts	Total 30.06.2018					
	Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	L1	L2	L3
A. Due from central banks	**–**	**–**	**–**	**–**	**–**	**–**
1. Time deposits	–	–	–	X	X	X
2. Compulsory reserve	–	–	–	X	X	X
3. Reverse repurchase agreements	–	–	–	X	X	X
4. Other	–	–	–	X	X	X
B. Due from banks	**155,447**	**–**	**–**	**–**	**–**	**155,447**
1. Loans	155,447	–	–	–	–	155,447
1.1 Current accounts and demand deposits	138,098	–	–	X	X	X
1.2 Time deposits	5,841	–	–	X	X	X
1.3. Other loans:	11,508	–	–	X	X	X
- Reverse repurchase agreements	–	–	–	X	X	X
- Financial leases	–	–	–	X	X	X
- Other	11,508	–	–	X	X	X
2. Debt securities	–	–	–			
2.1 Structured securities	–	–	–	–	–	–
2.2 Other debt securities	–	–	–	–	–	–
Total	**155,447**	**–**	**–**	**–**	**–**	**155,447**

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

The item B.1.2. Time deposits comprises exclusively the compulsory reserve deposited by the Parent company with the ICBPI (Istituto Centrale Banche Popolari Italiane), amounting to 5,841 thousand euros.

At 30 June 2018, total net losses on credit risk from banks amounted to 162 thousand euros of which 81 thousand euros accrued in the first half of 2018 and were almost entirely attributable to the Bank.

The table below, although not fully comparable, shows at 31 December 2017 Due from banks drawn up in compliance with IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular No. 262 (4th update).

6.1 Due from banks: breakdown by product

Type of transactions/Amounts	Total 31.12.2017			
	BV	FV		
		Level 1	Level 2	Level 3
A. Due from central banks	**–**			
1. Time deposits	–	X	X	X
2. Compulsory reserve	–	X	X	X
3. Reverse repurchase agreements	–	X	X	X
4. Other	–	X	X	X
B. Due from banks	**88,150**			
1. Loans				
1.1 Current accounts and deposits	64,364	X	X	X
1.2 Time deposits	15,305	X	X	X
1.3 Other loans:	8,481	X	X	X
- Reverse repurchase agreements	–	X	X	X
- Financial leases	–	X	X	X
- Other	8,481	X	X	X
2. Debt securities	–			
2.1 Structured securities	–	X	X	X
2.2 Other debt securities	–	X	X	X
Total	**88,150**			**88,150**

Key:
BV = book value; FV = fair value

4.2 Financial assets designated at amortised cost: breakdown by product of loans to customers

Type of transactions/Amounts	Total 30.06.2018					
	Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	L1	L2	L3
1. Loans	**406,960**	**5,845**	**–**	**–**	**–**	**425,273**
1. Current accounts	151,548	1,788	–	X	X	X
2. Reverse repurchase agreements	12,212	–	–	X	X	X
3. Mortgages	179,457	1,594	–	X	X	X
4. Credit card loans, personal loans and transfers of one fifth of salaries	–	–	–	X	X	X
5. Financial leases	–	–	–	X	X	X
6. Factoring	–	–	–	X	X	X
7. Other loans	63,743	2,463	–	X	X	X
2. Debt securities	**997,299**	**–**	**–**	**995,474**	**–**	**–**
2.1. Structured securities	–	–	–	–	–	–
2.2. Other debt securities	997,299	–	–	995,474	–	–
Total	**1,404,259**	**5,845**	**–**	**995,474**	**–**	**425,273**

Key :
L1 = Level 1; L2 = Level 2; L3 = Level 3

The item "Loans to customers" totalled 1,410,104 thousand euros (1,359,361 thousand euros at 1 January 2018).

At the reporting date of these financial statements, the items relating to current accounts, mortgages and other loans include **non-performing assets (Bucket 3)** relating to the Parent Company totalling 12,257 thousand euros (5,429 thousand euros after the write-downs), comprising:

- **bad loans** totalling 8,402 thousand euros (2,034 thousand euros after the write-offs) relating to the following positions:
  - 4,572 thousand euros (933 thousand euros after the write-off) for the residual amount of a loan terminated on 8 July 2011. The transaction is secured by a first mortgage on property, the value of which – supported by an expert appraisal report revised on 12 January 2018 – covers the entire value of the net exposure. The recoverable amount of the credit is based on the assessed value of the guarantees, taking into account both the time for the collection of credit (in relation to the privileged position of the Bank concerning the real estate collaterals securing the exposure) and the difficulties encountered or which may be encountered in the sale of the properties within the scope of judicial enforcement procedures;
  - 3,830 thousand euros referring to trade receivables of 1,627 thousand euros and to cash loans of 2,203 thousand euros.

  The line-by-line write-offs made totalled 6,368 thousand euros (including 1,572 thousand euros referring to trade receivables).
- **unlikely to pay** totalling 2,465 thousand euros (2,029 thousand euros after the write-offs) comprising:
  - overdraft facilities amounting to 1,839 thousand euros;
  - mortgage positions of 548 thousand euros (41 thousand euros of overdue instalments and 507 thousand euros of principal about to fall due);
  - trade receivables of 78 thousand euros.

  The line-by-line write-offs made totalled 436 thousand euros (including 66 thousand euros referring to trade receivables);
- other positions **expired or past due** for over 90 days totalling 1,390 thousand euros (1,366 thousand euros after the write-offs).

At 30 June 2018, there are 16 "forborne" exposures of which:

- 6 non-performing positions totalling 1,049 thousand euros (of which 4 positions included among unlikely to pay for 347 thousand euros and 2 positions included among past due loans for 702 thousand euros).
- 10 performing positions, amounting to 7,959 thousand euros;

At 30 June 2018, the Bank calculated the write-down of the portfolio for performing loans to customers in **Bucket 1** and **Bucket 2** relating to cash loans. This write-off, amounting to 2,326 thousand euros, was higher than the allocations made for this purpose during FTA at 1 January 2018, which amounted to 2,188 thousand euros.
The write-off of the portfolio of the government bonds included in this item amounted to 892 thousand euros compared to 522 thousand euros carried out for this purpose during FTA at 1 January 2018.

In the first half of 2018, the Bank recorded in the income statement 445 thousand euros for portfolio impairment losses on government bonds and 365 thousand euros for net losses on loans to customers broken down as follows: 137 thousand euros for portfolio impairment losses, 38 thousand euros for specific value recoveries (Bucket 3), Euro 274 thousand for specific impairment losses (Bucket 3), 2 thousand euros for cancellation losses and 10 thousand euros for recoveries of receivables cancelled in previous financial years.

At 30 June 2018, the allowance for doubtful receivables, excluding securities, totalled 9,154 thousand euros, of which: 6,828 thousand euros on an itemised basis and 2,326 thousand euros for portfolio impairment losses.

With regard to other Group companies, the analytical allowance for doubtful accounts (**Bucket 3**) at 30 June 2018 amounted to 764 thousand euros against gross non-performing receivables of 1,179 thousand euros for Finnat Fiduciaria S.p.A. and to 1,980 thousand euros against gross impaired receivables of the same amount for InvestiRE SGR S.p.A.
Whereas portfolio impairment losses relating only to loans to customers (**Bucket 1** and **Bucket 2**) as at 30 June 2018 amounted to 2,144 thousand euros for InvestiRE SGR S.p.A. and to a total of 2 thousand euros for the other companies of the Group.

Item 7. “Other loans” includes mainly Deposits for margins with Cassa di Compensazione e Garanzia pertaining to the Bank amounting to 35,414 thousand euros and trade receivables of InvestiRE SGR S.p.A. amounting to 24,619 thousand euros.

Item 2 Debt securities consists mainly of Government Bonds held exclusively by the Bank.

The table below, although not fully comparable, shows at 31 December 2017 Loans to customers drawn up in compliance with IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular No. 262 (4th update).

7.1 Loans to customers: breakdown by product

Type of transactions/Amounts	Total 31.12.2017					
	Book value			Fair value		
	Non-performing	Performing		L1	L2	L3
		Purchased	Other			
Loans						
1. Current accounts	148,002	–	1,958	X	X	X
2. Reverse repurchase agreements	–	–	–	X	X	X
3. Mortgages	158,437	–	1,615	X	X	X
4. Credit card loans, personal loans and transfers of one fifth of salaries	–	–	–	X	X	X
5. Financial leases	–	–	–	X	X	X
6. Factoring	–	–	–	X	X	X
7. Other loans	57,596	–	2,144	X	X	X
Debt securities		–	–			
8. Structured securities	–	–	–	X	X	X
9. Other debt securities	726	–	–	X	X	X
Total	**364,761**	**–**	**5,717**			**373,451**

Section 7 - Equity investments – Item 70

7.1 Equity investments: information on investment relationships

Company name	Registered office	Place of business	Type of relationship	Investment relationship		Voting rights %
				Investor company	Ownership %	
A. Companies subject to joint control						
B. Companies subject to significant influence						
1. Prévira Invest SIM S.p.A. in liquidation	Rome	Rome	Significant influence	Banca Finnat	20.00	
2. Imprebanca S.p.A.	Rome	Rome	Significant influence	Banca Finnat	20.00	

The share also represents the percentage of voting rights at the shareholders' meetings.

The item at 30 June 2018 amounted to 6,457 thousand euros, stays unchanged compared to 31 December 2017.

Section 9 - Property and equipment – Item 90

9.1 Property and equipment used in operation: breakdown of assets measured at cost

Assets/amounts	Total 30.06.2018	Total 31.12.2017
1. Owned assets	**4,958**	**5,079**
a) land	1,308	1,308
b) buildings	2,223	2,297
c) furniture	875	913
d) electronic equipment	507	506
e) other	45	55
2. Assets acquired under financial lease	**–**	**–**
a) land	–	–
b) buildings	–	–
c) furniture	–	–
d) electronic equipment	–	–
e) other	–	–
Total	**4,958**	**5,079**
of which: arising from the recovery of non-performing loans	–	–

Section 10 - Intangible assets – Item 100

10.1 Intangible assets: breakdown by asset

Assets/Amounts	Total 30.06.2018		Total 31.12.2017	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill:	**X**	**37,729**	**X**	**37,729**
A.1.1 pertaining to the Group	X	19,074	X	19,074
A.1.2 pertaining to minority interests	X	18,655	X	18,655
A.2 Other intangible assets	**514**	**2,726**	**557**	**2,726**
A.2.1 Assets measured at cost:	514	2,726	557	2,726
a) Internally generated intangible assets	–	–	–	–
b) Other assets	514	2,726	557	2,726
A.2.2 Assets measured at fair value:	–	–	–	–
a) Internally generated intangible assets	–	–	–	–
b) Other assets	–	–	–	–
Total	**514**	**40,455**	**557**	**40,455**

Item A.1 Goodwill amounting to 37,729 thousand euros comprises:

- 300 thousand euros to a part of the goodwill resulting from the merger in 2003 of Banca Finnat Euramerica S.p.A. into Terme Demaniali di Acqui S.p.A.
- 37,429 thousand euros referring to the goodwill recognised, in 2015, by the subsidiary InvestiRE SGR S.p.A.

Item A.2 Other intangible assets - Indefinite life consists of the positive consolidation differences of the following companies:

- Finnat Fiduciaria S.p.A., 984 thousand euros;
- InvestiRE SGR S.p.A., 1,693 thousand euros.

Section 11 - Tax assets and liabilities – Items 110 (assets) and 60 (liabilities)

Current tax assets amounted to 675 thousand euros (605 thousand euros at 31 December 2017) and mainly concern IRAP tax credits of 349 thousand euros, IRES tax credits from the domestic consolidated tax system for 2018 of 184 thousand euros and IRAP tax credits requested for refund of 140 thousand euros.

Current tax liabilities amounted to 3,361 thousand euros (2,972 thousand euros at 31 December 2017) and mainly concern current IRAP tax payables of 2,309 thousand euros, payables for IRES tax consolidation for 2017 of 466 thousand euros and VAT payables of 320 thousand euros.

11.1 Deferred tax assets: breakdown

	Total 30.06.2018	Total 31.12.2017
a) Of which per Italian Law 214/2011	**10,301**	**11,044**
Goodwill	9,759	10,508
Write-down of receivables set forth in Article 106 par. 3 of the TUIR	542	536
b) Other	**5,455**	**1,404**
Write-down of securities	4,632	833
Write-down of receivables	396	179
Termination Indemnity – IAS change	182	169
Other	245	223
Total	**15,756**	**12,448**

Advance taxes refer primarily to a lower tax burden in perspective, related to the amortisation of goodwill in future years:

- the goodwill – totalling 352 thousand euros – recorded in 2003 by the Parent company, as a result of the merger of Banca Finnat Euramerica S.p.A. and Finnat Corporate S.p.A. within Terme Demaniali di Acqui S.p.A.
- 9,407 thousand euros referred to the goodwill recognised in 2015 by the subsidiary InvestiRE SGR as a result of the merger by absorption of Beni Stabili Gestioni SGR S.p.A. and Polaris RE SGR S.p.A.

11.2 Deferred tax liabilities: breakdown

	Total 30.06.2018	Total 31.12.2017
Revaluation of securities	307	841
Allocation of merger deficit on securities	40	40
Placement commissions	32	92
Other	98	72
Total	**477**	**1,045**

Advance and deferred taxes have been determined applying the IRES and, where applicable, IRAP rates in force at the date of preparation of this Consolidated half-yearly financial report.

* * *

With regard to tax disputes, no changes were recorded from those illustrated in the 2017 Financial Statements.

It should be noted that on 29 May 2018 the Italian Tax Police started a tax audit of Banca Finnat with a special reference to income taxes for the 2014 tax year (extended in the course of the audit for specific activities from 2013 to 2017 tax years). The audit was concluded on 26 July 2018 with the notification of the report on findings. The auditors raised objections for IRES and IRAP purposes for a limited overall amount. Banca Finnat reserved the right to produce the appropriate counter-claims in the competent venues.

Section 13 - Other assets – Item 130

13.1 Other assets: breakdown

	Total 30.06.2018	Total 31.12.2017
Receivables for guarantee deposits	504	503
Deposits with Cassa Compensazione e Garanzia	4,961	5,789
Due from counterparties and brokers	51	65
Tax credits as withholding tax	5,764	9,885
Sundry receivables	7,525	4,178
Total	**18,805**	**20,420**

LIABILITIES

Section 1 - Financial liabilities designated at amortised cost – Item 10

1.1 Financial liabilities designated at amortised cost: breakdown by product of due to banks

Type of transactions/Group components	Total 30.06.2018			
	BV	Fair value		
		L1	L2	L3
1. Due to Central Banks	**–**	**X**	**X**	**X**
2. Due to banks	**1,121**	**X**	**X**	**X**
2.1 Current accounts and deposits	1,121	X	X	X
2.2 Time deposits	–	X	X	X
2.3 Loans	–	X	X	X
2.3.1 reverse repos	–	X	X	X
2.3.2 other	–	X	X	X
2.4 Debts for commitments to repurchase own equity instruments	–	X	X	X
2.5 Other payables	–	X	X	X
Total	**1,121**	**–**	**–**	**1,121**

Key:
BV = Book value; L1 = Level 1; L2 = Level 2; L3 = Level 3

The table below shows Due to banks at 31 December 2017 drawn up in compliance with IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular No. 262 (4th update).

1.1 Due to banks: breakdown by product

Type of transactions/Group components	Total 31.12.2017
1. Due to Central Banks	**–**
2. Due to banks	**1,474**
2.1 Current accounts and deposits	1,474
2.2 Time deposits	–
2.3 Loans	–
2.3.1 reverse repos	–
2.3.2 other	–
2.4 Debts for commitments to repurchase own equity instruments	–
2.5 Other payables	–
Total	**1,474**
Fair value-level 1	–
Fair value-level 2	–
Fair value-level 3	1,474
Total Fair value	**1,474**

1.2 Financial liabilities designated at amortised cost: breakdown by product of due to customers

Type of transactions/Group components	Total 30.06.2018			
	BV	Fair value		
		L1	L2	L3
1. Current accounts and deposits	533,743	X	X	X
2. Time deposits	119,410	X	X	X
3. Loans	995,989	X	X	X
3.1 reverse repos	995,989	X	X	X
3.2 other	–	X	X	X
4. Debts for commitments to repurchase own equity instruments	–	X	X	X
5. Other payables	12,593	X	X	X
Total	**1,661,735**	**–**	**–**	**1,661,735**

Key :
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Item 3.1 Reverse repos concerns exclusively the transactions carried out by the Bank with Cassa di Compensazione e Garanzia.

The table below shows at 31 December 2017 Due to customers drawn up in compliance with IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular No. 262 (4th update).

2.1 Due to customers: breakdown by product

Type of transactions/Group components	Total 31.12.2017
1. Current accounts and deposits	428,360
2. Time deposits	68,592
3. Loans	980,102
3.1 reverse repos	980,102
3.2 other	–
4. Debts for commitments to repurchase own equity instruments	–
5. Other payables	17,493
Total	**1,494,547**
Fair value-level 1	
Fair value-level 2	
Fair value-level 3	1,494,547
Total Fair value	**1,494,547**

1.3 Financial liabilities designated at amortised cost: breakdown by product of securities issued

Type of securities/Amount	Total 30.06.2018			
	BV	Fair value		
		L1	L2	L3
A. Securities	**27,415**	**–**	**–**	**27,319**
1. bonds	27,415	–	–	27,319
1.1 structured	–			–
1.2 other	27,415			27,319
2. other securities	–	–	–	–
2.1 structured	–			–
2.2 other	–			–
Total	**27,415**	**–**	**–**	**27,319**

Key :
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The item represents the bonds issued by the Bank, including the accrued coupon. The amount is shown net of the securities held for trading present in its portfolio, with a nominal amount of 2,587 thousand euros.

The table below shows at 31 December 2017 Securities issued drawn up in compliance with IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular No. 262 (4th update).

3.1 Securities issued: breakdown by product

Type of securities/Amount	Total 31.12.2017			
	BV	Fair value		
		L1	L2	L3
A. Securities	**22,594**	**–**	**–**	**22,526**
1. bonds	22,594	–	–	22,526
1.1 structured	–			–
1.2 other	22,594			22,526
2. other securities	–	–	–	–
2.1 structured	–			–
2.2 other	–			–
Total	**22,594**	**–**	**–**	**22,526**

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Section 2 - Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product

Type of transactions/Amounts	Total 30.06.2018					Total 31.12.2017				
	NV	Fair value			Fair value*	NV	Fair value			Fair value*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1. Due to banks										
2. Due to customers	–	–	–	–	–	–	–	–	–	–
3. Debt securities	–	–	–	–		–	–	–	–	
3.1 Bonds	–	–	–	–		–	–	–	–	
3.1.1 Structured	–	–	–	–	X	–	–	–	–	X
3.1.2 Other bonds	–	–	–	–	X	–	–	–	–	X
3.2 Other securities	–	–	–	–		–	–	–	–	
3.2.1 Structured	–	–	–	–	X	–	–	–	–	X
3.2.2 Other	–	–	–	–	X	–	–	–	–	X
Total A	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. Derivatives	**–**	**–**	**126**	**–**			**–**	**143**	**–**	
1. Financial derivatives		–	126	–			–	143	–	
1.1 Held for trading	X	–	126	–	X	X	–	143	–	X
1.2 Related to the fair value option	X	–	–	–	X	X	–	–	–	X
1.3 Other	X	–	–	–	X	X	–	–	–	X
2. Credit derivatives		–	–	–			–	–	–	
2.1 Held for trading	X	–	–	–	X	X	–	–	–	X
2.2 Related to the fair value option	X	–	–	–	X	X	–	–	–	X
2.3 Other	X	–	–	–	X	X	–	–	–	X
Total B	**X**	**–**	**126**	**–**	**X**	**X**	**–**	**143**	**–**	**X**
Total (A + B)	**X**	**–**	**126**	**–**	**X**	**X**	**–**	**143**	**–**	**X**

Key:
NV = face or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3
FV* = fair value calculated excluding the changes in value due to the change in the credit rating of the issuer with respect to the issue date

Financial liabilities are exclusively ascribable to the Bank.
Item B. Derivatives includes the negative measurement of currency forwards of 103 thousand euros and the fair value measurement of an Interest Rate Swap Amortising of 23 thousand euros. This derivative is a hedging transaction for managing the interest rate risk.

Section 6 - Tax liabilities – Item 60

See Section 11 of the assets.

Section 8 - Other liabilities – Item 80

8.1 Other liabilities: breakdown

	Total 30.06.2018	Total 31.12.2017
Social security and insurance contributions to be paid	1,255	1,682
Payables to personnel employed and contractors	4,134	4,522
Emoluments to be paid to the Directors	345	92
Emoluments to be paid to the Board of Statutory Auditors	144	177
Due to suppliers	763	1,479
Shareholders for dividends to be paid	1,950	1,299
Payables to brokers and institutional counterparties	133	123
Tax payables as withholding tax	1,708	3,229
Other payables	9,775	5,385
Total	**20,207**	**17,988**

Section 9 - Provisions for termination indemnities – Item 90

9.1 Provisions for termination indemnities: annual changes

	Total 30.06.2018	Total 31.12.2017
A. Initial amount	**4,970**	**4,839**
B. Increases	**882**	**1,519**
B.1 Allocation for the year	882	1,519
B.2 Other changes	–	–
- of which Business combinations	–	–
C. Decreases	**727**	**1,388**
C.1 Severance indemnities paid out	351	605
C.2 Other changes	376	783
D. Final amount	**5,125**	**4,970**

Item B.1 Allocation for the year, includes the actuarial loss of 167 thousand euros (actuarial loss of 31 thousand euros in 2017) recognised among valuation reserves - net of the tax effect - in accordance with IAS 19.

Item C.2 Other changes includes payments made to supplementary Social Security Institutes and the INPS Treasury – net of disbursements carried out – as established by Italian Law no. 296/06.

Section 10 - Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Items/Components	Total 30.06.2018
1. Provisions for credit risk related to commitments and financial guarantees given	345
2. Provisions on other commitments and other guarantees given	–
3. Company pension funds	–
4. Other provisions for risks and charges	548
4.1 Legal and tax disputes	–
4.2 Personnel expenses	–
4.3 Other	548
Total	**893**

The item refers exclusively to the Bank.

Provisions for credit risk related to commitments and financial guarantees given of 345 thousand euros are related to collective impairment losses carried out with the introduction of the new IFRS 9 through 30 June 2018. Impairment made during FTA at 1 January 2018 amounted to 85 thousand euros.

Other provisions for risks and charges of 548 thousand euros include, for 448 thousand euros, the residual amount of the provision made by the Bank to cover any indemnity to be paid in the event of failure to collect the commissions accrued for a real estate fund and, for 100 thousand euros, the provision made last year for any fees to be paid to an employee in the commercial area.

The table below, although not fully comparable, shows at 31 December 2017 Provisions for risks and charges drawn up in compliance with IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular No. 262 (4th update).

12.1 Provisions for risks and charges: breakdown

Items/Components	Total 31.12.2017
1. Company pension funds	–
2. Other provisions for risks and charges	548
2.1 Legal disputes	–
2.2 Personnel expenses	–
2.3 Other	548
Total	**548**

Section 13 - Group equity – Items 120, 150, 170 and 180

15.1 “Share capital” and “Treasury shares”: Breakdown

The share capital paid up by the Bank was 72,576,000 euros, divided into 362,880,000 ordinary shares with a face value of euro 0.20 each.

At 30 June 2018, 28,810,640 treasury shares were held exclusively by the Parent Company. These shares totalling 14,059 thousand euros, equal to 7.9% of the share capital of the Bank, in application of IAS 32, were used to adjust the shareholders’ equity. In the period in question, the Bank did not buy or sell any treasury shares.

In application of IAS 32 and of the provisions contained in Circular No. 262/2005, the treasury shares held by the Bank were used to adjust the shareholders’ equity.

13.2 Capital - Number of shares of the parent company: annual changes

Items/Types	Ordinary	Other
A. Number of shares at the beginning of the year	**362,880,000**	
- fully paid-in	362,880,000	
- not fully paid-in		
A.1 Treasury shares (-)	(28,810,640)	
A.2 Shares outstanding: initial amount	**334,069,360**	
B. Increases	**–**	
B.1 New issues		
– against payment:		
- business combinations		
- conversion of bonds		
- exercise of warrants		
- other		
– for free:		
- in favour of employees		
- in favour of directors		
- other		
B.2 Sale of treasury shares	–	
B.3 Other changes		
C. Decreases	**–**	
C.1 Derecognition		
C.2 Purchase of treasury shares	–	
C.3 Disposal companies		
C.4 Other changes		
D. Shares outstanding: final amount	**334,069,360**	
D.1 Treasury shares (+)	28,810,640	
D.2 Number of shares at the end of the year	362,880,000	
– fully paid-in	362,880,000	
– not fully paid-in		

13.4 Retained earnings: other information

The financial statement item “Reserves” amounted to 148,828 thousand euros (125,101 thousand euros at 31 December 2017 and 123,382 thousand euros at 1 January 2018 after the adjustments made on the first-time adoption of IFRS 9) and is broken down as follows:

- retained earnings of the Bank:
  114,569 thousand euros consisting of the legal reserve of 11,180 thousand euros, extraordinary reserve of 82,389 thousand euros, the dividend adjustment reserve of 6,725 thousand euros, restated IAS 19 retained earnings reserve of 179 thousand euros, restated IFRS 9 accumulated losses of -488 thousand euros, reserve for merger surplus of 525 thousand euros, reserve for purchase of treasury shares of 14,059 thousand euros;
- other reserves:
  34,259 thousand euros consisting of the reserve for the gains on the sale of treasury shares of 4,277 thousand euros, reserve for the gains on the sale of own shares HTCS of 9 thousand euros and the consolidation reserves for the difference.

Section 14 - Minority interests – Item 190

14.1 Breakdown of Item 210 “Minority interests”

Company names	Total 30.06.2018	Total 31.12.2017
Equity investments in consolidated companies with significant interests in third parties		
1. InvestiRE SGR S.p.A.	38,397	41,601
Other equity investments	610	537
Total	**39,007**	**42,138**

The item Other equity investments refers exclusively to Finnat Gestioni S.A.

Part C – Information on the consolidated income statement

Section 1 - Interest – Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Categories	Debt securities	Loans	Other transactions	Total 1st half 2018
1. Financial assets designated at fair value through profit or loss	**172**	**–**	**–**	**172**
1.1. Financial assets held for trading	172	–	–	172
1.2. Financial assets designated at fair value	–	–	–	–
1.3. Other financial assets mandatorily at fair value	–	–	–	–
2. Financial assets designated at fair value through other comprehensive income	**464**	**–**	**X**	**464**
3. Financial assets designated at amortised cost:	**192**	**3,494**	**–**	**3,686**
3.1 Due from banks	–	79	X	79
3.1 Loans to customers	192	3,415	X	3,607
4. Hedging derivatives	**X**	**X**	**–**	**–**
5. Other assets	**X**	**X**	**–**	**–**
6. Financial liabilities	**X**	**X**	**X**	**1,550**
Total	**828**	**3,494**	**–**	**5,872**
of which: Interest income on impaired financial assets	**–**	**44**	**–**	**44**

1.3 Interest expense and similar expense: breakdown

Items/Categories	Payables	Securities	Other transactions	Total 1st half 2018
1. Financial liabilities designated at amortised cost	(341)	(4)	–	(345)
1.1 Due to Central Banks	–	X	X	–
1.2 Due to banks	(1)	X	X	(1)
1.3 Due to customers	(340)	X	X	(340)
1.4 Securities issued	X	(4)	X	(4)
2. Financial liabilities held for trading	–	–	–	–
3. Financial liabilities designated at fair value	–	–	–	–
4. Other liabilities and funds	X	X	–	–
5. Hedging derivatives	X	X	–	–
6. Financial assets	X	X	X	(429)
Total	**(341)**	**(4)**	**–**	**(774)**

The interest margin, referring almost exclusively to the Bank, amounted to 5,098 thousand euros versus 4,269 thousand euros for the same period of 2017.

Although not fully comparable, the tables at 30 June 2017 relating to the breakdown of interest income and expense drawn up on the basis of the criteria for the classification and measurement of financial instruments under IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular no. 262 (4th update), are provided below.

1.1 Interest income and similar income: breakdown

Items/Categories	Debt securities	Loans	Other transactions	Total 1st half 2017
1. Financial assets held for trading	92	–	–	92
2. Financial assets measured at fair value	–	–	–	–
3. Financial assets available for sale	261	–	–	261
4. Financial assets held to maturity	2	–	–	2
5. Due from banks	–	(88)	–	(88)
6. Loans to customers	9	3,058	–	3,067
7. Hedging derivatives	X	X	–	–
8. Other assets	X	X	(92)	(92)
Total	**364**	**2,970**	**(92)**	**3,242**

1.4 Interest expense and similar expense: breakdown

Items/Categories	Payables	Securities	Other transactions	Total 1st half 2017
1. Due to Central Banks	–	X	–	–
2. Due to banks	(4)	X	–	(4)
3. Due to customers	(1,034)	X	–	(1,034)
4. Securities issued	X	11	–	11
5. Financial liabilities held for trading	–	–	–	–
6. Financial liabilities measured at fair value	–	–	–	–
7. Other liabilities and funds	X	X	–	–
8. Hedging derivatives	X	X	–	–
Total	**(1,038)**	**11**	**–**	**(1,027)**

Section 2 - Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of services/Amounts	Total 1st half 2018	Total 1st half 2017
a) guarantees given	44	50
b) credit derivatives	–	–
c) administration, brokerage and consultancy services:	25,076	21,179
1. trading in financial instruments	2,493	2,440
2. currency dealing	–	–
3. portfolio management	17,402	15,034
3.1. individual	3,144	2,247
3.2. collective	14,258	12,787
4. custody and administration of securities	992	903
5. depository bank	–	–
6. placement of securities	2,257	1,464
7. reception and transmission of orders	–	–
8. consultancy services	1,237	687
8.1. on investments	285	188
8.2. on financial structure	952	499
9. distribution of third-party services	695	651
9.1. portfolio management	–	–
9.1.1. individual	–	–
9.1.2. collective	–	–
9.2. insurance products	610	297
9.3. other products	85	354
d) collection and payment services	206	122
e) servicing related to securitisations	–	–
f) factoring services	–	–
g) tax collection services	–	–
h) multilateral trading systems management	–	–
i) management of current accounts	169	146
j) other services	540	671
Total	**26,035**	**22,168**

2.2 Fee and commission expense: breakdown

Services/Amounts	Total 1st half 2018	Total 1st half 2017
a) guarantees received	–	–
b) credit derivatives	–	–
c) management and brokerage services:	736	740
1. trading in financial instruments	355	288
2. currency dealing	–	–
3. portfolio management:	46	106
3.1 own portfolio	18	15
3.2 third-party portfolio	28	91
4. custody and administration of securities	129	140
5. placement of financial instruments	206	206
6. “door-to-door” sale of financial instruments, product and services	–	–
d) collection and payment services	127	34
e) other services	309	441
Total	**1,172**	**1,215**

Net fee and commission amounted to 24,863 thousand euros against 20,953 thousand euros of the previous half-year.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 1st half 2018	
	Dividends	Similar income
A. Financial assets held for trading	4	1
B. Other financial assets mandatorily at fair value	–	1,397
C. Financial assets designated at fair value through other comprehensive income	591	–
D. Equity investments	–	–
Total	**595**	**1,398**

Although not fully comparable, the table at 30 June 2017 relating to the breakdown of dividends and similar income drawn up on the basis of the criteria for the classification and measurement of financial instruments under IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular no. 262 (4th update), is provided below.

3.1 Dividends and similar income: breakdown

Items/Income	Total 1st half 2017	
	Dividends	Income from UCI units
A. Financial assets held for trading	–	1
B. Financial assets available for sale	923	1,430
C. Financial assets measured at fair value	–	–
D. Equity investments	–	X
Total	**923**	**1,431**

Section 4 - Profit (losses) on trading – Item 80

4.1 Profit (Losses) on trading: breakdown

Transactions/Income items	Gains (A)	Profit from trading activities (B)	Losses (C)	Losses from trading activities (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading	**1,299**	**461**	**1,088**	**202**	**470**
1.1 Debt securities	186	67	946	9	(702)
1.2 Equity	1,075	389	100	166	1,198
1.3 UCI units	38	5	42	27	(26)
1.4 Loans	–	–	–	–	–
1.5 Other	–	–	–	–	–
2. Financial liabilities held for trading	**–**	**–**	**–**	**–**	**–**
2.1 Debt securities	–	–	–	–	–
2.2 Payables	–	–	–	–	–
2.3 Other	–	–	–	–	–
Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**120**
3. Derivatives	**81**	**297**	**48**	**290**	**77**
3.1 Financial derivatives:	81	297	48	290	77
- On debt securities and interest rates	22	–	–	23	(1)
- On equity and stock indexes	59	297	48	267	41
- On currencies and gold	X	X	X	X	37
- Other	–	–	–	–	–
3.2 Credit derivatives	–	–	–	–	–
of which: natural hedges related to the fair value option	X	X	X	X	–
Total	**1,380**	**758**	**1,136**	**492**	**667**

In the first six months of 2018, profit (losses) on trading, referring exclusively to the Bank, featured a positive balance of 667 thousand euros, compared to 1,018 thousand euros in the same period of 2017, and may be broken down as follows:

- Positive difference of 222 thousand euros between unrealised capital gains and losses, in connection with the fair value measurement of the trading portfolio, (in the first half-year of 2017, positive difference of 462 thousand euros);
- A positive balance between realised profits and losses related to trading on securities and derivatives of 266 thousand euros (in the first half-year of 2017, a positive balance of 307 thousand euros);
- Positive difference of 59 thousand euros between unrealised capital gains and losses in connection with the fair value measurement of currency forwards and of Interest Rate Swap Amortising (in the first half-year of 2017, a positive balance of 285 thousand euros);
- A positive balance of 120 thousand euros between realised foreign exchange gains and losses (in the first half-year of 2017, a negative balance of 36 thousand euros).

Section 6 - Profit (losses) from disposal/repurchase – Item 100

6.1 Profit (Loss) from disposal/repurchase: breakdown

Items/Income items	Total 1st half 2018		
	Profit	Losses	Net income
Financial assets			
1. Financial assets designated at amortised cost			
1.1 Due from banks	–	–	–
1.2 Loans to customers	96	–	96
2. Financial assets designated at fair value through other comprehensive income	720	–	720
2.1 Debt securities	720	–	720
2.2 Loans	–	–	–
Total assets (A)	**816**	**–**	**816**
Financial liabilities designated at amortised cost			
1. Due to banks	–	–	–
2. Due to customers	–	–	–
3. Securities issued	–	–	–
Total liabilities (B)	**–**	**–**	**–**

Item 2.1 Debt securities refer to the Bank for 701 thousand euros and to Finnat Fiduciaria for 19 thousand euros. Although not fully comparable, the table at 30 June 2017 relating to the breakdown of Profit (losses) from disposal/repurchase drawn up on the basis of the criteria for the classification and measurement of financial instruments under IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular no. 262 (4th update), is provided below.

6.1 Profit (Loss) from disposal/repurchase: breakdown

Items/Income items	Total 1st half 2017		
	Profit	Losses	Net income
Financial assets			
1. Due from banks	–	–	–
2. Loans to customers	–	–	–
3. Financial assets available for sale	11,672	–	11,672
3.1 Debt securities	2	–	2
3.2 Equity	11,670	–	11,670
3.3 UCI units	–	–	–
3.4 Loans	–	–	–
4. Financial assets held to maturity	–	–	–
Total assets	**11,672**	**–**	**11,672**
Financial liabilities			
1. Due to banks	–	–	–
2. Due to customers	–	–	–
3. Securities issued	–	–	–
Total liabilities	**–**	**–**	**–**

Section 7 - Profits (losses) on other financial assets and liabilities designated at fair value through profit or loss – Item 110

7.2 Net change in value of other financial assets and liabilities designated at fair value through profit or loss: breakdown of other financial assets mandatorily at fair value

Transactions/Income items	Gains (A)	Profits from disposal (B)	Losses (C)	Losses from disposal (D)	Net income [(A+B) - (C+D)]
1. Financial assets	**321**	**–**	**1,012**	**2**	**(693)**
1.1 Debt securities	–	–	–	–	–
1.2 Equity	–	–	–	–	–
1.3 UCI units	321	–	1,012	2	(693)
1.4 Loans	–	–	–	–	–
2. Financial assets in foreign currencies: foreign exchange differences	**–**	**–**	**–**	**–**	**–**
	X	X	X	X	–
Total	**321**	**–**	**1,012**	**2**	**(693)**

Section 8 - Net losses/recoveries on credit risk – Item 130

8.1 Net losses on credit risk relating to financial assets designated at amortised cost: breakdown

Transactions/Income items	Impairment losses (1)			Value recoveries (2)		Total 1st half 2018 (1) – (2)
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3	
		Write-off	Other			
A. Due from banks	84	–	–	3	–	81
- Loans	84	–	–	3	–	81
- Debt securities	–	–	–	–	–	–
of which:acquired or originated impaired loans	–	–	–	–	–	–
B. Loans to customers	903	3	284	4	73	1,113
- Loans	459	3	284	4	73	669
- Debt securities	444	–	–	–	–	444
of which:acquired or originated impaired loans	–	–	–	–	–	–
C. Total	**987**	**3**	**284**	**7**	**73**	**1,194**

The net impairment losses are attributable to the Bank for 892 thousand euros, to InvestiRE SGR S.p.A. for 315 thousand euros whereas the net value recoveries of other companies of the Group total 13 thousand euros.

Although not fully comparable, the table at 30 June 2017 relating to the breakdown of Net impairment losses of receivables drawn up on the basis of the criteria for the classification and measurement of financial instruments under IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular no. 262 (4th update), is provided below.

8.1 Net losses on impairment of loans: breakdown

Transactions/Income items	Impairment losses (1)			Value recoveries (2)				Total 1st half 2017
	Individual		Portfolio	Individual		Portfolio		
	Derecognitions	Other		A	B	A	B	(1) - (2)
A. Due from banks	–	–	–	–	–	–	–	–
- Loans	–	–	–	–	–	–	–	–
- Debt securities	–	–	–	–	–	–	–	–
B. Loans to customers	27	1,327	318	59	137	–	–	1,476
Purchased non-performing loans	–	–	–	–	–	–	–	–
- Loans	–	–	X	–	–	X	X	–
- Debt securities	–	–	X	–	–	X	X	–
Other receivables	27	1,327	318	59	137	–	–	1,476
- Loans	27	1,327	318	59	137	–	–	1,476
- Debt securities	–	–	–	–	–	–	–	–
C. Total	**27**	**1,327**	**318**	**59**	**137**	**–**	**–**	**1,476**

Key:
A = from interest
B = other write-backs

8.2 Net losses on credit risk relating to financial assets designated at fair value through other comprehensive income: breakdown

Transactions/Income items	Impairment losses (1)			Value recoveries (2)		Total 1st half 2018 (1) - (2)
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3	
		Write-off	Other			
A. Debt securities	247	–	–	–	–	247
B. Loans	–	–	–	–	–	–
- to customers	–	–	–	–	–	–
- to banks	–	–	–	–	–	–
of which: acquired or originated impaired financial assets	–	–	–	–	–	–
Total	**247**	**–**	**–**			**247**

Although not fully comparable, the table at 30 June 2017 relating to the breakdown of Net losses on impairment of financial assets available for sale drawn up on the basis of the criteria for the classification and measurement of financial instruments under IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular no. 262 (4th update), is provided below.

8.2 Net losses on impairment of financial assets available for sale: breakdown

Transactions/Income items	Impairment losses (1)		Value recoveries (2)		Total 1st half 2017
	Individual		Individual		
	Derecognitions	Other	A	B	(1) - (2)
A. Debt securities	–	–	–	–	–
B. Equity	–	664	X	X	664
C. UCI units	–	160	X	–	160
D. Loans to banks	–	–	–	–	–
E. Loans to customers	–	–	–	–	–
F. Total	**–**	**824**	**–**	**–**	**824**

Key:
A = from interest
B = other write-backs

Section 12 - Administrative expenses – Item 190

12.1 Personnel expenses: breakdown

Type of expense/Segments	Total 1st half 2018	Total 1st half 2017
1) Personnel employed	16,582	15,319
a) wages and salaries	11,915	11,072
b) social security charges	3,119	2,864
c) termination indemnities	278	289
d) supplementary benefits	–	–
e) provisions for termination indemnities	226	209
f) provisions for post employment benefits:	–	–
- defined contribution plans	–	–
- defined benefit plans	–	–
g) payments to external pension funds:	218	192
- defined contribution plans	218	192
- defined benefit plans	–	–
h) costs from share based payments	–	–
i) other benefits in favour of employees	826	693
2) Other non-retired personnel	367	154
3) Directors and statutory auditors	752	805
4) Early retirement costs	–	–
Total	**17,701**	**16,278**

Personnel expenses grew by 1,423 thousand euros compared to the same period last year. The change is due to the increase recorded by InvestiRE SGR S.p.A. for 650 thousand euros, by the Bank for 782 thousand euros, by Natam for 56 thousand euros and to the decrease in other subsidiaries for 65 thousand euros.

Item 1) e) includes the amount of IAS provisions for termination indemnities, net of actuarial gains recognised among Valuation reserves following the changes made to IAS 19.

12.5 Other administrative expenses: breakdown

Type of expense/Segments	Totale 1st half 2018	Totale 1st half 2017
Rentals and condominium fees	1,591	1,498
Membership fees	127	99
EDP materials	35	40
Stationery and printing supplies	37	33
Consulting and outsourced professional services	1,232	1,418
Outsourcing services	1,167	1,121
Auditing company fees	162	155
Maintenance	456	585
Utilities and connections	807	827
Postal, transport and shipment fees	43	44
Insurance companies	124	121
Public relations and advertising expenses	67	69
Office cleaning	169	166
Books, newspapers and magazines	46	35
Entertainment expenses	354	80
Travel expenses and mileage based reimbursements	356	272
Other duties and taxes	2,539	1,863
Security charges	105	90
Contributions to National Resolution Fund	810	396
Other	487	520
TOTAL	**10,714**	**9,432**

The other administrative expenses increased by 1,282 thousand euros compared to the first half of 2017. The increase was mainly attributable to the Bank for 1,386 thousand euros and mainly concerned stamp duty and substitute tax of 609 thousand euros (fully recovered from customers), higher payments to the National Resolution Fund of 414 thousand euros and an increase in entertainment expenses of 245 thousand euros.

Section 13 - Net provisions for risks and charges – Item 200

13.1 Net provisions for credit risk relating to commitments to lend funds and financial guarantees given: breakdown

	Value recoveries	Impairment losses	Total 1st half 2018
Commitments to lend funds	–	8	(8)
Financial guarantees given	2	252	(250)
Total	**2**	**260**	**(258)**

Section 14 - Net losses/recoveries on property and equipment – Item 210

14.1 Net losses on property and equipment: breakdown

Assets/Income items	Depreciation (a)	Net losses on impairment (b)	Value recoveries (c)	Net income (a+b-c)
A. Property and equipment				
A.1 Owned assets	229	–	–	229
- Used in operation	229	–	–	229
- For investment	–	–	–	–
- Inventory	X			
A.2 Acquired under finance lease	–	–	–	–
- Used in operation	–	–	–	–
- For investment	–	–	–	–
Total	**229**	**–**	**–**	**229**

Section 15 - Net losses/recoveries on intangible assets – Item 220

15.1 Net losses on intangible assets: breakdown

Assets/Income items	Amortisation (a)	Net losses on impairment (b)	Value recoveries (c)	Net income (a+b-c)
A. Intangible assets				
A.1 Owned assets	85	–	–	85
- Internally generated by the company	–	–	–	–
- Other	85	–	–	85
A.2 Acquired under financial lease	–	–	–	–
Total	**85**	**–**	**–**	**85**

Section 16 - Other operating income/expenses – Item 230

16.1 Other operating expense: breakdown

	Total 1st half 2018	Total 1st half 2017
Amounts reimbursed to customers	2	2
Amortisation for improvements to third party assets	18	25
Other expense	28	18
Total	**48**	**45**

16.2 Other operating income: breakdown

	Total 1st half 2018	Total 1st half 2017
Rental income	57	66
Recovery of stamp duty	2,151	1,657
Recovery of substitute tax	136	28
Recovery of other expenses	551	327
Dividend and prescription waiver	214	185
Other income	162	766
Total	**3,271**	**3,029**

Other operating income/expenses show a positive balance of 3,223 thousand euros versus 2,984 thousand euros at 30 June 2017.

The item comprises the recoveries of costs from customers amounting to 2,838 thousand euros (2,012 thousand euros at 30 June 2017).

Among the other income of the 1st half of 2017 is the indemnity of 607 thousand euros (net of consolidation adjustments) recorded by the subsidiary Investire SGR - by virtue of the agreement signed concurrently with the merger - due by the shareholders of the absorbed company Beni Stabili Gestioni for costs incurred by the subsidiary relating to disputes with the financial Administration.

Section 17 - Profit (losses) from equity investments – Item 250

17.1 Profit (loss) from equity investments: breakdown

Income items/Segments	Total 1st half 2018	Total 1st half 2017
1) Jointly controlled companies		
A. Income	–	–
1. Revaluations	–	–
2. Profit from disposals	–	–
3. Value recoveries	–	–
4. Other income	–	–
B. Expense	–	–
1. Write-downs	–	–
2. Net losses on impairment	–	–
3. Losses from disposals	–	–
4. Other expense	–	–
Net income	**–**	**–**
2) Companies subject to significant influence		
A. Income	–	–
1. Revaluations	–	–
2. Profit from disposals	–	–
3. Value recoveries	–	–
4.Other income	–	–
B. Expense	72	33
1. Write-downs	72	33
2. Net losses on impairment	–	–
3. Losses from disposals	–	–
4. Other expense	–	–
Net income	**(72)**	**(33)**
Total	**(72)**	**(33)**

Section 21 – Taxes on income from continuing operations – Item 300

21.1 Taxes on income from continuing operations: breakdown

Income items/Segments	Total 1st half 2018	Total 1st half 2017
1. Current taxes (-)	(794)	(1,436)
2. Changes in current taxes compared with previous years (+/-)	–	–
3. Reduction in current taxes (+)	–	–
3.bis Reduction in current taxes for tax		
credits set forth in Italian Law No. 214/2011		
4. Change in deferred tax assets (+/-)	(1,186)	(712)
5. Change in deferred tax liabilities (+/-)	117	494
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(1,863)**	**(1,654)**

Income tax has been calculated based on the applicable tax rates.

Section 23 - Profit (losses) for the year for minority interests – Item 340

23.1 Breakdown of Item 340 "Profit (loss) for the year of minority interests"

Company names	Total 1st half 2018	Total 1st half 2017
Consolidated equity investments with significant interests in third parties		
1. InvestiRE SGR S.p.A.	1,150	1,298
Other equity investments	67	38
Total	**1,217**	**1,336**

Section 25 – Earnings per share

25.1 Average number of ordinary shares with diluted capital

The basic and diluted earnings (loss) per share, at consolidated level, are given below, in accordance with IAS 33. As no Group company holds any Parent Company shares, the consolidated figures coincide with those relating to the Bank.

The basic earnings (loss) per share are calculated by dividing the consolidated net income (in euros) of the holders of the Bank's ordinary shares (the numerator) by the weighted average of the ordinary shares outstanding during the period (the denominator).
For the purpose of calculating the basic earnings (loss) per share, the weighted average of the ordinary shares outstanding during the period is calculated based on the ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares purchased or issued or sold during the period multiplied by the number of days that the shares were outstanding, in proportion to the total days in the period. Shares outstanding do not include treasury shares.
The diluted earnings (loss) per share is calculated by adjusting the consolidated profit (losses) of ordinary shareholders, and likewise the weighted average of the shares outstanding, to take account of any impact by circumstances with diluted effects.

The following table shows the basic earnings (loss) per share.

	30.06.2018	31.12.2017
Profit (loss) for the year (in Euro)	2,386,759	36,307,587
Weighted average of ordinary shares	334,069,360	333,640,587
Basic earnings (loss) per share	0.007145	0.108822

The following table shows the diluted earnings (loss) per share.

	30.06.2018	31.12.2017
Adjusted profit (loss) for the year (in Euro)	2,386,759	36,307,587
Weighted average of ordinary shares for diluted capital	334,069,360	333,640,587
Diluted earnings (loss) per share	0.007145	0.108822

Since the Bank has no transactions under way that might determine changes to the number of shares outstanding and the earnings (loss) of ordinary shareholders, the diluted earnings (loss) per share coincides with the basic earnings per share and it is unnecessary to perform the reconciliation provided for by paragraph 70 of IAS 33.

25.2 Other information

At the end of the reporting period, no financial instruments that could lead to the dilution of the basic earnings (loss) per share was issued.

Part F – Information on the consolidated net equity

Section 1 – Consolidated net equity

The Group shareholders' equity comprises the Capital, Reserves, Treasury shares, Valuation Reserves and Profit for the year. All financial instruments that are not classified as financial assets or liabilities according to the IAS/IFRS are considered part of the equity.

For supervisory purposes, the relevant aggregate equity is calculated based on the applicable regulations laid down by the Bank of Italy and constitutes the reference control data of the prudential supervisory regulations.

The consolidated shareholders' equity amounted to 242,570 thousand euros, of which the Group shareholders' equity was 203,563 thousand euros and the shareholders' equity of minority interests was 39,007 thousand euros.

The valuation reserve relating to Financial assets designated at fair value through other comprehensive income is exclusively attributable to the Group and is detailed as follows:

	Valuation reserves at 30.06.2018			Valuation reserves at 01.01.2018			Changes in Reserves
	Positive	Negative	Balance (a)	Positive	Negative	Balance (b)	(a-b)
PARENT COMPANY							
CSE S.r.l. shares	–	49	(49)	–	–	–	(49)
Net Insurance shares	67	–	67	171	–	171	(104)
Cr Cesena shares	–	–	–	–	–	0	0
Vetrya shares	–	–	–	–	–	0	0
Italian Government securities and bonds (*)	374	7,477	(7,103)	522	85	437	(7,540)
TOTAL PARENT COMPANY	**441**	**7,526**	**(7,085)**	**693**	**85**	**608**	**(7,693)**
OTHER GROUP COMPANIES							
Italian government securities and bonds of Finnat Fiduciaria S.p.A.	1	16	(15)	15	–	15	(30)
TOTAL OTHER GROUP COMPANIES	**1**	**16**	**(15)**	**15**	**–**	**15**	**(30)**
TOTAL GROUP	**442**	**7,542**	**(7,100)**	**708**	**85**	**623**	**(7,723)**

(*) This item also includes the balancing entry to the net losses on credit risk carried out on debt securities included in the item "Financial assets designated at fair value through other comprehensive income" (371 thousand euros at 30 June 2018 compared with 239 thousand euros at 1 January 2018).

Section 2 – Own funds and capital ratios

2.1 Scope of the regulations

The Regulatory Capital is determined based on the harmonised regulations for Banks and the Investment companies contained in the Regulation ("CRR") and in the EU Directive ("CRD IV") of 26 June 2013, which transfer to the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3).

In order to enact the regulations, the Bank of Italy issued, on 17 December 2013, Circular no. 285 "Prudential Supervision Provisions for Banks".

2.2 Banks' own funds

Own funds at 30 June 2018 amounted to 163,607 thousand euros compared to 172,493 thousand euros at 31 December 2017, whereas the Total capital ratio, CET1 capital ratio and Tier1 ratio stood at 29.6% compared to 32.6% at 31 December 2017. The Bank exercised the option to apply the transitional provisions for the deferment over time of the impacts of the application of the new accounting standard on own funds - illustrated in the section "Market disclosure information". Without this application, own funds would have been equal to 160,250 thousand euros, while the Total capital ratio, the CET1 capital ratio and Tier1 ratio would have been equal to 29.2%.

These indices widely exceed minimum capital requirements at consolidated level mandated for us by the Bank of Italy at the conclusion of the supervisory review and evaluation process (SREP) established by Directive 2013/36/EU (CRD IV).

A. Qualitative information

The own funds represent the first safeguard against the risks associated with overall bank activities and the main reference parameter for an assessment of the solidity of the bank.

They comprise the sum of:

Common Equity Tier 1 (Common Equity Tier 1 or CET1)	163,607	euros
Additional Tier 1 (Additional Tier 1 or AT1)	–	euros
Tier 2 (Tier 2 or T2)	–	euros

B. Quantitative information

		Total 30.06.2018	Total 31.12.2017
A.	Common Equity Tier 1 (CET1) before the application of prudential filters	216,640	225,280
	of which CET 1 instruments subject to transitional provisions	–	–
B.	Prudential filters for CET 1 (+/-)	(309)	–
C.	CET 1 including deductions and the effects of the transitional regulations (A+/-B)	216,331	225,280
D.	Deductions from CET1	56,082	60,185
E.	Transitional regulations - Impact on CET 1 (+/-)	3,358	7,329
F.	Total Common Equity Tier 1 (CET1) (C - D+/-E)	163,607	172,424
G.	Additional Tier 1 (AT1) including deductions and the effects of the transitional regulations	–	–
	of which AT 1 instruments subject to transitional provisions	–	–
H.	Deductions from AT1	–	–
I.	Transitional regulations - Impact on AT 1 (+/-)	–	–
L.	Total Additional Tier 1 (AT1) (G-H +/-I)	–	–
M.	Tier 2 (T2) including deductions and the effects of the transitional regulations	–	–
	of which T2 instruments subject to transitional provisions	–	–
N.	Deductions from T2	–	–
O.	Transitional regulations - Impact on T2 (+/-)	–	69
P.	Total Tier 2 (T2) (M-N +/-O)	–	69
Q.	Total own funds (F+L+P)	163,607	172,493

2.3 Capital adequacy

A. Qualitative information

Italian banks must maintain a minimum CET 1 ratio of 4.5%, Tier 1 ratio of 6% and Total Capital Ratio of 8%.

As shown in the table on the breakdown of risk assets and on capital ratios, the Group's Total capital ratio, CET 1 Capital Ratio and Tier 1 Capital Ratio are equal to 29.6%. These indices widely exceed minimum capital requirements at consolidated level mandated for us by the Bank of Italy at the conclusion of the supervisory review and evaluation process (SREP) established by Directive 2013/36/EU (CRD IV).

B. Quantitative information

Categories/Amounts	Non-weighted amounts		Weighted amounts/Requirements	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standard methodology	2,832,853	2,793,151	393,693	361,104
2. Methodology based on internal ratings				
2.1 Basic				
2.2 Advanced				
3. Securitisation	706	726	8,822	9,075
B. CAPITAL REQUIREMENTS FOR SUPERVISORY PURPOSES				
B.1 Credit and counterparty risk			32,201	29,614
B.2 Risk of adjustment of the credit measurement			9	8
B.3 Settlement risk				
B.4 Market risks			2,066	2,704
1. Standard methodology			2,066	2,704
2. Internal models				
3. Concentration risk				
B.5 Operating risk			9,939	9,939
1. Basic method			9,939	9,939
2. Standardised method			–	–
3. Advanced method				
B.6 Other calculation elements				
B7. Total prudential requirements			44,215	42,265
C. RISK ASSETS AND ADEQUACY RATIOS				
C.1 Risk-weighted assets			552,696	528,314
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)			29.6%	32.6%
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			29.6%	32.6%
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			29.6%	32.6%

Part H – Related party transactions

In terms of related party transactions, the Bank has complied with the Regulations for related-party transactions, approved by the Board of Directors on 2 August 2013.

For further information on related-party transactions carried out during the financial year, please refer to the paragraph in the Report on Operations.

As required by IAS 24, information on related-party transactions is provided below.

1. Information on remuneration of key executives.

As a result of the latest amendments made by Consob to its resolution no. 11971 of 14 May 1999 for the aforesaid information, please refer to the "Report on Remuneration" prepared in accordance with Article 123-ter of the Italian Consolidated Financial Law and according to form 7-bis of Annexe 3A of the Issuers' Regulation.

2. Information on related-party transactions

The following table shows the assets, liabilities, guarantees and commitments at 30 June 2018 separately for different types of related parties under IAS 24.

BALANCE SHEET	Financial receivables (Payables)	Other receivables (Payables)	Sureties issued
ASSOCIATED COMPANIES			
Imprebanca S.p.A.	(138)	–	23
MANAGEMENT WITH STRATEGIC RESPONSIBILITIES AND COMPANY REPRESENTATIVES	**(2,596)**	**–**	**10**
OTHER RELATED PARTIES	**(6,919)**	**405**	**–**

Other Receivables (Payables) refer to the financial statement items "Other assets" and "Other liabilities".

With regard to associated companies, there are no income statement items above one thousand euros.

Part L – Segment Reporting

A – Primary reporting

For the purpose of identifying operating segments and establishing the figures to be allocated, the segment reporting of the Banca Finnat Group is based on its organisation and management structure, along with the internal auditing system used to support the management's operating decisions.

The Banca Finnat Group operates primarily in Italy.

For IAS segment reporting purposes, the Group has adopted the "management approach", selecting as the primary representative base, for the breakdown of its balance sheet and income statement figures, the main business sectors through which it carries out its consolidated activities and which constitute the internal reporting segments used by the Management for allocating resources and analysing the related performances. In addition to reflecting the operational responsibilities specified by the Group's organisational assets, the sectors of activity consist of the aggregation of business units that have similar characteristics with reference to the type of products and services sold.

The segments identified for providing an operation-based description of the Group results are:

- Private Banking (comprises the offer of investment services and of typical banking services to the Bank's private customers).
- Investment Banking (comprises the services offered to the Bank's institutional customers and by the company of the Natam SA Group, the treasury activity and the management and development of trading activities on the Bank's own behalf and on behalf of third parties).
- Advisory and corporate finance (comprises the consultancy services in the sector of corporate finance and assistance in extraordinary finance transactions directed at corporate customers).
- Trusteeship activity (comprises the trusteeship services offered to customers through the companies of the Finnat Fiduciaria Group and Finnat Gestioni SA).
- Asset Management - Property Fund Management (comprises the management of real estate funds carried out by the company of the Investire Sgr Group).
- Financial Holding and Governance Centre (comprises the strategic investments held by the Bank and the activities of supervision of the Group direction, coordination and control functions; overhead costs and intra-group cancellations are in this sector).

Income statement calculation criteria by business segment

The calculation of before-tax profit by business segment is based on the following criteria:

- Interest margin: The Bank's interest margin, allocated in the Private Banking, Investment Banking and Financial Holding sectors, is calculated by contribution on the basis of the "Internal Transfer Rates" differentiated by products and due dates; as regards the other Group entities, the various differences between interest income and similar income and interest expense and similar expense were allocated to the relevant Business Area.
- Net commissions: net fees and commissions were identified through the direct allocation of the income components on various business segments.

- Profit (losses) on trading: it was attributed to the business segments that actually generated that profit.
- Dividends, Profit (losses) on disposal/repurchase of financial assets designated at amortised cost and financial assets designated at fair value through other comprehensive income: they are reclassified line by line on the individual sectors concerned.
- Profits (losses) on other financial assets and liabilities mandatorily at fair value: they were attributed to the business segments that actually generated that profit.
- Operating costs: the aggregate includes personnel expenses, other administrative expenses (net of recovered costs), net value adjustments on property and equipment and intangible assets, the allocations to provisions for risks and charges and the other operating expenses and income. The operating costs of the subsidiaries go directly into the business segment in which they are included; concerning Banca Finnat, the allocation among the different business segments takes place by the application of a "cost allocation" model (in relation to specific criteria, referred to the activity carried out) for all costs for which attribution to the business centres on the basis of the unique functional position of the resources is not possible.
- Net losses/recoveries on credit risk relating to financial assets designated at amortised cost and financial assets designated at fair value through other comprehensive income: they are allocated line by line on the individual sectors.

Criteria for calculating the balance sheet aggregates by business segment

Balance sheet aggregates were calculated according to the matching concept, with costs/revenues allocated to the single segments.

In particular:

- loans to customers are the assets directly employed in the operating activities of the segment and directly attributable thereto;
- due to customers and Securities issued are the liabilities that result from the operating activities of each sector that are directly attributable to that segment.

Assets/liabilities that cannot be reasonably attributed were allocated to the "Financial Holding and Governance Centre" segment.

The activities carried out in the half-year by the individual segments are commented on in the Report on Operations.

Consolidated aggregate income statement values for the 1st half of 2018, by business segment

IFRS 8 - Financial statement economic figures at 30 June 2018

(in thousands of euros)

Business segments	Private Banking	Investment Banking (*)	Advisory and Corporate Finance	Trusteeship	Asset Management Real Estate Funds	Financial Holding and Governance Centre (**)	TOTAL
Interest margin	1,809	3,211		7	43	28	5,098
Net fees and commissions	6,706	2,725	1,071	1,214	13,176	(29)	24,863
Dividends	153	52				1,788	1,993
Profits (Losses) on trading		667					667
Profit (Loss) on disposal or repurchase of		797		19			816
a) financial assets designated at amortised cost		96					96
b) financial assets designated at fair value through other comprehensive income		701		19			720
Profits (losses) on other financial assets and liabilities designated at fair value through profit and loss	20	(24)			145	(834)	(693)
b) other financial assets mandatorily at fair value	20	(24)			145	(834)	(693)
NET BANKING INCOME	**8,688**	**7,428**	**1,071**	**1,240**	**13,364**	**953**	**32,744**
Operating costs	(6,739)	(2,226)	(634)	(480)	(9,441)	(6,244)	(25,764)
Net Losses on impairment of:	(187)	(808)	(109)	13	(315)	(35)	(1,441)
a) financial assets designated at amortised cost	(187)	(562)	(109)	14	(315)	(35)	(1,194)
b) financial assets designated at fair value through other comprehensive income		(246)		(1)			(247)
Profit (Loss) from equity investments						(72)	(72)
PRE-TAX PROFIT	**1,762**	**4,394**	**328**	**773**	**3,608**	**(5,398)**	**5,467**

(*) The data pertaining to the “Investment Banking” sector includes the activity of the Luxembourg-based Management Company Natam.
(**) The data pertaining to “Financial Holding and Governance Centre” includes overhead costs.

Consolidated aggregate balance sheet values at 30 June 2018 by business segment

IFRS 8 - Financial statement economic figures at 30 June 2018

(in thousands of euros)

Business segments	Private Banking	Investment Banking (*)	Advisory and Corporate Finance	Trusteeship	Asset Management Real Estate Funds	Financial Holding and Governance Centre	TOTAL
Asset items							
Financial assets designated at fair value through profit or loss		72,763			1,180	21,836	95,779
a) financial assets held for trading		72,763					72,763
c) other financial assets mandatorily at fair value					1,180	21,836	23,016
Financial assets designated at fair value through other comprehensive income		207,225		1,526	1	4,795	213,547
Financial assets designated at amortised cost	327,537	1,169,940	650	4,555	38,121	24,748	1,565,551
a) due from banks		138,282		3,663	13,502		155,447
b) loans to customers	327,537	1,031,658	650	892	24,619	24,748	1,410,104
Equity investments						6,457	6,457
Liability items							
Financial liabilities designated at amortised cost	614,036	1,071,670			139	4,426	1,690,271
a) due to banks		1,121					1,121
b) due to customers	587,481	1,069,689			139	4,426	1,661,735
c) securities issued	26,555	860					27,415
Financial liabilities held for trading		23				103	126

(*) The data pertaining to the "Investment Banking" sector includes the activity of the Luxembourg-based Management Company Natam.

B – Secondary reporting

The distribution of balance sheet and income statement figures by geographical area is not shown due to the fact that the Group operates almost exclusively in Italy.

Significant non-recurring operations and positions or transactions descending from atypical and/or unusual operations

Pursuant to the Consob Communication DEM/6064293 of 28 July 2006, it should be noted that:

- in the first half-year of 2018, no non-recurring events occurred or were carried out, meaning events or operations that do not usually take place, in connection with ordinary business operations;
- no atypical and/or unusual transactions took place during the half-year period, either within the Group or with related or third parties. Atypical and/or unusual transactions are those operations which, due to their magnitude/importance, to the nature of the counterparty, to the subject matter of the transaction and to the method for determining the transfer price and time frame (close to the year-end), may give rise to doubts as to: the accuracy/completeness of the information set out in the financial statements, any conflict of interest, the safeguarding of the company's net worth and the protection of minority interests.

The most significant transactions in the first half of 2018 are commented on in a special section of the Interim report on operations.

BANCA FINNAT

GRUPPO BANCA FINNAT

ATTESTAZIONE DEL BILANCIO CONSOLIDATO SEMESTRALE ABBREVIATO AI SENSI DELL'ART. 81-TER DEL REGOLAMENTO CONSOB N. 11971 DEL 14 MAGGIO 1999 E SUCCESSIVE MODIFICHE E INTEGRAZIONI

1. I sottoscritti Arturo Nattino in qualità di Amministratore Delegato e Giulio Bastia in qualità di Dirigente preposto alla redazione dei documenti contabili societari di Banca Finnat Euramerica S.p.A. attestano, tenuto anche conto di quanto previsto dall'art. 154-bis, commi 3 e 4, del decreto legislativo 24 febbraio 1998, n. 58:
   - l'adeguatezza in relazione alle caratteristiche dell'impresa e
   - l'effettiva applicazione

   delle procedure amministrative e contabili per la formazione del Bilancio consolidato semestrale abbreviato al 30 giugno 2018.

2. Al riguardo non sono emersi aspetti di rilievo.

3. Si attesta, inoltre, che:
   3.1. il Bilancio consolidato semestrale abbreviato:
      a. è redatto in conformità ai principi contabili internazionali applicabili riconosciuti nella Comunità europea ai sensi del regolamento (CE) n. 1606/2002 del Parlamento europeo e del Consiglio, del 19 luglio 2002;
      b. corrisponde alle risultanze dei libri e delle scritture contabili;
      c. è idoneo a fornire una rappresentazione veritiera e corretta della situazione patrimoniale, economica e finanziaria dell'emittente e dell'insieme delle imprese incluse nel consolidamento.

   3.2. La Relazione intermedia sulla gestione comprende un'analisi attendibile dei riferimenti agli eventi importanti che si sono verificati nei primi sei mesi dell'esercizio e alla loro incidenza sul Bilancio consolidato semestrale abbreviato, unitamente a una descrizione dei principali rischi e incertezze per i sei mesi restanti dell'esercizio. La Relazione intermedia sulla gestione comprende, altresì, un'analisi attendibile delle informazioni sulle operazioni rilevanti con parti correlate.

Roma, 13 settembre 2018

L'Amministratore Delegato

(Arturo Nattino)

Il Dirigente preposto alla redazione dei documenti contabili societari

(Giulio Bastia)

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Relazione di revisione contabile limitata sul bilancio consolidato semestrale abbreviato

Agli Azionisti della
Banca Finnat Euramerica S.p.A.

Introduzione

Abbiamo svolto la revisione contabile limitata del bilancio consolidato semestrale abbreviato, costituito dallo stato patrimoniale, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni di patrimonio netto, dal rendiconto finanziario e dalle relative note illustrative della Banca Finnat Euramerica S.p.A. e controllate (Gruppo Banca Finnat Euramerica) al 30 giugno 2018. Gli Amministratori sono responsabili per la redazione del bilancio consolidato semestrale abbreviato in conformità al principio contabile internazionale applicabile per l'informativa finanziaria infrannuale (IAS 34) adottato dall'Unione Europea. E' nostra la responsabilità di esprimere una conclusione sul bilancio consolidato semestrale abbreviato sulla base della revisione contabile limitata svolta.

Portata della revisione contabile limitata

Il nostro lavoro è stato svolto secondo i criteri per la revisione contabile limitata raccomandati dalla Consob con Delibera n. 10867 del 31 luglio 1997. La revisione contabile limitata del bilancio consolidato semestrale abbreviato consiste nell'effettuare colloqui, prevalentemente con il personale della società responsabile degli aspetti finanziari e contabili, analisi di bilancio ed altre procedure di revisione contabile limitata. La portata di una revisione contabile limitata è sostanzialmente inferiore rispetto a quella di una revisione contabile completa svolta in conformità ai principi di revisione internazionali (ISA Italia) e, conseguentemente, non ci consente di avere la sicurezza di essere venuti a conoscenza di tutti i fatti significativi che potrebbero essere identificati con lo svolgimento di una revisione contabile completa. Pertanto, non esprimiamo un giudizio sul bilancio consolidato semestrale abbreviato.

Conclusioni

Sulla base della revisione contabile limitata svolta, non sono pervenuti alla nostra attenzione elementi che ci facciano ritenere che il bilancio consolidato semestrale abbreviato del Gruppo Banca Finnat Euramerica al 30 giugno 2018 non sia stato redatto, in tutti gli aspetti significativi, in conformità al principio contabile internazionale applicabile per l'informativa finanziaria infrannuale (IAS 34) adottato dall'Unione Europea.

Roma, 13 settembre 2018

EY S.p.A.

Wassim Abou Said
(Socio)

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R.E.A. Reg. No.	444286	Web-site	www.bancafinnat.it
Tax Identification No	00168220069	E-mail	banca@finnat.it
VAT Registration No	00856091004	Investor Relations	investor.relator@finnat.it

The Company is listed on the official market and its shares are admitted to trading on the STAR segment.
The above data refers to the Parent Company Banca Finnat Euramerica S.p.A.

www.bancafinnat.it