BANCA FINNAT

GRUPPO BANCA FINNAT

FINANCIAL STATEMENTS AT 31 DECEMBER 2018 - 89TH FINANCIAL YEAR

FINANCIAL STATEMENTS

AT 31 DECEMBER 2018

89TH FINANCIAL YEAR

CONTENTS

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 OF BANCA FINNAT GROUP

DIRECTORS' REPORT ON GROUP OPERATIONS

Dear Shareholders,

The consolidated financial statements for the year ended 31 December 2018 show a net profit of 5,343 thousand euros, lower by 30,965 thousand euros than the previous year's, which amounted to 36,308 thousand euros and which had been affected - by 36,243 thousands before taxes - by the significant capital gain achieved by the Bank as a result of the sale of the London Stock Exchange Group plc shares.

The main items that form the 2018 financial year results are shown below and compared with the corresponding 2017 figures, restated according to the new Circular 262:

- **Net banking income** totals 68,080 thousand euros, compared to 102,324 thousand euros in the previous financial year, down by 34,244 thousand euros. Net of the aforesaid capital gain realised in the previous year, the net banking income increased by 1,999 thousand euros. The reclassified consolidated income statement the figure at 31 December 2017, amounting to 99,252 thousand euros, includes the impairment losses on UCI units of 3,072 thousand euros, reclassified in FTA from Impairment Losses on Financial assets available for sale under Profits (losses) on other financial assets mandatorily at fair value.

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

increases

- 3,497 thousand euros for Interest margin (12,531 thousand euros at 31 December 2018 compared to 9,034 thousand euros in the previous year);
- 1,861 thousand euros for Net fees and commissions (52,441 thousand euros at 31 December 2018, compared to 50,580 thousand euros in the previous year);

decreases

- 456 thousand euros for Dividends and similar income (2,350 thousand euros at 31 December 2018, compared to 2,806 thousand euros in 2017);
- 1,896 thousand euros as Profit (losses) on trading. At 31 December 2018, the item had a negative balance of 170 thousand euros, versus a positive balance of 1,726 thousand euros in 2017;

- 36,861 thousand euros for Profit on disposal of financial assets designated at amortised cost and financial assets designated at fair value through other comprehensive income (positive balance of 1,317 thousand euros at 31 December 2018, versus a positive balance of 38,178 thousand euros in 2017 relating to the gains from sale on Financial assets available for sale);
- 389 thousand euros for Profits (losses) on other financial assets mandatorily at fair value as a negative balance at 31 December 2018 (there was no such item in 2017).

- **Net losses on credit risk** amounted to 4,003 thousand euros at 31 December 2018, compared to 6,119 thousand euros in 2017. The losses of the period in question concern the impairment of Financial assets designated at amortised cost of 3,228 thousand euros and of Financial assets designated at fair value through other comprehensive income of 775 thousand euros. At 31 December 2017, the restated figure comprises the impairment losses on Financial assets designated at amortised cost, amounting to 2,340 thousand euros and on Financial assets designated at fair value through other comprehensive income, amounting to 705 thousand euros.

- **Administrative expenses** amounted to 56,181 thousand euros in 2018, versus 54,062 thousand euros in 2017, up by 2,119 thousand euros overall, and can be broken down as follows:
  - personnel expenses of 36,189 thousand euros grew by 1,491 thousand euros compared to last year (34,698 thousand euros);
  - other administrative expenses, totalling 19,992 thousand euros, increased by 628 thousand euros compared to the previous year (19,364 thousand euros).

- **Other operating income/expenses** at 31 December 2018 showed a positive balance of 5,534 thousand euros versus 5,510 thousand euros in 2017. The item comprises the recoveries of costs from customers, amounting to 5,039 thousand euros (4,265 thousand euros in the past year).

- **Income tax** amounted to 4,027 thousand euros versus 5,015 thousand at 31 December 2017.

* * *

The change in “Valuation reserves” together with the result for the year, are shown in the Statement of Comprehensive Income.

THE STRUCTURE OF BANCA FINNAT EURAMERICA AND OF GROUP COMPANIES

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

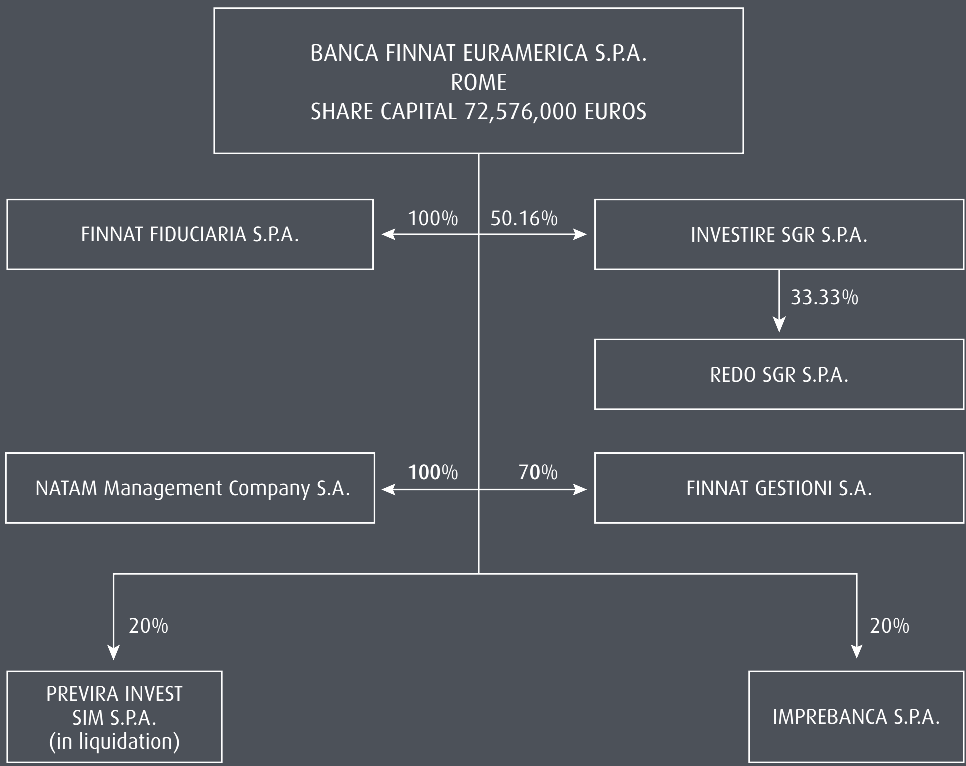
BODIES WITH MANAGEMENT FUNCTION AND GENERAL MANAGEMENT AREAS	9
ADVISORY AND CORPORATE FINANCE AREA	11
FINANCIAL SERVICES AREA	27
CONTROL FUNCTION AREA	15
LOANS AREA	8
REAL ESTATE FUNDS AREA	147
STAFF AND MANAGEMENT SUPPORT AREA	4
SALES AREA	71
TRUSTEESHIP AREA	10
ADMINISTRATIVE, OPERATIONS, LEGAL, HR, GENERAL SERVICES AREAS	53
LUXEMBOURG COMPANY MANAGEMENT AREA	3

The total number of personnel in the Group increased from 341 at 31 December 2017 to 358 at 31 December 2018 as shown in detail below:

	31.12.2018	31.12.2017
personnel employed	**347**	**332**
executives	53	49
managers	146	141
clerical workers	148	142
contractors	**7**	**6**
promoters	**4**	**3**
Total	**358**	**341**

THE GROUP'S COMPANIES

At 31 December 2018, the Group's structure was as follows:



Changes in the Group's deposits

(in thousands of euros)

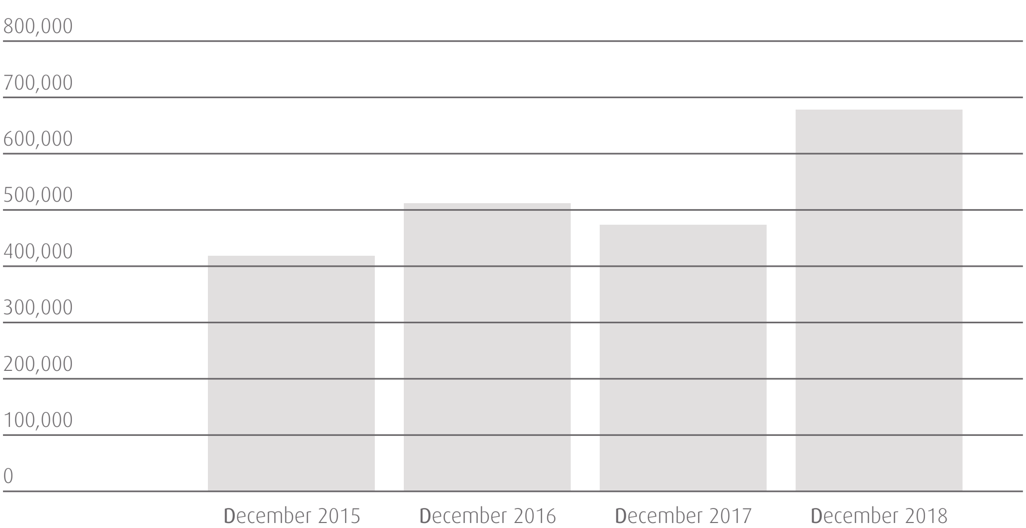
	December 2015	December 2016	December 2017	December 2018
Direct deposits from customers of the parent company	**417,760**	**510,686**	**472,787**	**677,119**
- Due to customers (current accounts)	331,111	418,331	358,892	439,262
- Time deposits	60,527	68,530	91,301	209,607
- Securities issued	26,122	23,825	22,594	28,250
Indirect deposits of the parent company	**4,609,152**	**4,505,144**	**5,540,931**	**6,152,748**
- Individual management	449,753	459,775	571,803	480,921
- Delegated management	283,646	251,061	285,681	278,565
- Deposits under administration (UCIs and securities)	3,603,627	3,471,594	3,924,304	4,544,537
- Deposits under administration under advice (UCIs and securities)	229,493	255,778	649,060	695,044
- Third-party insurance products	42,633	66,936	110,083	153,681
Trusteeship	**1,408,787**	**1,374,990**	**1,458,411**	**1,570,851**
Real Estate Fund Management	**6,769,365**	**7,001,357**	**7,525,912**	**7,321,884**
Luxembourg-based Sicav fund administration (*)	**–**	**–**	**694,087**	**662,936**
Total deposits	**13,205,064**	**13,392,177**	**15,692,128**	**16,385,538**
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.

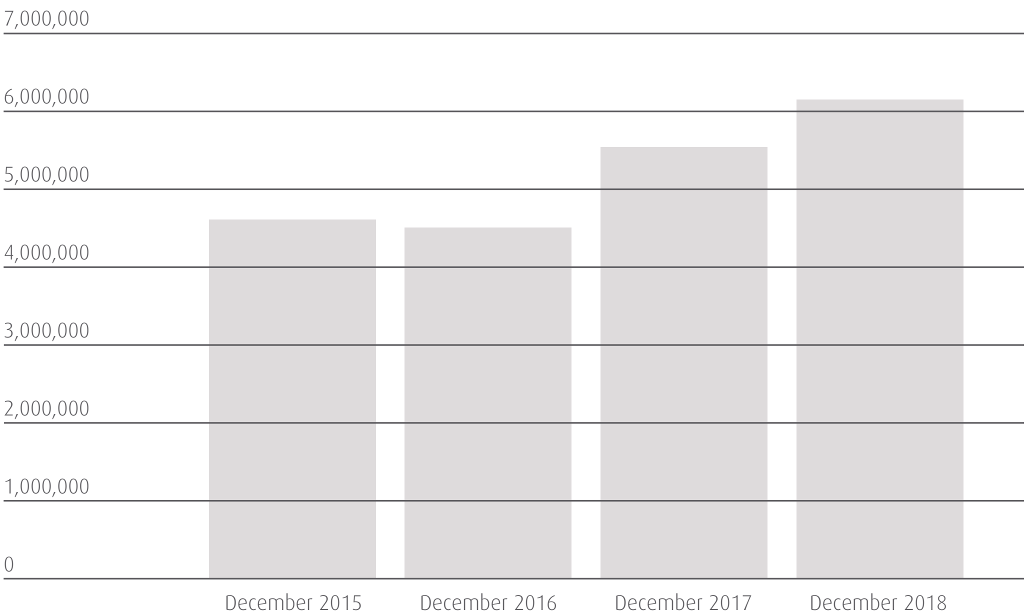
The above statement shows the changes in the Group's deposits broken down by type. In detail: a) direct and indirect funding from customers refers to the Bank's activity and does not include repos having the Cassa di Compensazione e Garanzia as the counterparty; b) trusteeship includes the funding of 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.

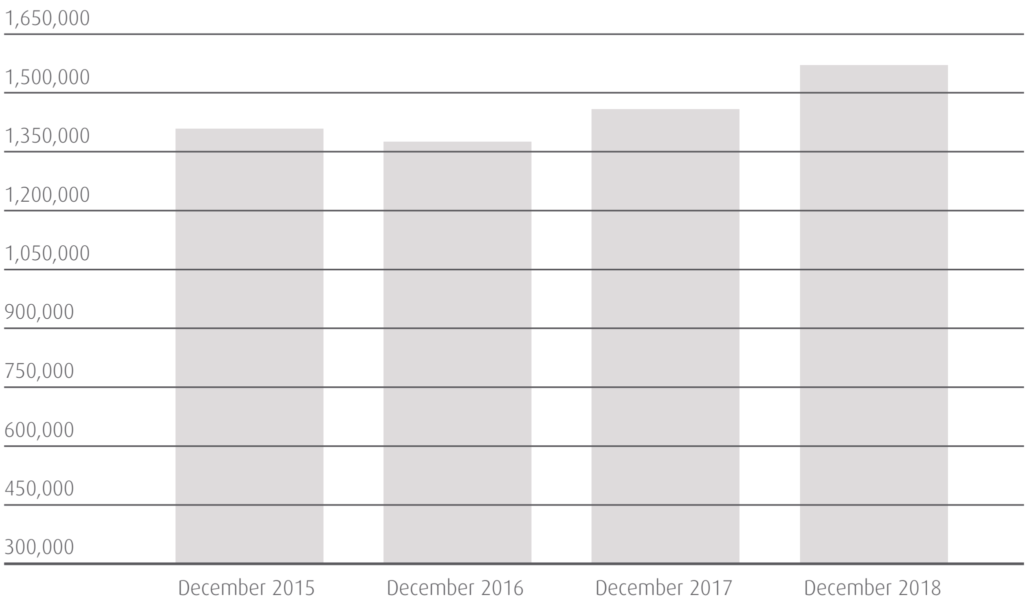
Direct deposits from customers



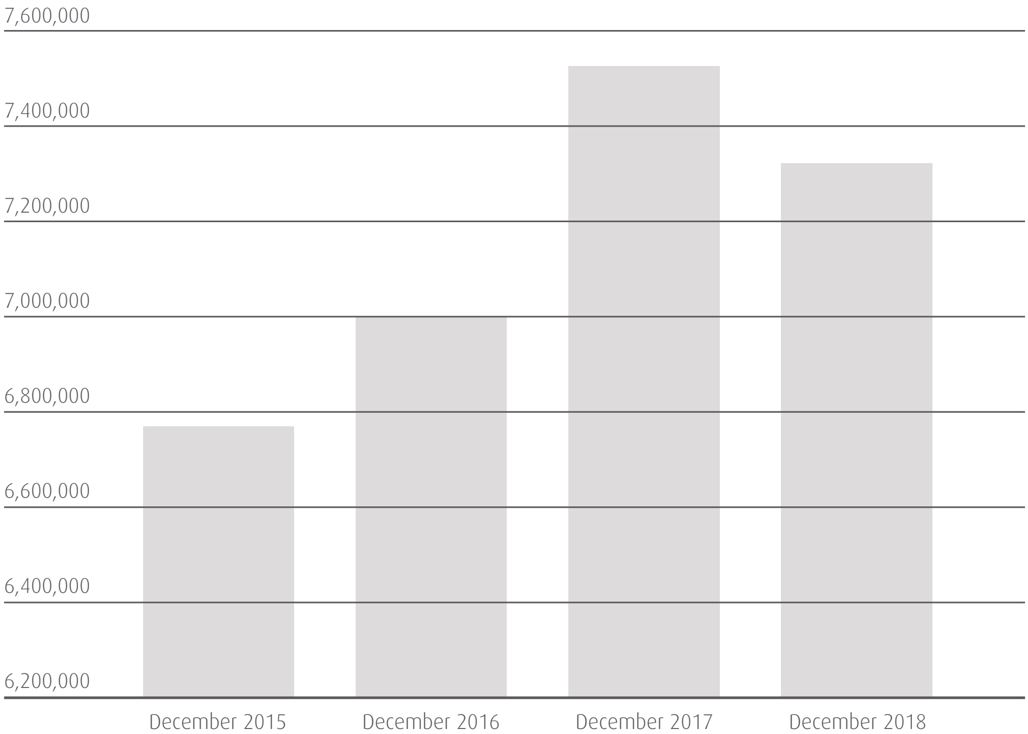
Indirect deposits



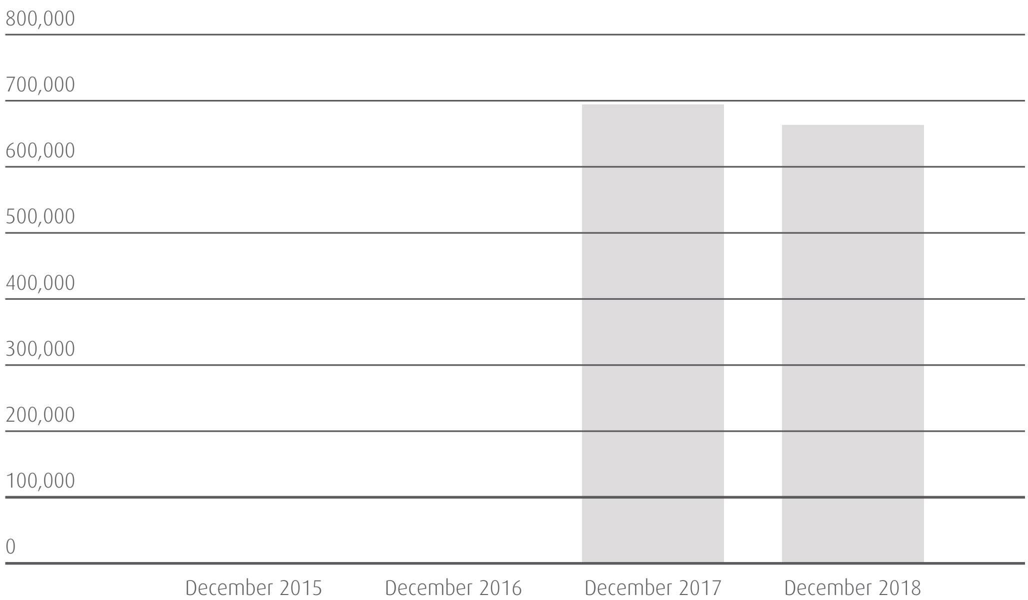
Trusteeship



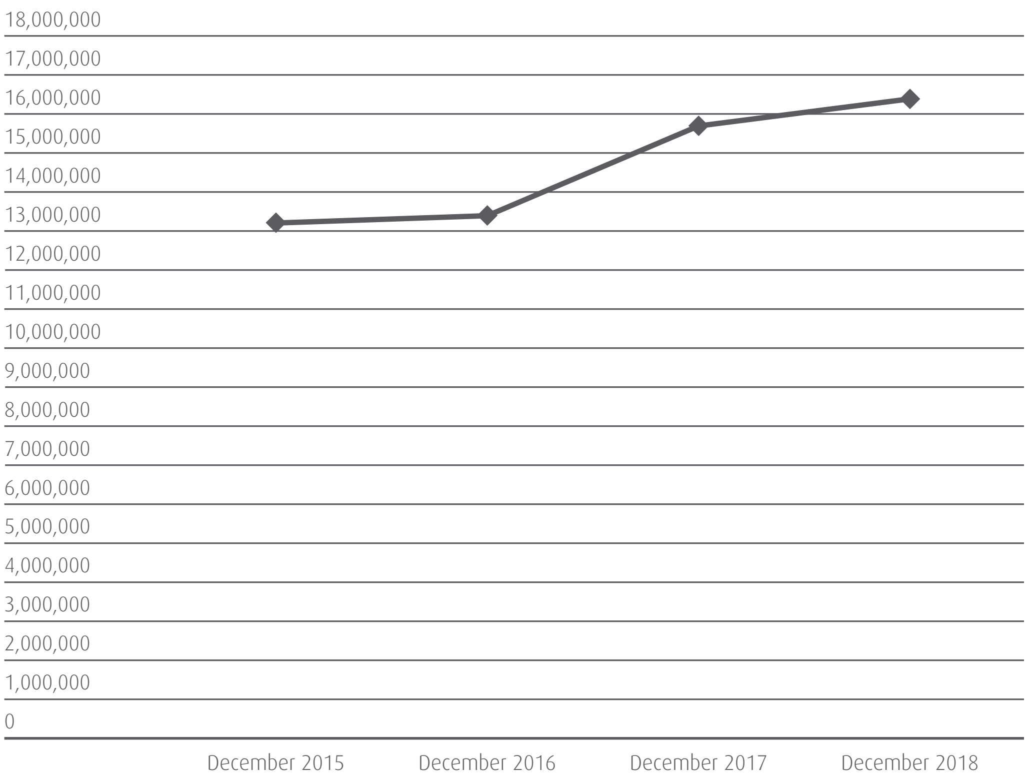
Real Estate Funds



Luxembourg-based Sicav fund administration



Total deposits of the Group



GROUP OPERATIONS

For comments on the performance of investee company operations, readers are invited to refer to the report on operations in the financial statements of Banca Finnat Euramerica S.p.A., which is included in this report.
Pursuant to Consob communication no. 98084143 of 27 October 1998, it should be noted that the Group principally operates in Italy and in any event does not have operations in locations that are considered to be risk areas.
Transactions regarding securities and equity investments are illustrated and examined in detail in the Notes to the Financial Statements.

ADOPTION OF THE NEW ACCOUNTING STANDARDS: IFRS 9 AND IFRS 15

Please refer to the Notes to the Financial Statements, Part A - Accounting policies Section 2 - General financial reporting principles, which illustrates, at the group level, the main changes and the impacts of the adoption of the two new accounting standards that came into force on 1 January 2018.

COMPARISON OF KEY CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT FIGURES OF THE 2018 AND 2017 FINANCIAL YEARS

Following is an overview of the key financial statement figures at 31 December 2018 compared for the Balance Sheet with the corresponding figures at 1 January 2018 after FTA reclassifications and adjustments, for the Income Statement with the corresponding figures of June 2017 duly restated, 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 (update 5).

CONSOLIDATED BALANCE SHEET

(in thousands of euros)

	31.12.2018	01.01.2018 (*)	Absolute change
ASSETS			
Cash and cash equivalents	665	633	32
Financial assets designated at fair value through profit or loss:	60,170	70,306	(10,136)
a) financial assets held for trading	37,410	45,712	(8,302)
c) other financial assets mandatorily at fair value	22,760	24,594	(1,834)
Financial assets designated at fair value through other comprehensive income	298,665	202,016	96,649
Financial assets designated at amortised cost:	1,464,034	1,447,431	16,603
a) due from banks	88,863	88,070	793
b) loans to customers	1,375,171	1,359,361	15,810
Equity investments	6,400	6,457	(57)
Property and equipment	4,781	5,079	(298)
Intangible assets	40,974	41,012	(38)
Tax assets	19,266	13,858	5,408
Other assets	24,772	20,420	4,352
TOTAL ASSETS	**1,919,727**	**1,807,212**	**112,515**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial liabilities designated at amortised cost:	1,641,991	1,518,615	123,376
a) due to banks	271	1,474	(1,203)
b) due to customers	1,613,470	1,494,547	118,923
c) debt securities issued	28,250	22,594	5,656
Financial liabilities held for trading	323	143	180
Tax liabilities	1,117	3,652	(2,535)
Other liabilities	20,370	17,986	2,384
Provisions for termination indemnities	5,317	4,970	347
Provisions for risks and charges:	783	635	148
a) commitments and guarantees given	101	87	–
c) other provisions for risks and charges	682	548	–
Minority interests	40,688	41,441	(753)
Group shareholders' equity	209,138	219,770	(10,632)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,919,727**	**1,807,212**	**112,515**

(*) 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)

	FY 2018	FY 2017 (*)	Absolute change	Percent change
Interest margin	**12,531**	**9,034**	**3,497**	**39%**
Net fees and commissions	**52,441**	**50,580**	**1,861**	**4%**
Dividend and similar income	2,350	2,806	(456)	
Profits (Losses) on trading	(170)	1,726	(1,896)	
Profit (Loss) on disposal or repurchase of:	1,317	38,185	(36,868)	
a) financial assets designated at amortised cost	377	–	377	
b) financial assets designated at fair value through other comprehensive income	940	38,185	(37,245)	
Profits (losses) on other financial assets and liabilities designated at fair value through profit or loss:	(389)	(3,079)	2,690	
b) other financial assets mandatorily at fair value	(389)	(3,079)	2,690	
Net banking income	**68,080**	**99,252**	**(31,172)**	**-31%**
Net losses/recoveries on credit risk of:	(4,003)	(3,045)	(958)	
a) financial assets designated at amortised cost	(3,228)	(2,340)	(888)	
b) financial assets designated at fair value through other comprehensive income	(775)	(705)	(70)	
Net income from financial operations	**64,077**	**96,207**	**(32,130)**	**-33%**
Personnel expenses	(36,189)	(34,698)	(1,491)	
Other administrative expenses	(19,992)	(19,364)	(628)	
Net provisions for risks and charges	(148)	(102)	(46)	
Net losses/recoveries on property and equipment and intangible assets	(646)	(643)	(3)	
Other operating income/expenses	5,534	5,510	24	
Operating costs	**(51,441)**	**(49,297)**	**(2,144)**	**4%**
Profit (loss) from equity investments	**(296)**	**(1,708)**	**1,412**	**-83%**
Profit (loss) from continuing operations before taxes	**12,340**	**45,202**	**(32,862)**	**-73%**
Taxes on income from continuing operations	(4,027)	(5,015)	988	
Profit (loss) from continuing operations after taxes	**8,313**	**40,187**	**(31,874)**	**-79%**
Profit (loss) of minority interests	(2,970)	(3,879)	909	
Net profit (loss) for the year pertaining to the Parent Company	**5,343**	**36,308**	**(30,965)**	**-85%**

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

Following are a series of Group operating ratios at 31 December 2018 compared with the operating ratios of the previous year.

	FY 2018 %	FY 2017 (*) %
Interest margin/net banking income	18.41	9.10
Net fees and commissions/net banking income	77.03	50.96
Cost/income ratio (operating costs/net banking income)	75.56	49.67
ROE (profit for the year/shareholders' equity)	2.55	16.52
ROA (profit for the year/total assets)	0.28	2.01

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

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

In the period spanning the end of the 2018 financial year and the date on which these financial statements were prepared, no significant events or factors that could affect the financial position, capital position, or results of operations of the Group emerged.

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 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.

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).

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 is determined.

MARKET DISCLOSURE INFORMATION

Regarding market disclosure, the Group declares that:

- with reference to the request formulated by Bank of Italy with its communication of 17 June 2008, the

Bank and, at 31 December 2018, the other Group companies 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:- SPE (Special Purpose Entities) - CDO (Collateralized Debt Obligations) - Other exposures vis-à-vis subprime and Alt-A - CMBS (Commercial Mortgage-Backed Securities) - Leveraged Finance. The only exposure of the Bank and of other Group companies 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 Bank 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 called Senior Fin-Re SPV (issued as part of a securitisation program of an "unsecured non-performing loan") recorded by the Bank in the amount of 726 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 was entirely disposed of in the course of the second half of 2018;

- 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 Annex 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 31 December 2017, the date of entry 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.

PUBLIC DISCLOSURE BY STATE

Figures at 31 December 2018

in accordance with Art. 89 of Directive 2013/36/EU of the European Parliament and of the Council (CRD IV)

Name	Geographic location	Nature of the activity	Revenues (in thousands of euros)	Average number of employees	Pre-tax profit/loss (in thousands of euros)	Taxes on income or loss (in thousands of euros)
Parent Company						
Banca Finnat Euramerica S.p.A.	Italy	Banking	40,348	179	7,055	(957)
Direct subsidiaries						
Finnat Fiduciaria S.p.A.	Italy	Trusteeship	1,647	11	146	(58)
InvestiRE SGR S.P.A.	Italy	Promotion and management of closed ended real estate funds	29,326	146	9,371	(2,884)
Natam Management Company S.A.	Luxembourg	Collective asset management	907	6	128	(12)
Finnat Gestioni SA	Switzerland	Financial management and advice	779	1	557	(116)

CAPITAL ADEQUACY, PRUDENTIAL RATIOS AND RISK MANAGEMENT DISCLOSURE

Information about the Group's capital adequacy and risk management are illustrated at length in the Notes to the financial statements, respectively in Part F – Information on Consolidated Shareholders' Equity and in Part E – Risk Information and Related Hedging Policies.

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 31 December 2018 amounted to 166,300 thousand euros (172,493 thousand euros at 31 December 2017), whereas the Total capital ratio, CET1 capital ratio and Tier1 ratio stood at 29.8% (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 163,292 thousand euros, while the Total capital ratio, the CET1 capital ratio and Tier1 ratio would have been equal to 29.4%.

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).

RESEARCH & DEVELOPMENT

For research and development activities, readers should refer to the comments contained in the report on operations attached to the separate financial statements of the Parent Company.

EXPOSURE IN DEBT SECURITIES AND LOANS TO SOVEREIGN STATES

With its “Communication on information to be provided in financial report with regard to exposures held by listed companies in sovereign debt securities”, no. DEM/11070007 of 5 August 2011, Consob references the application of document no. 2011/266 of 28 July 2011 of the European Securities and Markets Authority (ESMA) relating to the information about sovereign debt to be included in the annual and semi-annual financial reports prepared by listed companies that adopt the IAS/IFRS international accounting standards.

As indicated in the ESMA document, “sovereign debt” means bonds issued by central and local governments and by government agencies as well as loans issued to the them. The following tables highlight in more detail the exposure in debt securities by their accounting portfolio, maturity bracket and fair value hierarchy.

The following table shows, distinguished by individual country, the book value of exposures to sovereign credit risk.

Breakdown of sovereign debt securities portfolio - by issuer country

(in thousands of euros)

	31.12.2018
EU Countries	
- Italy	1,204,013

Breakdown of sovereign debt securities portfolio - by portfolio and by maturity

(in thousands of euros)

	Maturity within 2018	Maturity in 2019	Maturity in 2020	Maturity in 2022
Financial assets designated at fair value through profit or loss: a) Financial assets held for trading				
- Italy	–	9,997	1	1
Financial assets designated at fair value through other comprehensive income				
- Italy	–	64,971	17,337	–
Financial assets designated at amortised cost				
- Italy	–	399,753	542,320	–
Total	**–**	**474,721**	**559,658**	**1**

With reference to Italian Government bonds, the Group conducts periodic stress tests that assume the increase of the Credit Spreads, assessing its effects.

From the analyses carried out, no significant impacts were observed on the Group's soundness. In case of stress, the CET1 Ratio would still reach significantly higher levels than the limits prescribed by the SREP decision for 2018.

BUSINESS OUTLOOK

Based on the current forecasts contained in the Budget prepared with the involvement of the different areas of activity of the Group, a net income substantially in line with that of the year that has just ended is expected in 2019.

Maturity in 2023	Maturity in 2024	Maturity in 2025	Maturity beyond 2025	Total	Level 1
1	–	–	1	10,001	10,001
–	94,903	74,725	–	251,936	251,936
–	–	–	3	942,076	942,076
1	**94,903**	**74,725**	**4**	**1,204,013**	**1,204,013**

CONSOLIDATED SHAREHOLDERS' EQUITY OF THE GROUP

The Group's shareholders' equity at 31 December 2018, including the profit for the year, totalled 209,138 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	(10,886)
Change in valuation reserves	(5,156)
Changes in other reserves	67
Changes for sale of treasury shares	–
Profit (loss) for the period	5,343
Shareholders' equity at 31 December 2018	**209,138**

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 31 December 2018	**227,240**	**6,098**
Results of investee companies as per the statutory financial statements:		
- fully consolidated companies	3,766	3,766
- valued by shareholders' equity method	–	(72)
Positive differences from consolidation:		
- previous years	(2,677)	
Surplus over the book value related to:		
- fully consolidated companies	28,364	
Elimination of dividends	–	(4,834)
Other consolidation adjustments:	(47,555)	385
Balance resulting from the consolidated financial statements of the Group at 31 December 2018	**209,138**	**5,343**

TREASURY SHARES

At 31 December 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.

Rome, 22 March 2019

CONSOLIDATED BALANCE SHEET

(in thousands of euros)

New Item No. 262 (Item No. 31.12.2017)	Asset items	31.12.2018	31.12.2017
10. (10.)	Cash and cash equivalents	665	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	60,170	–
	a) financial assets held for trading	37,410	–
	c) other financial assets mandatorily at fair value	22,760	–
30.	Financial assets designated at fair value through other comprehensive income	298,665	–
40.	Financial assets designated at amortised cost	1,464,034	–
	a) due from banks	88,863	–
	b) loans to customers	1,375,171	–
70. (100.)	Equity investments	6,400	6,457
90. (120.)	Property and equipment	4,781	5,079
100. (130.)	Intangible assets	40,974	41,012
	of which:		
	- goodwill	37,729	37,729
110. (140.)	Tax assets	19,266	13,053
	a) current	2,231	605
	b) advance	17,035	12,448
130. (160.)	Other assets	24,772	20,420
	Total assets	**1,919,727**	**1,810,527**

CONSOLIDATED BALANCE SHEET

(in thousands of euros)

New Item No. 262 (Item No. 31.12.2017)	Liabilities and shareholders' equity	31.12.2018	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	1,641,991	–
	a) due to banks	271	–
	b) due to customers	1,613,470	–
	c) debt securities issued	28,250	–
20. (40.)	Financial liabilities held for trading	323	143
60. (80.)	Tax liabilities	1,117	4,017
	a) current	581	2,972
	b) deferred	536	1,045
80. (100.)	Other liabilities	20,370	17,988
90. (110.)	Provisions for termination indemnities	5,317	4,970
100.	Provisions for risks and charges:	783	–
	a) commitments and guarantees given	101	–
	c) other provisions for risks and charges	682	–
120. (140.)	Valuation reserves	(3,592)	2,182
150. (170.)	Reserves	148,870	125,101
170. (190.)	Share capital	72,576	72,576
180. (200.)	Treasury shares (-)	(14,059)	(14,059)
190. (210)	Minority interests (+/-)	40,688	42,138
200. (220)	Profit (Loss) for the year (+/-)	5,343	36,308
	Total liabilities and shareholders' equity	**1,919,727**	**1,810,527**

CONSOLIDATED INCOME STATEMENT Statement 1 of 2

(in thousands of euros)

New Item No. 262 (Item No. 31.12.2017)	Items	FY 2018	FY 2017
10. (10.)	Interest income and similar income	14,061	6,737
20. (20.)	Interest expense and similar expense	(1,530)	2,297
30. (30.)	**Interest margin**	**12,531**	**9,034**
40. (40.)	Fee and commission income	54,857	53,116
50. (50.)	Fee and commission expense	(2,416)	(2,536)
60. (60.)	**Net fees and commissions**	**52,441**	**50,580**
70. (70.)	Dividend and similar income	2,350	2,806
80. (80.)	Profit (Losses) on trading	(170)	1,726
(100.)	Profits (losses) on disposal or repurchase of:		
	b) financial assets available for sale	–	38,178
100.	Profits (losses) on disposal or repurchase of:	1,317	–
	a) financial assets designated at amortised cost	377	–
	b) financial assets designated at fair value through other comprehensive income	940	–
110.	Profits (losses) on other financial assets and liabilities designated at fair value through profit or loss	(389)	–
	b) other financial assets mandatorily at fair value	(389)	–
120. (120.)	**Net banking income**	**68,080**	**102,324**
(130.)	Net Losses/Recoveries on impairment of:	–	(6,119)
	a) receivables	–	(2,340)
	b) financial assets available for sale	–	(3,777)
	d) other transactions		(2)
130.	Net losses/recoveries on credit risk relating to:	(4,003)	–
	a) financial assets designated at amortised cost	(3,228)	–
	b) financial assets designated at fair value through other comprehensive income	(775)	–
150. (140.)	**Net income from financial operations**	**64,077**	**96,205**

CONSOLIDATED INCOME STATEMENT Statement 2 of 2

(in thousands of euros)

New Item No. 262 (Item No. 31.12.2017)	Items	FY 2018	FY 2017
190. (180.)	Administrative expenses:	(56,181)	(54,062)
	a) personnel expenses	(36,189)	(34,698)
	b) other administrative expenses	(19,992)	(19,364)
200. (190)	Net provisions for risks and charges	(148)	(100)
	a) commitments and guarantees given	(14)	–
	b) other net allocations	(134)	(100)
210. (200.)	Net losses/recoveries on property and equipment	(469)	(475)
220. (210.)	Net losses/recoveries on intangible assets	(177)	(168)
230. (220.)	Other operating income/expenses	5,534	5,510
240. (230.)	**Operating costs**	**(51,441)**	**(49,295)**
250. (240.)	Profit (loss) from equity investments	(296)	(1,708)
290. (280.)	**Profit (loss) from continuing operations before taxes**	**12,340**	**45,202**
300. (290.)	Taxes on income from continuing operations	(4,027)	(5,015)
310. (300.)	**Profit (loss) from continuing operations after taxes**	**8,313**	**40,187**
330. (320.)	**Profit (loss) for the year**	**8,313**	**40,187**
340. (330.)	Profit (loss) for the year of minority interests	(2,970)	(3,879)
350. (340.)	**Net profit (loss) for the year pertaining to the Parent Company**	**5,343**	**36,308**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)

New Item No. 262 (Item No. 31.12.2017)	Items	FY 2018	FY 2017
10.	**Profit (loss) for the year**	**8,313**	**40,187**
	Other comprehensive income after taxes that may not be reclassified to the income statement		
20.	Equity designated at fair value through other comprehensive income	3,053	–
70. (40.)	Defined benefit plans	(142)	(23)
90. (60.)	Share of valuation reserves connected with investments carried at equity	72	(98)
	Other comprehensive income after tax that may be reclassified to the income statement		
(100.)	Financial assets available for sale	–	(28,101)
140.	Financial assets (other than equity) designated at fair value through other comprehensive income	(8,189)	–
170. (130.)	**Total other comprehensive income after tax**	**(5,206)**	**(28,222)**
180. (140.)	**Comprehensive income (Item 10+170)**	**3,107**	**11,965**
190. (150.)	Consolidated comprehensive income pertaining to minority interests	2,920	3,898
200. (160.)	**Consolidated comprehensive income pertaining to the Parent Company**	**187**	**8,067**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31 DECEMBER 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**	**29,301**	**–**
a) profit	100,684	(1,708)	98,976	29,267	
b) other	63,266	(1,230)	62,036	34	–
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**	**(29,301)**	**(10,886)**
Total shareholders' equity	**264,246**	**(3,035)**	**261,211**	**–**	**(10,886)**
of which: Group shareholders' equity	**222,108**	**(2,338)**	**219,770**	**–**	**(10,886)**
of which: Shareholders' equity of 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 31 DECEMBER 2017

(in thousands of euros)

	Total shareholders' equity at 31.12.2016	Changes 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: Shareholders' equity of minority interests	**40,970**	**–**	**40,970**	**–**	**–**

Changes during the year											
	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	Compre-hensive income FY 2018	Shareholders' equity at 31.12.2018 Total	Shareholders' equity at 31.12.2018 Group	Shareholders' equity at 31.12.2018 Minority interests
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**72,576**	**72,576**	**–**
–	–	–	–	–	–	–	–	–	72,576	72,576	–
–	–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(3,606)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**186,707**	**148,870**	**37,837**
(3,698)	–	–		–	–	–	–	–	124,545	114,570	9,975
92	–	–		–	–	–	–	–	62,162	34,300	27,862
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,206)**	**(3,711)**	**(3,592)**	**(119)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(14,059)**	**(14,059)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,313**	**8,313**	**5,343**	**2,970**
(3,606)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,107**	**249,826**	**–**	**–**
67	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**187**	**–**	**209,138**	**–**
(3,673)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,920**	**–**	**–**	**40,688**

Changes during the year											
	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	Compre-hensive income FY 2017	Shareholders' equity at 31.12.2017 Total	Shareholders' equity at 31.12.2017 Group	Shareholders' equity at 31.12.2017 Minority interests
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**72,576**	**72,576**	**–**
–	–	–	–	–	–	–	–	–	72,576	72,576	–
–	–	–	–	–	–	–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(2,897)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**163,950**	**125,101**	**38,849**
(2,684)	–	–		–	–	–	–	–	100,684	89,670	11,014
(213)	–	–	–	–	–	–	–	–	63,266	35,431	27,835
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(28,222)**	**1,592**	**2,182**	**(590)**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**333**	**–**	**–**	**–**	**–**	**–**	**–**	**(14,059)**	**(14,059)**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**40,187**	**40,187**	**36,308**	**3,879**
(2,897)	**–**	**333**	**–**	**–**	**–**	**–**	**–**	**11,965**	**264,246**	**–**	**–**
(167)	**–**	**333**	**–**	**–**	**–**	**–**	**–**	**8,067**	**–**	**222,108**	**–**
(2,730)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,898**	**–**	**–**	**42,138**

CONSOLIDATED STATEMENT OF CASH FLOWS (indirect method)

(in thousands of euros)

	Amount	
	31.12.2018	**31.12.2017(*)**
A. OPERATING ACTIVITIES		
1. Management	**4,222**	**50,539**
- net profit (loss) for the year (+/-)	5,343	36,308
- capital gains/losses on financial assets held for trading and on other financial assets and liabilities designated at fair value through profit or loss (-/+)	972	(904)
- capital gains/losses on hedging assets (-/+)	–	391
- net losses/recoveries on credit risk (+/-)	4,003	–
- (net losses/recoveries on impairment) (+/-)	–	6,119
- net losses/recoveries on property and equipment and intangible assets (+/-)	680	686
- net provisions for risks and charges and other costs/revenues (+/-)	1,706	1,599
- net premiums not received (-)	–	–
- other insurance income/expenses not received (-/+)	–	–
- taxes, duties and tax credits not liquidated (+/-)	(4,027)	(5,015)
- net losses/recoveries on discontinued operations net of tax effect (+/-)	–	–
- other adjustments (+/-)	(4,455)	11,355
2. Cash generated by/used in financial assets	**(112,478)**	**(12,409)**
- financial assets held for trading	7,642	(4,319)
- financial assets designated at fair value	–	–
- other assets mandatorily at fair value	1,522	–
- financial assets designated at fair value through other comprehensive income	(97,424)	–
- financial assets designated at amortised cost	(19,831)	–
- (financial assets available for sale)	–	(50,363)
- (due from banks: on demand)	–	668
- (due from banks: other receivables)	–	80,927
- (loans to customers)	–	(37,053)
- other assets	(4,387)	(2,269)
3. Cash generated by/used in financial liabilities	**124,729**	**(8,842)**
- financial liabilities designated at amortised cost	123,376	–
- (due to banks: on demand)	–	941
- (due to banks: other payables)	–	(670)
- (due to customers)	–	(1,772)
- (securities issued)	–	(1,231)
- financial liabilities held for trading	180	(10,629)
- financial liabilities designated at fair value	–	–
- other liabilities	1,173	4,519
Cash generated by/used in operating activities	**16,473**	**29,288**

	Importo	
	31.12.2018	31.12.2017 (*)
B. INVESTING ACTIVITIES		
1. Cash generated by	**10**	**2,982**
- disposals of equity investments	–	–
- dividends received on equity investments	–	983
- (disposal of investments held to maturity)	–	1,999
- disposals of property and equipment	10	–
- disposals of intangible assets	–	–
- disposals of subsidiaries and business units	–	–
2. Cash used in	**(477)**	**(408)**
- purchases of equity investments	(167)	–
- purchases of property and equipment	(171)	(250)
- purchases of intangible assets	(139)	(158)
- purchases of subsidiaries and business units	–	–
Cash generated by/used in investing activities	**(467)**	**2,574**
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	–	273
- issues/purchases of capital instruments	–	60
- dividend distribution and other purposes	(15,974)	(32,037)
- sale/purchase of third-party control	–	–
Cash generated by/used in financing activities	**(15,974)**	**(31,704)**
CASH GENERATED/USED DURING THE YEAR	**32**	**158**

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	**31.12.2018**	**31.12.2017 (*)**
FINANCIAL STATEMENT ITEMS		
Cash and cash equivalents at the beginning of the year	633	475
Total net cash generated/used during the year	32	158
Cash and cash equivalents: effect of foreign exchange rate changes	–	–
Cash and cash equivalents at the end of the year	665	633

(*) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF BANCA FINNAT EURAMERICA GROUP

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

Part A - Accounting policies

A.1 – General information

Part B - Information on the consolidated balance sheet

Part C - Information on the consolidated income statement

Part A – Accounting policies

A.1 – General information

Section 1 - Statement of compliance with international accounting standards

The financial statements at 31 December 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 31 December 2018, in accordance with the procedures laid down in Regulation (EC) No. 1606/2002.

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 Consolidated financial statements at 31 December 2018 were prepared in accordance with 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 "Transition to the international accounting standard

IFRS 9" and "Adoption of IFRS 15" illustrated below.
The Consolidated 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;

They comprise the Directors' Report on operations and situation of the Group.

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.

The tables of the Consolidated Balance Sheet, Income Statement and Statement of Comprehensive Income comprise items, sub-items and additional information on the items and sub-items. The items, sub-items and related details constitute the financial accounts. All items with nil balances either for the current or for the previous financial year are not shown. Revenues in the Income Statement and Statement of Comprehensive Income are shown without any sign whilst costs are shown in brackets.
Comparative figures are shown for each account item of the Consolidated Balance Sheet, Income Statement and Statement of Comprehensive Income.
Consistently with article 5 of Italian Legislative Decree no. 38 of 28 February 2005, the consolidated financial statements were prepared using the euro as the presentation currency. Regarding the contents of the tables, all figures are expressed in thousands of euro, unless otherwise specified.
The Consolidated Financial Statements provide a true and fair view of the financial and economic position, the result for the year and cash flows. The financial statements were also prepared, as specified above, on a going concern basis (IAS 1 paragraph 25), on an accrual basis (IAS 1 paragraphs 27 and 28), in compliance with the obligation to make adjustments to reflect the events subsequent to the reference date of the financial statements (IAS 10). The assets and liabilities, income and expenses have not been offset, except where required or allowed by a principle or interpretation (IAS 1 paragraph 32). The cost of inventory and of the financial instruments was calculated using the weighted average daily cost method, (IAS 2, paragraph 25).

The accounting principles applied to prepare these Financial Statements are substantially changed with respect to those applied to prepare the consolidated financial statements for 2017, and the accounts on

which the consolidation process was based are those prepared by the subsidiaries, at 31 December 2018, suitably adjusted, if necessary, to ensure uniformity with the Group's accounting principles and decisions.
The changes are essentially due to the mandatory adoption, starting from 1 January 2018, of the following international accounting principles:

- 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".

The consolidated financial statements for Banca Finnat Euramerica will be audited by EY S.p.A.

The European Commission endorsed the following Regulations (through amendments or the promulgation of new standards) 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 also endorsed the following Regulations (through amendments or the promulgation of new standards) 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 through 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.

The Banca Finnat Group has adopted a group policy to regulate the procedures for identifying, measuring and recognising lease agreements; an impact assessment activity was also carried out with the purpose of defining the guidelines for the compliance of the accounting policies and of the disclosure model, identifying the impacts and interventions for non-accounting areas in view of the adoption of the principle starting from 1 January 2019. The lease agreements within the scope of application of the standard were identified and the standard was applied again for the agreements for which the recognition and measurement procedure indicated by IFRS 16 applies. As a result of the impact assessment activity, the Banca Finnat Group identified the lease agreements on the basis of the definition contained in IFRS 16 with respect to the set of agreements extant at the date of analysis, verifying the presence exclusively of operating lease agreements referred to property leases and rentals of motor vehicles and capital goods; the Banca Finnat Group also decided:

- not to apply the provisions contained in IFRS 16 pertaining to the recognition, the initial measurement, the subsequent measurement and the exposure in the financial statements to:
  - Short-term lease agreements with up to 12 months duration for which no purchase option is provided unless the year of any renewal option is reasonably certain.
  - Leases in which each underlying asset has modest value, with the term “modest value” meaning the amount of 5,000 euros; this amount refers to the value of the individual leased assets that can be purchased new at the initial validity date of the agreement.
- not to apply the provisions contained in IFRS 16 to lease agreements of intangible assets and to lease agreements whose residual duration at the date of first adoption is shorter than 12 months.

Upon first application, the new provisions shall be applied to the lease agreements identified retroactively by accounting for the cumulative effect of the initial adoption of the Standard at 1 January 2019 in accordance with the paragraphs from C7 to C13 of IFRS 16. The adoption of this solution will determine: a value of the lease liabilities in first application equal to the present value of the residual payments due for each lease agreement, increased by the present value of the estimated payments at the end of the lease; a value of the lease assets equal to the lease liabilities (increased or decreased by the amount of the payments advanced/accrued at the date of first application). The different procedures for recognising the expenses connected with lease agreements will entail a negative impact on the income statement of 2019 with respect to the expenses that would have been incurred if the previous regulatory provisions had remained in force. The negative impact, which will be progressively reabsorbed in subsequent years, is approximately 1% of operating costs.

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.

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 5,225 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 through 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 after tax effects), 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 thousand 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 designated 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 after tax effects), 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 euros 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 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 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 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				
	b) 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) debt 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**
										1,810,527
17,986	**4,970**	**2**	**548**	**2,182**	**125,101**	**72,576**	**(14,059)**	**42,138**	**36,308**	**1,810,527**

Reconciliation statement between the published consolidated income statement at 31 December 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)

31 December 2017 new 262 / 31 December 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. Dividend and similar income
10. Interest income and similar income	6,737						
20. Interest expense and similar expense		2,297					
30. Interest margin							
40. Fee and commission income				53,116			
50. Fee and commission expense					(2,536)		
60. Net fees and commissions							
70. Dividend and similar income							2,806
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							
	6,737	2,297	**9,034**	53,116	(2,536)	**50,580**	2,806

	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		
									6,737
									2,297
									9,034
									53,116
									(2,536)
									50,580
									2,806
	1,726								1,726
			38,185	(7)					38,178
									102,324
						(2,340)			(2,340)
				(3,072)			(705)		(3,777)
									96,207
	1,726	–	38,185	(3,079)	**99,252**	(2,340)	(705)	**96,207**	

Reconciliation statement between the published consolidated income statement at 31 December 2017 and the income statement according to the new Bank of Italy Circular Letter no. 262 - Statement 2 of 2

(in thousands of euros)

31 December 2017 new 262 / 31 December 2017 published	190. Administrative expenses:		200. Net provisions for risks and charges		210. Net losses/ recoveries on property and equipment	220. Net losses/ recoveries on intangible assets
	a) personnel expenses	b) other administrative expenses	a) commitments and guarantees given	b) other net allocations		
130. Net Losses/Recoveries on impairment of:						
d) other financial transactions			(2)			
180. Administrative expenses:						
a) personnel expenses	(34,698)					
b) other administrative expenses		(19,364)				
190. Net provisions for risks and charges				(100)		
200. Net losses/recoveries on property and equipment					(475)	
210. Net losses/recoveries on intangible assets						(168)
220. Other operating income/expenses						
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						
	(34,698)	(19,364)	(2)	(100)	(475)	(168)

230. Other operating income/ expenses	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	
									(2)
									(34,698)
									(19,364)
									(100)
									(475)
									(168)
5,510									5,510
									(49,297)
		(1,708)							(1,708)
									45,202
				(5,015)					(5,015)
									40,187
									40,187
							(3,879)		(3,879)
									36,308
5,510	**(49,297)**	(1,708)	**45,202**	(5,015)	**40,187**	**40,187**	(3,879)	**36,308**	

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 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) debt securities issued	22,594
20.	Financial liabilities held for trading	143
60.	Tax liabilities	4,017
	a) current	2,972
	b) deferred	1,045
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:

1) 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;
2) 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;
3) 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;
4) 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;
5) 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 instead identified in terms of greater demand for qualitative information relating to the above-mentioned revenue, as prescribed by update 5 of Circular 262 of the Bank of Italy in force since 1 January 2018.

Section 3 – Scope and methods of consolidation

1. 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.

2. 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 investee companies used to prepare the consolidated financial statements were drawn up at 31 December and, if necessary, adjusted to ensure the uniform application of the same accounting principles 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 year 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.

3. Equity investments in exclusively controlled subsidiaries with significant minority interest

3.1 Minority interests, minority voting rights and distributed dividends

Company names	Minority interests %	Minority voting rights % (1)	Dividends distributed to minority shareholders
1. InvestiRE SGR S.p.A.	49.84%	49.84%	3,613

(1) Voting rights in ordinary shareholders' meetings.

3.2 Equity investments with significant interests in third parties: financial information

Company name	Total assets	Cash and cash equivalents	Financial assets	Property and equipment and intangible assets	Financial liabilities	Consolidated shareholders' equity	Interest margin
1. InvestiRE SGR S.p.A.	96,972	6	44,143	38,095	234	81,197	60

Section 4 – Subsequent events

In the period spanning the end of the 2018 financial year and the date on which these Financial Statements were prepared, no significant events or factors that could affect the financial position, capital position, or results of operations of the Group emerged.

Section 5 – Other information

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 the financial statements at 31 December 2018, the Bank and the other Group companies have used estimates (based on the most recent available data), in respect of both several balance sheet and several income statement items.

Exemption from the preparation of the fourth interim financial report for 2018

With the implementation of the Directive on shareholders' rights (Italian Legislative Decree no. 27 of 27 January 2010), paragraph 1 of Article 154-*ter* was amended ("Financial Reports") of the Italian Consolidated Financial Law (the "TUF"). This amendment establishes that the annual Financial Report, comprising the draft statutory financial statements, the consolidated financial statements, if prepared, the report on operations and the certification of the appointed administrative bodies and the Manager in charge of preparing the accounting documents, must be published within 120 days of the company year end. The obligation to ensure publication within 120 days refers specifically to the "draft financial statements" approved by the administrative body and no longer to the "statutory financial statements" approved by the Shareholders'

Net banking income	Operating costs	Profit (loss) from continuing operations before taxes	Profit (loss) from continuing operations after taxes	Income (loss) from groups of assets being disposed after tax	Profit (Loss) for the year (1)	Other income items after tax (2)	Comprehensive income (3) = (1) + (2)
29,326	(20,179)	9,371	6,487	–	6,487	(101)	6,386

Meeting. As such, this amendment restores, for listed companies, the option to postpone approval of the financial statements within maximum terms of 180 days as established by Article 2364, paragraph 2 of the Italian Civil Code, which had been abolished by Directive 2004/109/EC (the Transparency Directive). The decree also establishes that, as an exception to art. 2429, paragraph 1 of the Italian Civil Code, the draft financial statements must be disclosed by the directors to the board of auditors and independent auditing firm at least 15 days prior to publishing the draft.

With reference to companies belonging to the STAR segment, Borsa Italiana has established the publication - in addition to the reports concerning the first and third quarters, as required by paragraph 5 of Article 154-ter – also the interim report on operations with reference to the 4th quarter; it has also allowed to omit drafting said report if publication of the draft financial statements is brought forward to 90 days as from the end of the year of reference. The term of 90 days (previously set to 75 days prior to the amendments introduced with the implementation of the Directive as explained above) was established by Borsa Italiana with its notice no. 14924 of 8 October 2010 concerning the "Amendments made to the Market Regulation". In view of the above, the Bank opted not to publish the 4th interim report on operations, by making the draft separate and consolidated Financial Statements at 31 December 2018, complete with the certification by the Manager in Charge of Preparing the Accounting Documents, that of the Board of Statutory Auditors and the Auditing Firm, available to shareholders and to the market within the term of 90 days from the end of the financial year.

A.2 – Information on the main financial statement items

The accounting standards adopted in preparing the Consolidated Financial Statements at 31 December 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 ("Hold to Collect") or at fair value through other comprehensive income ("Hold to Collect and Sell").
  These are financial assets whose contractual terms do not exclusively envisage capital reimbursements 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 cash flows or within the framework of a business model whose objective is achieved both through the collection of contractual cash 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 designated 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 designated 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 derivatives 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 (Hold 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 Hold 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 Hold 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 designated 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 reimbursements, 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 impairment losses and/or value recoveries.

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 property and equipment, the relevant separation is made only for free-standing buildings. For assets acquired during the year, the depreciation is calculated on a daily basis starting on the date on which the asset was first used.
Property and equipment 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 impairment losses.

Derecognition criteria
The book value of property and equipment 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 their purchase 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 losses. 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 annually 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-flow-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-flow-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.
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 taxation 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 the temporary taxable differences, with respect to which there is the likelihood of effectively incurring taxes, and the temporary deductible differences, with respect to which there is the reasonable certainty of recovering tax money back.

Deferred tax liabilities 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.

Deferred 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 designated 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 decrease in 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 termination 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) it 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 the time provided for the satisfaction of the performance obligations, 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.

The disclosure required by IFRS 15 (Revenue from Contracts with Customers).

The Group applied IFRS 15 at 1 January 2018 using the option provided by the standard in paragraph C2 letter b), based on which the cumulative effect of the initial application is accounted for at the date of first adoption; however, since the procedures for accounting for revenue from contracts with customers were already aligned to the provisions of IFRS 15, the cumulative effect is zero and it is not necessary to provide the amount of the impact on each item of the current year deriving from the application of the new standard with respect to the standards previously in force.

Change in accounting criteria
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. Based on the accounting standards in force before 1 January 2018, revenue was recognised when the future benefits had been received or it was probable that they would be received and these benefits could be quantified reliably.

Nature of the services

A description of the main businesses from which the Group generates its revenue from contracts with customers, distinguished by business area, is provided below.

Banca Finnat

Private banking and Banking Services

The main services provided to the private customers of the Bank by the private bankers of the Sales Department include the revenue deriving from agreements for individual portfolio management, trading, trading with consultancy services, placement, and all agreements associated with a current account relationship (cash services, payments, money management, debit cards, credit card loans, home banking, etc.).All mandatory performance is defined by formalised agreements. If the agreements include the performance of distinct services, the revenue pertaining thereto is:

- recorded separately on the basis of standalone sale prices defined contractually (as in the case of fees for services of individual portfolio management, trading and order execution on financial instruments, placement and of fees for the transmission of documents, reports and communications);
- recorded on the basis of the mandatory service performed if the services cannot be separated within the context of the agreement because one is the input of the other (as in the case of the combination of the consultancy and securities custody services) or because they are interdependent, not separable and not sold individually (as in the case of banking services associated with a current account).

Depending on the way the services are performed, revenue is recorded punctually (e.g. in the case of fees for trading, collection and payment, subscription) or, in case of services performed over time, based on the value that the services completed until the considered date have for the customer, corresponding to the amount provided by the agreement.

Individual portfolio management agreements prescribe the debiting (with annual or less than annual periodicity) of variable overperformance amount with respect to reference parameters. The determination of these fees depends on the result achieved at the end of the reference period, which cannot be estimated on the occasion of the quarterly measurements, since it is not highly probable that when, subsequently, the uncertainty associated with the variable consideration is resolved, there will be no significant downwards adjustment of the amount of the recorded cumulated revenue; these fees are affected by external factors with respect to the management activity of the bank (such as market volatility and the performance of the reference parameter).

The revenue accounting procedures adopted before the entry into force of the provisions of IFRS 15 are in line with those described, except that for the types of trading agreements that prescribe free fees for the execution of orders on financial instruments in view of the application of fees for the consultancy and custody services proportionate to the assets under administration; for these agreements, the amount of the fees is allocated, for accounting purposes, among the obligations prescribed by the agreement, attributing to the custody and administration service an amount equal to the standalone sale price of the service and to the trading service the residual amount.

Institutional customers

The main services provided by the Institutional Customers Organisational Unit of the Bank includes: the asset management services performed by appointment by UCIs, the management and trading services directed to corporate customers and to qualified counterparties, the services directed to listed issuers (specialist operator services, qualified operator, analyst coverage, centralised management, etc.).

All mandatory performance is defined by formalised agreements. Management and trading services are recognised according to the same rules prescribed for private customers.

Services directed to listed issuers are carried out over time, because customers benefits from the activity carried out continuously and they are consequently recognised based on the value for customers of the services transferred until the date considered on the basis of the amount the Bank is entitled to receive.

Centralised management services can be sold on the basis of individual modules or as packages; in this case, the value of the service provided consists of the single fee prescribed for the different services included in the package and any discount with respect to the acquisition of the individual services is allocated proportionately among the different mandatory services performed. If the agreements include services whose revenue is recognised punctually at the time of execution, the portion referred to these services is recorded at the time of performance or, if the services were not performed within the reference period of the agreement, at its periodic expiration.

The accounting procedures for revenue that were adopted before the entry into force of the provisions of IFRS 15 are substantially in line with those described above.

Advisory and Corporate Finance

"Consultancy services on financial structure", rendered to corporate customers by the Advisory & Corporate Finance Organisational Unit of the Bank, to provide assistance to customers in major corporate finance matters (mergers & acquisitions, listings and IPOs, company appraisals, industrial and financial restructuring, project financing, strategic consultancy), are defined by formalised agreements. Depending on the type of assistance provided, the agreement may entail the performance of different activities, which, however, are necessary inputs for the achievement of the objective prescribed by the agreement and therefore are inseparable and included in a single mandatory service. This service is considered completed over time regardless of the prescribed invoicing timelines because: the customer benefits from the assistance service rendered by the Bank on a continuous basis; performance of the activity does not present an alternative use for the Bank, being carried out exclusively for the Customer according to his specific characteristics and requirements; any adaptation of the activities performed for another use is subject to practical limitations because the specifications of the activities carried out are unique for that Customer; throughout the duration of the agreement, the Bank is entitled to require payment of the service completed up to the date considered even if the agreement is terminated by the Customer for reasons other than the Bank's failure to perform. However, if the assistance agreement requires releasing the declaration of appropriateness for the purposes of listing, the connected fees are recognised punctually because the Customer receives the benefits deriving from fulfilling the obligation to obtain listing on the market only on the release date.

Any success or performance commissions are instead recognised only in case of formalisation of the transactions and when the conditions underlying their ascertainment are met; these are variable fees which the Bank cannot determine in a highly probable manner before the "resolution of the uncertainty" associated with the fees themselves, being conditioned by factors on which the Bank has no control (such as actions performed by third parties: customers, investors, lenders).

InvestiRE SGR S.p.A.

The purpose of the real estate SGR is to manage professionally and valorise the Assets of the managed Funds carrying out its own real estate initiatives, in accordance with the investment policies of each Fund. Within the scope of its activities, the SGR identifies and carries out the investments that by nature and intrinsic characteristics are appropriate to achieve the ends of the Funds, assessing the overall risks of the portfolio. Within the scope of its activities, the SGR also assesses and manages the liquidity risk, manages the accounting of the Funds and generally performs all the activities necessary for the purpose of the fund, identified in the management Regulation. The mandatory service identifiable in the formalised agreements is the Fund management and valorisation activity; the different services performed are similar to each other and they share the way the benefit is transferred to the customer and therefore they are considered a single mandatory service. The management fees, development fees and sale fees prescribed in the agreements are recognised progressively according to the elapsing of time, assessing progress with the output-based method; revenues are consequently recognised on a quarterly basis on an accrual basis. In the presence of variable success fees, whose liquidation is subordinated to meeting specific conditions set forth in the regulation, these fees are recognised upon expiration of the lifetime for the Fund (or at the shorter time interval prescribed by the regulation): however, if the requirements are met, an early recognition of the success fees may be considered only if it is highly probable that the objective defined in the regulation is achieved. In particular, the portion of the performance fees on the sales of the FIA FIP, not liquidated immediately, is recognised early with respect to the definitive accrual (prescribed on the date of liquidation of the fund) if on the closing date of each year it is deemed highly likely that there will be no significant downwards adjustment of the amount of the cumulated revenue recognised and otherwise after punctually considering all "limitations to the estimates of the variable consideration" prescribed by IFRS 15.57; the company deems that it has such elements as to be able to make reasonable estimates on the probability that the agreed variable consideration will be paid at the expiration of the fund and, on the occasion of each half-yearly closing of the fund, it verifies the conditions prescribed in a specific analysis model in order to confirm the recognition of the variable consideration in question and the related amount. The accounting procedures for revenue that were adopted before the entry into force of the provisions of IFRS 15 are substantially in line with those described above except with regard to FIA FIP whose regulation has been in force, however, since the year 2018.

Natam SA

Natam, a Luxembourg-based asset management company, performs, in favour of the management UCIs: a) collective management services, such as investment management, central administration and registry services, marketing and sales services, risk management services; b) ancillary services, such as governance, document production, IT support management services. The company may delegate one or more of the activities performed to third parties. All services are prescribed by formalised agreements. The services per letter a) follow the same model for transfer to the customer and they are not sold separately by the Company, consequently they are considered a single mandatory performance. The service is performed over time and the fees received are recognised

assessing progress with the method based on the output measured on the basis of elapsed time; revenue is then recognised on a quarterly basis according to the amount the company is contractually entitled to require from the customer, corresponding to the value for the customer of the services completed until the date considered. Any overperformance fees are recognised only when they definitively accrue because the amount of the consideration is sensitive to factors outside the entity's control, and in particular to market volatility and to third parties' judgement and actions and, therefore, they cannot be estimated on a quarterly basis because it is not highly probable that there will be significant downwards adjustments of the consideration accrued on the occasion of the quarterly reports.
The services per letter b) constitute distinct mandatory services whose price consists of the consideration prescribed contractually for each service because they correspond to prices the company could apply in case of separate sale of the individual services to the customer. The services are performed and recorded over time as indicated for the services per letter a) excepting services that entail the production of documents which are recognised punctually at the time of performance because they refer to the production of material whose benefit to the customer is provided at the time of its production and delivery.
The accounting procedures for revenue that were adopted before the entry into force of the provisions of IFRS 15 are in line with those described above.

Finnat Fiduciaria S.p.A.
The company provides customers with services pertaining to asset planning, fiduciary administration of financial assets and of corporate assets, and performs guarantee functions.
All services are contractually formalised.
The services are performed over time and the fees received are recognised assessing progress with the method based on the output measured on the basis of elapsed time; revenue is then recognised according to the amount the company is contractually entitled to require from the customer, corresponding to the value for the customer of the services completed until the date considered.
The accounting procedures for revenue that were adopted before the entry into force of the provisions of IFRS 15 are in line with those described above.

Finnat Gestioni S.A.
The company provides customers with the individual portfolio management service. The recognition of the fees follows the procedures prescribed for the same service performed by the Bank.

The quantitative information is provided:
- in part B – Information about the balance sheet in section 4 - Financial assets designated at amortised cost, quantitative information is provided about the assets/liabilities from contracts with customers not debited in the current accounts on the basis of a breakdown by type of service.
- in part C – Information about the income statement in section 2 - Fees and commissions, quantitative information is provided about revenue from contracts with customers on the basis of a breakdown by type of service.
- in part L of the Consolidated Financial Statements - Segment Reporting, quantitative information is provided about revenue from contracts with customers distinguished by the business sectors of the

Group represented on the basis of a breakdown by type of service and of a breakdown by assessment procedure.

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 designated 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 cash 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 the "basic lending arrangement", 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:

- "Hold 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).
- "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 reimbursements, 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 impairment loss.
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 designated 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 losses 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 losses 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% decrease 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:
   - presence of operating tension: average percentage of use of the credit line granted, calculated over the last 180 days, of more than 80%;
   - 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) If the issue/issuer rating deteriorates by at least three classes compared to the value at the date of origin with regard to exposure in securities.

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 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.

A.3.1 – A.3.2 – A.3.3 - No transfers were made between portfolios of financial assets during the year due to a change in the business model.

A.4 Information on fair value

A.4.1 - Levels of fair value 2 and 3: valuation techniques and inputs used
A.4.2 - Processes and sensitivity of measurements

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;
- UCIs with official prices expressed by an active market; open-ended UCIs (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:
- UCIs 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;
- UCIs lacking prices expressed by a market (active and inactive) and similar listed securities. This category includes the open-end UCIs whose last measured NAV is not reported near the measurement date and the closed-end UCIs whose fair value is derived exclusively on the basis of the NAV. For these UCIs, 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 Bank based on internal valuation models using inputs that cannot be observed on the market and personal assumptions made by the valuer.

A.4.3 - 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 designated 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.

A.4.4 Other information

The Group does not use the exception on the compensating valuation of groups of financial assets and liabilities referred to in paragraph 48 of the IFRS 13.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by level of fair value

Financial assets/liabilities measured at fair value	31.12.2018		
	Level 1	Level 2	Level 3
1. Financial assets designated at fair value through profit or loss	30,992	27,680	1,498
a) financial assets held for trading	30,070	7,330	10
b) financial assets designated at fair value	–	–	–
c) other financial assets mandatorily at fair value	922	20,350	1,488
2. Financial assets designated at fair value through other comprehensive income	290,343	–	8,322
3. Hedging derivatives	–	–	–
4. Property and equipment	–	–	–
5. Intangible assets	–	–	–
Total	**321,335**	**27,680**	**9,820**
1. Financial liabilities held for trading	243	80	–
2. Financial liabilities designated at fair value	–	–	–
3. Hedging derivatives	–	–	–
Total	**243**	**80**	**–**

The table below, although not fully comparable, shows at 31 December 2017 the fair value hierarchy of 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).

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by level of fair value

Assets/liabilities measured at fair value	31.12.2017		
	Level 1	Level 2	Level 3
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**	**–**

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

	Financial assets designated at fair value through profit or loss				Financial assets designated at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	Total	Of which: a) Financial assets held for trading	Of which: b) Financial assets designated at fair value	Of which: c) other financial assets mandatorily at fair value				
1. Initial amount	**2,504**	**5**	**–**	**2,499**	**4,487**	**–**	**–**	**–**
2. Increases	**5**	**5**	**–**	**–**	**3,913**	**–**	**–**	**–**
2.1. Purchases	5	5	–	–	425	–	–	–
2.2. Gains recognised in:	–	–	–	–	3,488	–	–	–
2.2.1. Income Statement	–	–	–	–	–	–	–	–
- of which capital gains	–	–	–	–	–	–	–	–
2.2.2. Consolidated shareholders'equity		X	X	X	3,488	–	–	–
2.3. Transfer from other levels	–	–	–	–	–	–	–	–
2.4. Other increases	–	–	–	–	–	–	–	–
3. Decreases	**1,011**	**–**	**–**	**1,011**	**78**	**–**	**–**	**–**
3.1. Sales	627	–	–	627	11	–	–	–
3.2. Reimbursements	–	–	–	–	–	–	–	–
3.3. Losses recognised in:	361	–	–	361	67	–	–	–
3.3.1. Income Statement	361	–	–	361	–	–	–	–
- of which capital losses	286	–	–	286	–	–	–	–
3.3.2. Consolidated shareholders' equity	–	X	X	X	67	–	–	–
3.4. Transfers to other levels	–	–	–	–	–	–	–	–
3.5. Other decreases	23	–	–	23	–	–	–	–
4. Final amount	**1,498**	**10**	**–**	**1,488**	**8,322**	**–**	**–**	**–**

The initial amount refers to 1 January 2018 after FTA reclassifications and adjustments.

Item 2.1. Purchases of Financial assets designated at fair value through other comprehensive income relates to the Bank for 425 thousand euros (SIT S.p.A. shares for 15 thousand euros and Real Estate Roma Olgiata shares for 410 thousand euros).
Item 2.2.2. Gains recognised in Shareholders' equity of Financial assets designated at fair value through other comprehensive income pertains almost exclusively to the measurement of SIA S.p.A. shares (3,480 thousand euros) owned by the Bank.
Item 3.1. Sales of Other financial assets mandatorily at fair value pertains solely to the sale of the FINRE SPV securities owned by the Parent Company.
Item 3.3.1. Losses recognised in: Income Statement pertains to the loss of the Bank on the sale of the FINRE SPV securities for 75 thousand euros and the capital loss of the Bank recorded on the Apple Fund for 286 thousand euros.

A.4.5.3 Annual changes of financial liabilities measured at fair value on a recurring basis (level 3)

At the reporting date under review, the item in question has no balances.

A.4.5.4 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	31.12.2018			
	BV	Level 1	Level 2	Level 3
1. Financial assets designated at amortised cost	1,464,034	944,580	–	538,092
2. Investment property	–	–	–	–
3. Non-current assets held for sale and discontinued operations	–	–	–	–
Total	**1,464,034**	**944,580**	**–**	**538,092**
1. Financial liabilities designated at amortised cost	1,641,991	–	–	1,641,850
2. Liabilities associated to discontinued operations	–	–	–	–
Total	**1,641,991**	**–**	**–**	**1,641,850**

Key:
BV = Book value

The Bank and the other Group Companies have never carried out fair value measurements on a non-recurring basis for assets and liabilities.
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).

A.4.5.4 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	31.12.2017			
	BV	Level 1	Level 2	Level 3
1. Investments 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

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 Cash and cash equivalents: breakdown

	Total 31.12.2018	Total 31.12.2017
a) Cash	504	481
b) Demand deposits at central banks	161	152
Total	**665**	**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 31.12.2018		
	Level 1	Level 2	Level 3
A. Cash assets			
1. Debt Securities	25,047	1,035	–
1.1 Structured securities	–	–	–
1.2 Other debt securities	25,047	1,035	–
2. Equity	4,386	–	10
3. UCI units	183	6,260	–
4. Loans	–	–	–
4.1 Reverse repurchase agreements	–	–	–
4.2 Other	–	–	–
Total A	**29,616**	**7,295**	**10**
B. Derivatives			
1. Financial derivatives:	454	35	–
1.1 held for trading	454	35	–
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	**454**	**35**	**–**
Total (A+B)	**30,070**	**7,330**	**10**

The financial assets held for trading refer exclusively to the Bank and amounted to 37,410 thousand euros. The balance at 1 January 2018 amounted to 45,712 thousand euros and corresponds to the balance at 31 December 2017, not having changed during the FTA.

Item "A.1. Debt securities" amounting to 26,082 thousand euros (33,116 thousand euros at 1 January 2018) consists of the following financial instruments:

- Level 1: government bonds of 10,001 thousand euros and bonds of 15,046 thousand euros;
- Level 2: only bond "CDP 10.1.2019 3.5% of 1,035 thousand euros.

Item "A.3. UCI units" amounting to 6,443 thousand euros (9,736 thousand euros at 1 January 2018) includes in Level 1: 4AIM SICAF units of 142 thousand euros, New Millennium Funds of 26 thousand euros and other funds of 15 thousand euros; in Level 2: New Millennium Fund units of 6,260 thousand euros.

The table below, although not fully comparable, shows at 31 December 2017 the Financial assets held for trading: breakdown by product 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**

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

Items/Amounts	Total 31.12.2018
A. CASH ASSETS	
1. Debt Securities	**26,082**
a) Central banks	–
b) Public administrations	10,001
c) Banks	14,539
d) Other financial institutions	1,035
of which: insurance companies	–
e) Non financial institutions	507
2. Equity	**4,396**
a) Banks	–
b) Other financial institutions	247
of which: insurance companies	30
c) Non financial institutions	4,149
d) Other issuers	–
3. UCI units	**6,443**
4. Loans	**–**
a) Central Banks	–
b) Public administrations	–
c) Banks	–
d) Other financial institutions	–
of which: insurance companies	–
e) Non financial institutions	–
f) Households	–
Total A	**36,921**
B. DERIVATIVES	
a) Central counterparties	–
b) Other	489
Total B	**489**
Total (A+B)	**37,410**

The item “UCI units” is referred to the Bank and includes: 476 thousand euros of bond funds, 5,951 thousand euros of equity funds and 16 thousand euros of real estate funds.

The table below, although not fully comparable, shows at 31 December 2017 the Financial assets held for trading: breakdown by debtor/issuer 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).

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

Items/Amounts	Total 31.12.2017
A. Cash assets	
1. Debt Securities	**33,116**
a) Governments and Central Banks	15,037
b) Other public entities	–
c) Banks	14,119
d) Other issuers	3,960
2. Equity	**2,571**
a) Banks	–
b) Other issuers:	2,571
- insurance companies	38
- financial institutions	–
- non-financial companies	2,533
- other	–
3. UCI units	**9,736**
4. Loans	**–**
a) Governments and Central Banks	–
b) Other public entities	–
c) Banks	–
d) Other entities	–
Total A	**45,423**
B. Derivatives	
a) Banks	
– fair value	48
b) Customers	
– fair value	241
Total B	**289**
Total (A+B)	**45,712**

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

Items/Amounts	31.12.2018		
	Level 1	Level 2	Level 3
1. Debt Securities	**–**	**–**	**–**
1.1 Structured securities	–	–	–
1.2 Other debt securities	–	–	–
2. Equity	**–**	**–**	**–**
3. UCI units	**922**	**20,350**	**1,488**
4. Loans	**–**	**–**	**–**
4.1 Repurchase agreements	–	–	–
4.2 Other	–	–	–
Total	**922**	**20,350**	**1,488**

Financial assets mandatorily at fair value, newly adopted, amounted to 22,760 thousand euros (24,594 thousand euros at 1 January 2018) and comprises UCI units referred to the Bank (FIP Fund for 16,816 thousand euros in Level 2 and Apple Fund in Level 3) and UCI units referred to the subsidiary InvestiRE SGR

S.p.A. in Level 1. These securities were classified at 31 December 2017 as "Financial assets available for sale".

2.6 Other financial assets mandatorily at fair value: breakdown by debtor/issuer

Items/Amounts	31.12.2018
1. Equity	**–**
of which: banks	–
of which: other financial institutions	–
of which: non financial institutions	–
2. Debt Securities	**–**
a) Central Banks	–
b) Public administrations	–
c) Banks	–
d) Other financial institutions	–
of which: insurance companies	–
e) Non financial institutions	–
3. UCI units	**22,760**
4. Loans	**–**
a) Central Banks	–
b) Public administrations	–
c) Banks	–
d) Other financial institutions	–
of which insurance companies	–
e) Non financial institutions	–
f) Households	–
Total	**22,760**

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 31.12.2018		
	Level 1	Level 2	Level 3
1. Debt Securities	**289,998**	**–**	**–**
1.1 Structured securities	–	–	–
1.2 Other debt securities	289,998	–	–
2. Equity	**345**	**–**	**8,322**
3. Loans	**–**	**–**	**–**
Total	**290,343**	**–**	**8,322**

Financial assets designated at fair value through other comprehensive income totalled 298,665 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 of the Bank and of the subsidiary InvestiRE SGR S.p.A.;
- some debt securities belonging to the "Financial assets available for sale" portfolio, of the Bank and of the subsidiary Finnat Fiduciaria S.p.A.

Item 1. Debt securities - Level 1 - consists mainly of Government Bonds held by the Bank. At 31 December 2018, total net losses on credit risk on these securities amounted to 863 thousand euros of which 775 thousand euros accrued in the year in question. The value is recognised in item 120. Valuation reserves (after taxes) instead of as an adjustment to this item.

Item 2. Equity consists of an equity investment of one thousand euros (Level 3) owned by InvestiRE SGR and of the following strategic investments of the Bank:

- Level 1: Net Insurance S.p.A. (345 thousand euros including the positive valuation reserve equal to 53 thousand euros);
- Level 3: Fideuram Investimenti SGR S.p.A. (810 thousand euros), SIA S.p.A. (4,600 thousand euros including the positive valuation reserve equal to 3,480 thousand euros), Calipso S.p.A. (44 thousand euros), CSE Consorzio Servizi Bancari S.r.l. (2,437 thousand euros including the negative valuation reserve equal to 67 thousand euros), SIT S.p.A. (15 thousand euros), Real Estate Roma Olgiata (410 thousand euros) and Liphe S.p.A. (5 thousand euros).

The table below, although not fully comparable, shows at 31 December 2017 the Financial assets available for sale: breakdown by product 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		
	Level 1	Level 2	Level 3
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**

3.2 Financial assets designated at fair value through other comprehensive income: breakdown by breakdown by debtor/issuer

Items/Amounts	Total 31.12.2018
1. Debt Securities	**289,998**
a) Central banks	–
b) Public administrations	251,938
c) Banks	35,919
d) Other financial institutions	–
of which: insurance companies	–
e) Non financial institutions	2,141
2. Equity	**8,667**
a) Banks	1
b) Other issuers:	8,666
- other financial institutions	1,155
of which insurance companies	344
- non financial institutions	7,511
- other	–
3. Loans	**–**
a) Central banks	–
b) Public administrations	–
c) Banks	–
d) Other financial institutions	–
of which: insurance companies	–
e) Non financial institutions	–
f) Households	–
Total	**298,665**

The table below, although not fully comparable, shows at 31 December 2017 the Financial assets available for sale: breakdown by debtor/issuer 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).

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

Items/Amounts	Total 31.12.2017
1. Debt Securities	**1,190,703**
a) Governments and Central Banks	1,160,272
b) Other public entities	–
c) Banks	30,431
d) Other issuers	–
2. Equity	**4,962**
a) Banks	4
b) Other issuers:	4,958
- insurance companies	475
- financial institutions	810
- non-financial companies	3,668
- other	5
3. UCI units	**23,868**
4. Loans	**–**
a) Governments and Central Banks	–
b) Other public entities	–
c) Banks	–
d) Other entities	–
Total	**1,219,533**

3.3 Financial assets designated at fair value through other comprehensive income: gross value and total impairment losses

	Gross value				Total impairment losses			Total partial write-offs (*)
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt Securities	290,861	–	–	–	863	–	–	–
Loans	–	–	–	–	–	–	–	–
Total 31.12.2018	**290,861**	**–**	**–**	**–**	**863**	**–**	**–**	**–**
of which: acquired or originated impaired financial assets	X	X	–	–	X	–	–	–

(*) Value to be reported for disclosure purposes.

The gross amount corresponds to the book value plus the total impairment losses.

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 31.12.2018					
	Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	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	**88,863**	**–**	**–**	**–**	**–**	**88,863**
1. Loans	88,863	–	–	–	–	88,863
1.1 Current accounts and demand deposits	66,854	–	–	X	X	X
1.2 Time deposits	7,075	–	–	X	X	X
1.3 Other loans:	14,934	–	–	X	X	X
- Reverse repurchase agreements	–	–	–	X	X	X
- Financial leases	–	–	–	X	X	X
- Other	14,934	–	–	X	X	X
2. Debt Securities	–	–	–	–	–	–
2.1 Structured securities	–	–	–	–	–	–
2.2 Other debt securities	–	–	–	–	–	–
Total	**88,863**	**–**	**–**	**–**	**–**	**88,863**

Due from banks totalled 88,863 thousand euros (88,070 thousand euros at 1 January 2018).

Item B.1.2. Time deposits refer exclusively to the Compulsory reserve deposited by the Bank with Depobank S.p.A. (amount after collective write-down). At 31 December 2017, the Compulsory Reserve amounted to 5,302 thousand euros.

At 31 December 2018, total net losses on credit risk due from banks amounted to 47 thousand euros (of which 42 thousand euros were attributable to the bank). In the year in question, net value recoveries amounting to 34 thousand euros were carried out.

Item B.1.3 Other loans relates to guarantee margins on derivatives referred to the Bank.

The table below, although not fully comparable, shows at 31 December 2017 Due from banks: breakdown by product 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 31.12.2018					
	Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	Level 1	Level 2	Level 3
1. Loans	**427,413**	**7,162**	**–**	**–**	**–**	**449,229**
1.1. Current accounts	187,767	1,560	–	X	X	X
1.2. Reverse repurchase agreements	–	–	–	X	X	X
1.3. Mortgages	178,212	2,179	–	X	X	X
1.4. Credit card loans, personal loans and transfers of one fifth of salaries	–	–	–	X	X	X
1.5. Financial Leases	–	–	–	X	X	X
1.6. Factoring	–	–	–	X	X	X
1.7. Other loans	61,434	3,423	–	X	X	X
2. Debt Securities	**940,596**	**–**	**–**	**944,580**	**–**	**–**
2.1. Structured securities	–	–	–	–	–	–
2.2. Other debt securities	940,596	–	–	944,580	–	–
Total	**1,368,009**	**7,162**	**–**	**944,580**	**–**	**449,229**

Item "Loans to customers" totalled 1,375,171 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 13,190 thousand euros (5,787 thousand euros after the write-downs), comprising:

- **bad loans** totalling 8,717 thousand euros (2,027 thousand euros after the write-downs) relating to the following positions:
  - 4,572 thousand euros (946 thousand euros after the write-off) for the residual amount of a mortgage 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;
  - 4,145 thousand euros referring to trade receivables of 1,705 thousand euros and to cash loans of 2,440 thousand euros.

  The line-by-line write-downs made totalled 6,690 thousand euros (including 1,650 thousand euros referring to trade receivables).
- **unlikely to pay** totalling 2,088 thousand euros (1,602 thousand euros after the write-downs) comprising:
  - overdraft facilities amounting to 1,700 thousand euros;
  - mortgage positions of 278 thousand euros (11 thousand euros of overdue instalments and 267 thousand euros of principal about to fall due);
  - trade receivables of 110 thousand euros.

  The line-by-line write-downs made totalled 486 thousand euros (including 90 thousand euros referring to trade receivables);
- **other positions expired or past due** for over 90 days totalling 2,385 thousand euros (2,158 thousand euros after the write-downs).

At 31 December 2018, the Bank has 19 "forborne" exposures of which:

- 5 non-performing positions totalling 909 thousand euros (of which 1 position included among bad loans for 141 thousand euros, 3 positions included among unlikely to pay for 116 thousand euros and 1 position included among past due loans for 652 thousand euros);
- 14 performing positions, amounting to 11,749 thousand euros.

At 31 December 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-down, amounting to 3,499 thousand euros, was higher than the allocations made for this purpose during FTA at 1 January 2018, which amounted to 2,188 thousand euros.

In 2018, the Bank recorded in the income statement 1,286 thousand euros for portfolio impairment losses on government bonds and 2,150 thousand euros for net losses on loans to customers broken down as follows: 1,311 thousand euros for portfolio impairment losses, 60 thousand euros for specific value recoveries (Bucket 3), 897 thousand euros for specific impairment losses (Bucket 3), 19 thousand euros for cancellation losses and 17 thousand euros for recoveries of receivables cancelled in previous financial years. At 31 December 2018, the allowance for doubtful loans to customers, excluding securities, totalled 10,902 thousand euros of which 7,403 thousand euros on an itemised basis and 3,499 thousand euros for portfolio impairment losses.

With regard to other Group companies, the itemised allowance for doubtful accounts (**Bucket 3**) at 31 December 2018 amounted to 802 thousand euros against gross non-performing receivables of 1,092 thousand euros for Finnat Fiduciaria S.p.A. and to 2,256 thousand euros against gross impaired receivables of 3,341 thousand for InvestiRE SGR S.p.A.
Whereas portfolio impairment losses relating only to loans to customers (**Bucket 1** and **Bucket 2**) at 31 December 2018 amounted to 178 thousand euros for InvestiRE SGR S.p.A. and to a total of 3 thousand euros for the other companies of the Group.

Item 1.7. Other loans includes Deposits for margins with Cassa di Compensazione e Garanzia pertaining to the Bank amounting to 29,893 thousand euros (Bucket 1), non-performing financial receivables pertaining to the Bank amounting to 1,972 thousand euros (Bucket 3) and trade receivables amounting to 32,992 thousand euros (of which Bucket 1 and 2 amounting to 31,541 thousand euros and Bucket 3 amounting to 1,451 thousand euros).

Item 2.2 Other debt securities refers exclusively to Government Bonds of the Bank. The total write-down of the portfolio amounted to 1,477 thousand euros after utilisation for sale of 331 thousand euros. The FTA reserve at 1 January 2018 amounted to 522 thousand euros.

A breakdown of "Time distribution of amounts due from customers by residual duration" can be found under Part E Section 1.4 - Liquidity risk.

The following table provides the information about contracts with customers required by IFRS 15.

Assets/liabilities deriving from contracts with customers not debited in the current accounts (IFRS 15)

	Opening balances at 01.01.2018 net of impairment losses	Closing balances at 31.12.2018 net of impairment losses
Loans to customers for activities of:		
- advisory and corporate finance	1,958	2,526
- specialist	459	762
- placement	755	711
- delegated management	832	305
- individual management	138	138
- collective management	29,677	31,664
- services to listed issuers (seq and equity research)	21	99
- other services	1,624	1,917
Total receivables before write-downs	**35,464**	**38,122**
Total line by line impairment losses	(4,281)	(4,798)
Total collective impairment losses on trade receivables	(1,931)	(334)
Total receivables after write-downs	**29,252**	**32,990**
Liabilities deriving from contracts with customers:		
- deferred income on issued invoices	(244)	(371)

The impairment losses on an itemised basis at 31 December 2018 pertain to the Bank for 1,740 thousand euros (of which 59 thousand euros relating to the specialist activity and 1,681 thousand euros relating to the advisory and corporate finance activity), to InvestiRE S.G.R. S.p.A. for 2,256 thousand euros and Finnat Fiduciaria S.p.A. for 802 thousand euros.

The Assets recognised in view of costs to be recovered are not indicated - as required by IFRS 15 Paragraph 128 because the amounts are small.

The table below, although not fully comparable, shows at 31 December 2017 Loans to customers: breakdown by product 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		
	Performing	Non-performing		Level 1	Level 2	Level 3
		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**

4.4 Financial assets designated at amortised cost: breakdown by debtor/issuer of loans to customers

Type of transactions/Amounts	Total 31.12.2018		
	Stage 1 and 2	Stage 3	Of which: acquired or originated impaired assets
1. Debt securities:	**940,596**	**–**	**–**
a) Public administrations	940,596	–	–
b) Other financial institutions	–	–	–
Of which: insurance companies	–	–	–
c) Non financial institutions	–	–	–
2. Loans to:	**427,413**	**7,162**	**–**
a) Public administrations	–	–	–
b) Other financial institutions	121,343	1,241	–
Of which: insurance companies	–	–	–
c) Non financial institutions	175,272	1,603	–
d) Households	130,798	4,318	
Total	**1,368,009**	**7,162**	**–**

The table below, although not fully comparable, shows at 31 December 2017 Loans to customers: breakdown by debtor/issuer 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).

7.2 Loans to customers: breakdown by debtor/issuer

Type of transactions/Amounts	Total 31.12.2017		
	Performing	Non-performing	
		Purchased	Other
1. Debt securities:	**726**	**–**	**–**
a) Governments	–	–	–
b) Other public entities	–	–	–
c) Other issuers	726	–	–
- non-financial companies	–	–	–
- financial companies	726	–	–
- insurance companies	–	–	–
- other	–	–	–
2. Loans to:	**364,035**	**–**	**5,717**
a) Governments	–	–	–
b) Other public entities	–	–	–
c) Other entities	364,035	–	5,717
- non-financial companies	172,595	–	1,918
- financial companies	94,656	–	148
- insurance companies	–	–	–
- other	96,784	–	3,651
Total	**364,761**	**–**	**5,717**

4.5 Financial assets designated at amortised cost: gross value and total impairment losses

	Gross value				Total impairment losses			Write-off parziali complessivi (*)
	Stage 1		Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
		of which: instruments with low credit risk						
Debt Securities	942,073	–	–	–	1,477	–	–	–
Loans	426,638	–	93,365	17,623	1,242	2,485	10,461	–
Total 31.12.2018	**1,368,711**	**–**	**93,365**	**17,623**	**2,719**	**2,485**	**10,461**	**–**
of which: acquired or originated impaired financial assets	X	X	–	–	X	–	–	–

(*) Value to be reported for disclosure purposes.

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	
3. RE.DO. S.G.R. S.p.A.	Milan	Milan	Significant influence	InvestiRE SGR	33.33	

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

7.2 Individually material equity investments: book value, fair value and dividends received

7.3 Individually material equity investments: financial information

At 31 December 2018, the Group did not hold individually material equity investments in associated companies.

7.4 Individually immaterial equity investments: financial information

Company name	Book value of the equity investments	Total assets	Total liabilities	Total revenues	Profit (loss) from continuing operations after taxes	Profit (loss) from discontinued operations after taxes	Profit (loss) for the year (1)	Other income items after tax (2)	Comprehensive income (3) = (1)+(2)
Company subject to joint control									
Companies subject to significant influence	6,400	39,347	39,250	1,536	(97)	–	(97)	–	(97)

Data referred to the latest available situations.

The posted data are shown cumulatively and referred to the shareholding percentage held by the Group. With regard to the company REDO S.G.R. S.p.A. - established on 17 December 2018 - only the Book value of the equity investments was reported because the company will close the first financial statements at 31 December 2019.

7.5 Equity investments: annual changes

	Total 31.12.2018	Total 31.12.2017
A. Initial amount	**6,457**	**8,264**
B. Increases	**239**	**–**
B.1 Purchases	167	–
B.2 Value recoveries	–	–
B.3 Revaluations	–	–
B.4 Other changes	72	–
C. Decreases	**296**	**1,807**
C.1 Sales	–	–
C.2 Impairment losses	296	1,708
C.3 Write-downs	–	–
C.4 Other changes	–	99
D. Final amount	**6,400**	**6,457**
E. Total revaluations	**–**	**–**
F. Total impairment losses	**296**	**1,708**

Item B.1 Purchases pertains to the subscription by the subsidiary InvestiRE SGR S.p.A. of 33.33% of the capital of the company REDO SGR S.p.A. The acquisition is commented in the part relating to the Main transactions of the year included in the individual Financial Statements.

Item C.2 Impairment losses relates to the impairment made on the associated company Imprebanca S.p.A.

Section 9 – Property and equipment – Item 90

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

Assets/amounts	Total 31.12.2018	Total 31.12.2017
1. Owned assets	**4,781**	**5,079**
a) land	1,308	1,308
b) buildings	2,156	2,297
c) furniture	840	913
d) electronic equipment	455	506
e) other	22	55
2 Assets acquired under financial lease	**–**	**–**
a) land	–	–
b) buildings	–	–
c) furniture	–	–
d) electronic equipment	–	–
e) other	–	–
Total	**4,781**	**5,079**
of which: obtained through enforcement of guarantees received	**–**	**–**

9.6 Property and equipment used in operation: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross initial carrying amount	**1,308**	**5,818**	**2,923**	**4,894**	**493**	**15,436**
A.1 Total net adjustment	–	3,521	2,010	4,388	438	10,357
A.2 Net initial carrying amount	1,308	2,297	913	506	55	5,079
B. Increases:	**–**	**7**	**9**	**143**	**22**	**181**
B.1 Purchases	–	7	9	142	13	171
B.2 Capitalised improvement costs	–	–	–	–	–	–
B.3 Value recoveries	–	–	–	–	–	–
B.4 Positive changes in fair value allocated to	–	–	–	–	–	–
a) shareholders' equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
B.5 Positive foreign exchange differences	–	–	–	–	–	–
B.6 Transfers from property used in operations	–	–	X	X	X	–
B.7 Other changes	–	–	–	1	9	10
C. Decreases:	**–**	**148**	**82**	**194**	**55**	**479**
C.1 Sales	–	–	–	1	9	10
C.2 Depreciation	–	148	82	193	46	469
C.3 Net losses on impairment allocated to	–	–	–	–	–	–
a) shareholders' equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Negative changes in fair value allocated to	–	–	–	–	–	–
a) shareholders' equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative foreign exchange differences	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) investment property	–	–	X	X	X	–
b) non-current assets held for sale and discontinued operations						
C.7 Other changes	–	–	–	–	–	–
D. Net final amount	**1,308**	**2,156**	**840**	**455**	**22**	**4,781**
D.1 Total net adjustment	–	3,669	2,092	4,580	475	10,816
D.2 Final carrying amount	1,308	5,825	2,932	5,035	497	15,597
E. Valuation at cost						

Section 10 – Intangible assets – Item 100

10.1 Intangible assets: breakdown by asset

Assets/Amounts	Total 31.12.2018		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	**519**	**2,726**	**557**	**2,726**
A.2.1 Assets measured at cost:	519	2,726	557	2,726
a) Internally generated intangible assets	–	–	–	–
b) Other assets	519	2,726	557	2,726
A.2.2 Assets measured at fair value:	–	–	–	–
a) Internally generated intangible assets	–	–	–	–
b) Other assets	–	–	–	–
Total	**519**	**40,455**	**557**	**40,455**

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

- for 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.
- for 37,429 thousand euros, to the goodwill recognised by the subsidiary InvestiRE SGR S.p.A. as a result of the merger by absorption, in 2015, of Beni Stabili Gestioni SGR S.p.A. and Polaris RE SGR S.p.A. The adequacy assessment was based on the estimate of the projected cash flows to be discounted according to the Discounted Free Cash Flow to the Firm method, adopted taking into account both the characteristics of the business and the current and prospective situation of the company. Goodwill is not connected with one or more Cash Generating Units but rather to cash flows deriving from management of the real estate funds by the SGR.

  The internal experts of InvestiRE SGR S.p.A., on the basis of the last business plan approved by the Board of Directors, with the support of the internal specialists of the Parent Company, set up the impairment test to assess whether or not it is necessary to adjust goodwill.

  The definitive updated parameters of the Group to be used as assumptions on which the impairment calculation is based are summarised in the document "Measurement methodologies and Impairment test", approved by the competent decision-making bodies of the Bank autonomously and in advance with respect to the time of approval of the financial data at the end of the year.

  At 31 December 2018, for the purposes of discounting the cash flows and the terminal value, a rate representing the weighted average cost of the capital invested in the Company (WACC) which, in this specific case, matches the cost of "Ke" capital, inasmuch as InvestiRE SGR S.p.A. is characterised by the current and expected absence of financial payables. The financial parameters used to calculate the WACC were defined on the basis of average market values, measured also by sample testing comparable entities; moreover, a period of explicit projection of 2 years was used, and thereafter, prudentially, no growth rates were applied: the prospective data used in the measurement at 31 December 2018 therefore refer to the 2019-2020 projections prepared by the Management of the SGR. The WACC thus determined is 7.03%.

  The model for determining the equity value was lastly subjected to sensitivity analysis in order to appreciate the change of the results obtained as the adopted measurement parameters change. From the analyses carried out, no indications of impairment emerged with reference to goodwill, neither using a "Ke" discounting rate (+/-50 bps), nor in an overall logic of additional "stress test", considering, already in the second half of 2019, the transfer of the business unit to the associate Redo 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.

As it regards an intangible asset whose useful life cannot be defined, an impairment test was carried out in accordance with the provisions of IAS 36. This evaluation did not show any loss in value to record in the income statement.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Initial amount	**37,729**	**–**	**–**	**4,345**	**3,710**	**45,784**
A.1 Total net adjustment	–	–	–	3,788	984	4,772
A.2 Net initial carrying amount	37,729	–	–	557	2,726	41,012
B. Increases	**–**	**–**	**–**	**139**	**–**	**139**
B.1 Purchases	–	–	–	139	–	139
B.2 Increases in internal intangible assets	X	–	–	–	–	–
B.3 Value recoveries	X	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
- on shareholders' equity	X	–	–	–	–	–
- on income statement	X	–	–	–	–	–
B.5 Positive foreign exchange differences	–	–	–	–	–	–
B.6 Other changes	–	–	–	–	–	–
C. Decreases	**–**	**–**	**–**	**177**	**–**	**177**
C.1 Sales	–	–	–	–	–	–
C.2 Impairment losses	X	–	–	177	–	177
(-) Amortisation	X	–	–	177	–	177
(-) Write-downs	–	–	–	–	–	–
(+) shareholders' equity	X	–	–	–	–	–
(+) income statement	–	–	–	–	–	–
C.3 Negative changes in fair value	–	–	–	–	–	–
- on shareholders' equity	X	–	–	–	–	–
- on income statement	X	–	–	–	–	–
C.4 Transfers to non-current assets being disposed	–	–	–	–	–	–
C.5 Negative foreign exchange differences	–	–	–	–	–	–
C.6 Other changes	–	–	–	–	–	–
D. Net final amount	**37,729**	**–**	**–**	**519**	**2,726**	**40,974**
D.1 Total net impairment losses	–	–	–	3,965	984	4,949
E. Final carrying amount	**37,729**	**–**	**–**	**4,484**	**3,710**	**45,923**
F. Valuation at cost	**–**	**–**	**–**	**–**	**–**	**–**

Key:
DEF: definite life; INDEF: indefinite life

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

Current tax assets totalled 2,231 thousand euros (605 thousand euros at 31 December 2017) and concerned mainly IRAP receivables of the Bank of 2,088 thousand euros.
Current tax liabilities totalled 581 thousand euros (2,972 thousand euros at 31 December 2017) and mainly concern assessments for which appeals are pending amounting to 183 thousand euros, payables for the domestic consolidated tax system amounting to 40 thousand euros and payables for IRES surtax due by the Bank amounting to 26 thousand euros, payables for current IRAP taxes due by the subsidiaries amounting to 60 thousand euros and VAT payables of 183 thousand euros.

11.1 Deferred tax assets: breakdown

	Total 31.12.2018	Total 31.12.2017
a) Of which per Italian Law 214/2011	**11,111**	**11,044**
Goodwill	10,508	10,508
Write-down of receivables set forth in Article 106 par. 3 of the TUIR	603	536
b) Other	**5,924**	**1,404**
Write-down of securities	4,890	833
Write-down of receivables	577	179
Termination Indemnity – IAS change	222	169
Other	235	223
Total	**17,035**	**12,448**

Deferred tax assets refer primarily to a lower tax burden in perspective, related to the amortisation of goodwill in the forthcoming years, until 2029 as extended by the Stability Law no. 145/2018. Of these, 547 thousand euros pertain to the Bank for the goodwill recognised in 2003 on the occasion of the merger by absorption of Banca Finnat Euramerica S.p.A. and of Finnat Corporate S.p.A. into Terme Demaniali di Acqui S.p.A., and 9,961 thousand euros referred to the subsidiary InvestiRE SGR. for the goodwill recognised in 2015 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 31.12.2018	Total 31.12.2017
Revaluation of securities	384	841
Allocation of merger deficit on securities	40	40
Placement commissions	–	92
Other	112	72
Total	**536**	**1,045**

Prepaid and deferred taxes have been determined applying the IRES rate, any IRES surtax and, where applicable, the IRAP rate in force at the date of preparation of these consolidated financial statements.
Article 2 of Italian Law Decree 225/2010 (the "*mille proroghe*" decree) subsequently amended by Article 9 of Italian Law Decree 201/2011 (the "Monti" decree) converted by Italian Law no. 214/2011 introduced

the possibility of transforming into tax credits the deferred tax assets recorded in the financial statements and related to the value of the goodwill and to the write-down of receivables pursuant to Article 106, paragraph 3, of the TUIR (Consolidated Income Tax Act) in force through 31 December 2013.

In particular, the transformation into tax receivables can be realised upon the occurrence of some cases identified by the regulation itself and more specifically in case of: a) statutory loss; b) tax loss; c) voluntary liquidation; d) subjecting to bankruptcy proceedings. Deferred tax assets calculated pursuant to Italian Law 214/2011, for the recognition in the financial statements, should not be subject to the test in accordance with IAS 12.

11.3 Changes in deferred tax assets (with corresponding item in the income statement)

	Total 31.12.2018	Total 31.12.2017
1. Opening balance	**11,963**	**13,493**
2. Increases	**1,230**	**48**
2.1 Deferred tax assets recognised in the year	1,230	48
a) relating to previous years	–	–
b) due to changes in accounting criteria	1,136	–
c) value recoveries	–	–
d) other	94	48
2.2 New taxes or tax rate increases	–	–
2.3 Other increases	–	–
3. Decreases	**622**	**1,578**
3.1 Deferred tax assets eliminated during the year	622	1,578
a) reversals	622	1,578
b) write-offs	–	–
c) changes in accounting criteria	–	–
d) other	–	–
3.2 Tax rate reductions	–	–
3.3 Other decreases	–	–
a) transformation into tax receivables set forth in Italian Law no. 214/2011	–	–
b) other	–	–
4. Closing balance	**12,571**	**11,963**

The figures indicated in table 11.3 comprise the amounts shown in table 11.4.

11.4 Changes in deferred tax assets per Law no. 214/2011

	Total 31.12.2018	Total 31.12.2017
1. Opening balance	**11,044**	**12,594**
2. Increases	**75**	**–**
3. Decreases	**8**	**1,550**
3.1 Reversals	8	1,550
3.2 Transformation into tax credits	–	–
a) deriving from losses for the year	–	–
b) deriving from tax losses	–	–
3.3 Other decreases	–	–
4. Closing balance	**11,111**	**11,044**

11.5 Changes in deferred tax liabilities (with corresponding item in the income statement)

	Total 31.12.2018	Total 31.12.2017
1. Opening balance	**205**	**2,277**
2. Increases	**229**	**53**
2.1 Deferred tax liabilities recorded in the year	229	53
a) relating to previous years	–	–
b) due to changes in accounting criteria	200	–
c) other	29	53
2.2 New taxes or tax rate increases	–	–
2.3 Other increases	–	165
3. Decreases	**292**	**2,125**
3.1 Deferred tax liabilities eliminated during the year	292	2,125
a) reversals	292	2,125
b) due to changes in accounting criteria	–	
c) other	–	–
3.2 Tax rate reductions	–	–
3.3 Other decreases	–	–
4. Closing balance	**142**	**205**

11.6 Changes in deferred tax assets (with corresponding item in shareholders' equity)

	Total 31.12.2018	Total 31.12.2017
1. Opening balance	**485**	**708**
2. Increases	**4,316**	**44**
2.1 Deferred tax assets recognised in the year	4,316	44
a) relating to previous years	–	–
b) due to changes in accounting criteria	–	–
c) other	4,316	44
2.2 New taxes or tax rate increases	–	–
2.3 Other increases	–	–
3. Decreases	**337**	**267**
3.1 Deferred tax assets eliminated during the year	337	267
a) reversals	6	267
b) due to changes in accounting criteria	331	–
d) other	–	–
3.2 Tax rate reductions	–	–
3.3 Other decreases	–	–
- of which business combinations	–	–
4. Closing balance	**4,464**	**485**

11.7 Changes in deferred tax liabilities (with corresponding item in shareholders' equity)

	Total 31.12.2018	Total 31.12.2017
1. Opening balance	**840**	**760**
2. Increases	**549**	**542**
2.1 Deferred tax liabilities recorded in the year	549	542
a) relating to previous years	–	–
b) due to changes in accounting criteria	119	–
c) other	430	542
2.2 New taxes or tax rate increases	–	–
2.3 Other increases	–	–
3. Decreases	**995**	**462**
3.1 Deferred tax liabilities eliminated during the year	995	462
a) reversals	311	462
b) due to changes in accounting criteria	684	–
c) other	–	–
3.2 Tax rate reductions	–	–
3.3 Other decreases	–	–
4. Closing balance	**394**	**840**

For further information on changes to deferred tax assets and liabilities, please see: for those recorded in the income statement, Part C - Section 21 Taxes on income from continuing operations and for those recorded in the shareholders' equity Part D – Consolidated statement of comprehensive income.

* * *

With regard to tax-related disputes, it should be pointed out that, for the Bank, the following cases are pending:

- appeal against unfavourable decision no. 253/07/10 of the Regional Tax Commission of Rome. The dispute pertains to assessment notice no. RCB030302029/2005, whereby the Revenue Agency argued that certain operating costs relating to the year 2002 were not deductible for IRPEG and IRAP purposes (costs for consultancy services and costs pertaining to a lease agreement).
  The Supreme Court, with its decision no. 27786/18 handed down on 19 June 2018, quashed the appeal decision, requiring the Regional Tax Commission of Lazio, with a different composition, to examine the merits of the case again. However, it should be pointed out that taxes amounting to 55 thousand euros plus penalties and interest were expensed in the income statement by the Bank;

- appeal against partially unfavourable decision no. 150/09/2012 of the Regional Tax Commission of Rome. The dispute pertains to the assessment notice no. RCB030302784/2008, whereby the Revenue Agency argued, in relation to the 2003 tax year, that Article 96-bis of the Consolidated Income Tax Act (taxation of 5% of the value of dividends) did not apply to the dividends distributed by the Luxembourg investee New Millenium Advisory S.A. The Supreme Court, with its decision no. 22955/18 handed down on 19 June 2018, granted the appeal promoted by the Bank, deeming well-grounded the arguments whereby the Bank denounced the violation of the aforementioned Article 53 by the Regional Tax Commission, requiring the dispute to be subjected to the second level court for a new examination. However, it should be pointed out that taxes amounting to 83 thousand euros plus penalties and interest were expensed in the income statement by the Bank;

It should also be noted that on 29 May 2018 the Italian Tax Police started a tax audit of Banca Finnat with 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, which charged, for IRES and IRAP purposes, (i) the non-deductibility of some costs for services, deemed to lack the requirements of inherence and certainty, (ii) the failure to recognise alleged revenue relating to management services not charged to the subsidiary Finnat Gestioni SA.
In view of all the charges of the report on findings, the Bank allocated 134 thousand euros to the Provision for risks and charges.
In December 2018 the Revenue Agency served assessment notices for tax year 2013 for IRES and IRAP purposes (totalling 42 thousand euros plus penalties and interest).
Although the Bank deems the aforesaid charges to be groundless, it filed a Tax Settlement Proposal under Article 6, Paragraph 2, of Legislative Decree no. 218 of 19 June 1997 to the Revenue Agency, in order to reach an amicable settlement of the charges. On 4 March 2019, the Bank reached an agreement with the financial Administration settling the assessments, relating to the year 2013, paying only the additional taxes assessed.

Section 13 – Other assets – Item 130

13.1 Other assets: breakdown

	Total 31.12.2018	Total 31.12.2017
Receivables for guarantee deposits	505	503
Deposits with Cassa Compensazione e Garanzia	11,795	5,789
Due from counterparties and brokers	111	65
Tax credits as withholding tax	8,716	9,885
Sundry receivables	3,645	4,178
Total	**24,772**	**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/Amounts	Total 31.12.2018			
	Book value	Fair value		
		Level 1	Level 2	Level 3
1. Due to Central Banks	**–**	**X**	**X**	**X**
2. Due to banks	**271**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	271	X	X	X
2.2 Time deposits	–	X	X	X
2.3 Loans	–	X	X	X
2.3.1 Repurchase agreements	–	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	**271**	**–**	**–**	**271**

Payables due to banks refer only to the Parent Company.

The table below shows Due to banks: breakdown by product 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 repurchase agreements	–
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/Amounts	Total 31.12.2018			
	Book value	Fair value		
		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	470,257	X	X	X
2. Time deposits	183,013	X	X	X
3. Loans	938,918	X	X	X
3.1 Repurchase agreements	938,918	X	X	X
3.2 Other	–	X	X	X
4. Debts for commitments to repurchase own equity instruments	–	X	X	X
5. Other payables	21,282	X	X	X
Total	**1,613,470**	**–**	**–**	**1,613,470**

Item 3.1 Repurchase agreements concern the transactions between the Bank and Cassa di Compensazione e Garanzia.

The table below shows Due to customers: breakdown by product 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).

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 repurchase agreements	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 31.12.2018			
	Book value	Fair value		
		Level 1	Level 2	Level 3
A. Securities	**28,250**	**–**	**–**	**28,109**
1. bonds	28,250	–	–	28,109
1.1 structured	–			–
1.2 other	28,250			28,109
2. other securities	–	–	–	–
2.1 structured	–			–
2.2 other	–			–
Total	**28,250**	**–**	**–**	**28,109**

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 1,752 thousand euros.

The table below shows at 31 December 2017 Securities issued: breakdown by product 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			
	Book value	Fair value		
		Level 1	Level 2	Level 3
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**

Section 2 – Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product

Type of transactions/Amounts	Total 31.12.2018					Total 31.12.2017				
	NV	Fair value			FV*	NV	Fair value			FV*
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities	**68**	**243**	**–**	**–**	**243**	**–**	**–**	**–**	**–**	**–**
1. Due to banks										
2. Due to customers	68	243	–	–	243	–	–	–	–	–
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	**68**	**243**	**–**	**–**	**243**	**–**	**–**	**–**	**–**	**–**
B. Derivatives	**–**	**–**	**80**	**–**			**–**	**143**	**–**	
1. Financial derivatives		–	80	–			–	143	–	
1.1 Held for trading	X	–	80	–	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**	**–**	**80**	**–**	**X**	**X**	**–**	**143**	**–**	**X**
Total (A+B)	**X**	**243**	**80**	**–**	**X**	**X**	**–**	**143**	**–**	**X**

Key:

NV = face or notional value

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 A. Cash liabilities refers to a technical overdraft closed in January 2019.

Item B. Derivatives includes the negative measurement of currency forwards of 72 thousand euros and the fair value measurement of an Interest Rate Swap Amortising of 8 thousand euros.

Section 6 – Tax liabilities – Item 60

See Section 11 of the assets.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

	Total 31.12.2018	Total 31.12.2017
Social security and insurance contributions to be paid	1,678	1,682
Payables to personnel employed and contractors	4,631	4,522
Emoluments to be paid to the Directors	130	92
Emoluments to be paid to the Board of Statutory Auditors	214	177
Due to suppliers	1,380	1,479
Shareholders for dividends to be paid	1,949	1,299
Payables to brokers and institutional counterparties	2,857	123
Tax payables as withholding tax	1,572	3,229
Other payables	5,959	5,385
Total	**20,370**	**17,988**

Section 9 – Provisions for termination indemnities – Item 90

9.1 Provisions for termination indemnities: annual changes

	Total 31.12.2018	Total 31.12.2017
A. Initial amount	**4,970**	**4,839**
B. Increases	**1,630**	**1,519**
B.1 Allocation for the year	1,630	1,519
B.2 Other changes	–	–
C. Decreases	**1,283**	**1,388**
C.1 Severance indemnities paid out	489	605
C.2 Other changes	794	783
D. Final amount	**5,317**	**4,970**

Item B.1 Allocation for the year, includes the actuarial loss of 188 thousand euros recognised among valuation reserves - net of the tax effect - in accordance with IAS 19. In 2017, an actuarial loss of 31 thousand euros was recorded.

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.

The actuarial assumptions used to calculate the liabilities as at the balance sheet date are set out below:

Demographic assumption
As regards the demography data used, life expectancy was assessed using the RG48 demographic table on population activity ratios ("Tavola di permanenza nella posizione di attivo") (processed by the General Accounting Office, by reference to the 1948 generation), "selected, projected and subdivided by gender", supplemented by internal statistics concerning the probability of staff leaving employment.

Economic-financial assumptions

Technical evaluations were made on the basis of the following assumptions:

- technical discount rate between 0.1484% and 1.2861%, determined on the basis of the rate curve built in view of the effective yield rate of the bonds in Euro of leading companies rated AA or higher;
- annual inflation rate 1.50%

Section 10 - Provisions for risks and charges - Item 100

10.1 Provisions for risks and charges: breakdown

Items/Components	Total 31.12.2018
1. Provisions for credit risk related to commitments and financial guarantees given	101
2. Provisions on other commitments and other guarantees given	–
3. Company pension funds	–
4. Other provisions for risks and charges	682
4.1 Legal and tax disputes	–
4.2 Personnel expenses	–
4.3 Other	682
Total	**783**

The item refers exclusively to the Bank.

Provisions for credit risk related to commitments and financial guarantees given of 101 thousand euros are related to collective impairment losses carried out with the introduction of the new IFRS 9 through 31 December 2018. Impairment made during FTA at 1 January 2018 amounted to 85 thousand euros.

Other provisions for risks and charges of 682 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 and for 134 thousand euros to the allocation made as a result of the Report on Findings of the Italian Tax Police served on 26 July 2018 as commented under Tax liabilities.

It should be noted that in 2018 the Bank received an invitation for mandatory mediation to discuss a claim for damages, amounting to 156 thousand euros, submitted by a natural person customer; the Bank deems it unlikely that the claim will be allowed, therefore no allocations were made in this regard in the Financial Statements of the Bank.

The table below, although not fully comparable, shows at 31 December 2017 Provisions for risks and charges: breakdown 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**

10.2 Provisions for risks and charges: annual changes

Items/Components	Provisions on other commitments and other guarantees given	Pension funds	Other provisions for risks and charges	Total
A. Initial amount			**548**	**548**
B. Increases	**103**	**–**	**134**	**237**
B.1 Allocation for the year	16	–	134	150
B2. Changes due to the passing of time	–	–	–	–
B.3 Changes due to discount rate variations	–	–	–	–
B.4 Other changes	87	–	–	87
C. Decreases	**2**	**–**	**–**	**2**
C.1 Use in the year	2	–	–	2
C.2 Changes due to discount rate variations	–	–	–	–
C.3 Other changes	–	–	–	–
D. Final amount	**101**	**–**	**682**	**783**

The item refers exclusively to the Bank.

The item B.4 Other changes comprises 85 thousand euros of the write-down of sureties and commitments, carried out upon first adoption of IFRS 9 and 2 thousand euros of the reclassification upon FTA of the line-by-line write-downs from Other liabilities.

The item B.1 Allocation for the year - Other provisions for risks and charges equal to 134 thousand euros relates to what was notified in the aforementioned Report on Findings of the Italian Tax Police.

10.3 Provisions for credit risk related to commitments and financial guarantees given

	Provisions for credit risk related to commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	Total
Financial guarantees given	9	13	–	22
Financial guarantees given	77	2	–	79
Total	**86**	**15**	**0**	**101**

10.6 Provisions for risks and charges - other provisions

The provisions for risks and charges - other provisions amounted to 682 thousand euros. For details, refer to the notes at the bottom of 10.1 Provisions for risks and charges: breakdown.

Section 13 – Group equity – Items 120, 130, 140, 150, 160, 170 and 180

13.1 "Share capital" and "Treasury shares": Breakdown

At 31 December 2018, 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 31 December 2018, the treasury shares of Bank numbered 28,810,640. These shares totalling 14,059 thousand euros, equal to 7.9% of the share capital, in application of IAS 32, were used to adjust the shareholders' equity. In the year in question, the Bank did not buy or sell any treasury shares.

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		

13.3 Share capital: additional information

During the year, the Bank's share capital was not subject to change.

13.4 Retained earnings: other information

The “Reserves” item amounts to 148,870 thousand euros (125,101 thousand euros at 31 December 2017) and is broken down as follows:

- Retained earnings of the Bank of 114,570 thousand euros consisting of the legal reserve of 11,181 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, the reserve for merger surplus of 525 thousand euros, the reserve for treasury shares purchased of 14,059 thousand euros and the negative reserve from restated IFRS 9 of -488 thousand euros;
- other reserves of 34,300 thousand euros consisting of the reserve for the realised gain on treasury shares of 4,277 thousand euros, of the gain on sale of shares present among Financial assets designated at fair value through other comprehensive income of 8 thousand euros and of the consolidation reserve for the difference.

Section 14 – Minority interests – Item 190

14.1 Breakdown of Item 190 “Minority interests”

Company names	Total 31.12.2018	Total 31.12.2017
Equity investments in consolidated companies with significant interests in third parties		
1. InvestiRE SGR S.p.A.	40,078	41,601
Other equity investments	610	537
Total	**40,688**	**42,138**

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

OTHER INFORMATION

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

	Nominal value over commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	Total 31.12.2018
1. Commitments to lend funds	**4,913**	**5,388**	**–**	**10,301**
a) Central Banks	–	–	–	–
b) Public administrations	–	–	–	–
c) Banks	–	–	–	–
d) Other financial institutions	561	–	–	561
e) Non financial institutions	1,877	5,380	–	7,257
f) Households	2,475	8	–	2,483
2. Financial guarantees given	**14,656**	**26**	**–**	**14,682**
a) Central Banks	–	–	–	–
b) Public administrations	–	–	–	–
c) Banks	545	–	–	545
d) Other financial institutions	304	–	–	304
e) Non financial institutions	12,665	26	–	12,691
f) Households	1,142	–	–	1,142

The above table shows the irrevocable commitments to lend funds and the financial guarantees given. Both items are subject to the write-down rules established by IFRS 9.

Financial guarantees given c) Banks shows the Bank's commitment towards the Interbank Fund for the Protection of Deposits, amounting to 523 thousand euros.

2. Other commitments and other guarantees given

	Nominal value 31.12.2018
1. Other guarantees given	**–**
of which: impaired exposures	–
a) Central Banks	–
b) Public administrations	–
c) Banks	–
d) Other financial institutions	–
e) Non financial institutions	–
f) Households	–
2. Other commitments	**140,826**
of which: impaired exposures	1
a) Central Banks	–
b) Public administrations	–
c) Banks	163
d) Other financial institutions	13,411
e) Non financial institutions	94,305
f) Households	32,946

The table below, although not fully comparable, shows at 31 December 2017 Guarantees given and commitment 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. Guarantees given and commitments

Transactions	Amount 31.12.2017
1) Financial guarantees given	4,772
a) Banks	545
b) Customers	4,227
2) Commercial guarantees given	137
a) Banks	–
b) Customers	137
3) Irrevocable commitments to lend funds	11,787
a) Banks	157
i) of certain use	157
ii) of uncertain use	–
b) Customers	11,630
i) of certain use	174
ii) of uncertain use	11,456
4) Underlying commitments on credit derivatives: protection sales	–
5) Assets pledged as collateral of third party commitments	–
6) Other commitments	2,247
Total	**18,943**

3. Assets pledged as collateral of liabilities and commitments

Portfolios	Amount 31.12.2018
1. Financial assets designated at fair value through profit or loss	–
2. Financial assets designated at fair value through other comprehensive income	–
3. Financial assets designated at amortised cost	940,596
4. Property and equipment	–
of which: property and equipment constituting inventory	–

The table below, although not fully comparable, shows at 31 December 2017 the Assets pledged as collateral of liabilities and commitments 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. Assets pledged as collateral of liabilities and commitments

Portfolios	Amount 31.12.2017
1. Financial assets held for trading	–
2. Financial assets measured at fair value	–
3. Financial assets available for sale	983,637
4. Investments held to maturity	–
5. Due from banks	–
6. Loans to customers	–
7. Property and equipment	–

6. Management and dealing on behalf of third parties

Type of service	Amount
1. Trading on behalf of customers	
a) purchases	2,704,897
1. settled	2,700,452
2. to be settled	4,445
b) sales	2,343,097
1. settled	2,341,260
2. to be settled	1,837
2. Portfolio management	
a) individual	707,538
b) collective	6,409,076
3. Custody and administration of securities	
a) third-party securities held in deposit related to depositary bank activities (excluding portfolio management)	–
1. securities issued by companies included in the consolidation	–
2. other securities	–
b) third-party securities on deposit (excluding portfolio management): other	2,776,907
1. securities issued by companies included in the consolidation	84,496
2. other securities	2,692,411
c) third-party securities lodged with third parties	2,762,021
d) own securities lodged with third parties	1,334,452
4. Other transactions	**1,570,851**

Item 2 Portfolio management - b) collective refers to the NAV of the assets managed by InvestiRE SGR and of the assets managed by Natam.

7. Financial assets to be offset in the financial statements, or subject to framework offset agreements or to similar agreements.

Categories	Gross amount of financial assets (a)	Amount of the financial liabilities offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c=a-b)	Correlated amounts not offset in the financial statements		Net amount 31.12.2018 (f=c-d-e)
				Financial instruments (d)	Cash deposits received as collateral (e)	
1. Derivatives						
2. Repurchase agreements						
3. Loan of securities	243	243	–	–	–	–
4. Other						
Total 31.12.2018	**243**	**243**	**–**	**–**	**–**	**–**

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 FY 2018
1. Financial assets designated at fair value through profit or loss	**333**	**–**	**–**	**333**
1.1 Financial assets held for trading	333	–	–	333
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	**1,156**	**–**	**X**	**1,156**
3. Financial assets designated at amortised cost:	**1,700**	**7,456**	**–**	**9,156**
3.1 Due from banks	–	167	X	167
3.2 Loans to customers	1,700	7,289	X	8,989
4. Hedging derivatives	**X**	**X**	**–**	**–**
5. Other assets	**X**	**X**	**–**	**–**
6. Financial liabilities	**X**	**X**	**X**	**3,416**
Total	**3,189**	**7,456**	**–**	**14,061**
of which: interest income on impaired financial assets	**–**	**221**	**–**	**221**

1.3 Interest expense and similar expense: breakdown

Items/Categories	Payables	Securities	Other transactions	Total FY 2018
1. Financial liabilities designated at amortised cost	785	8	–	793
1.1 Due to Central Banks	–	X	X	–
1.2 Due to banks	2	X	X	2
1.3 Due to customers	783	X	X	783
1.4 Securities issued	X	8	X	8
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	737
Total	**785**	**8**	**–**	**1,530**

Interest margin, almost exclusively pertaining to the Bank, totals 12,531 thousand euros, versus 9,034 thousand euros in the previous financial year.

Following the 5th update of Bank of Italy Circular no. 262 in the figures at 31 December 2018, differently from the previous years, the interest was included in interest income and similar income or in interest expense and similar expense depending on the related algebraic sign. Moreover, starting from 1 January 2018 the interest income and similar income also includes the interest due to the passing of time, determined as part of the measurement of impaired financial assets on the basis of the original effective interest rate for a total value of 52 thousand euros, pertaining exclusively to the Bank. Previously, this item was included among net losses/recoveries on impairment of receivables.

Although not fully comparable, the tables at 31 December 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 FY 2017
1. Financial assets held for trading	465	–	–	465
2. Financial assets measured at fair value	–	–	–	–
3. Financial assets available for sale	423	–	–	423
4. Investments held to maturity	2	–	–	2
5. Due from banks	–	(101)	–	(101)
6. Loans to customers	36	6,113	–	6,149
7. Hedging derivatives	X	X	–	–
8. Other assets	X	X	(201)	(201)
Total	**926**	**6,012**	**(201)**	**6,737**

1.4 Interest expense and similar expense: breakdown

Items/Categories	Payables	Securities	Other transactions	Total FY 2017
1. Due to Central Banks	–	X	–	–
2. Due to banks	(9)	X	–	(9)
3. Due to customers	(2,303)	X	–	(2,303)
4. Securities issued	X	15	–	15
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	**(2,312)**	**15**	**–**	**(2,297)**

Section 2 – Commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	Total FY 2018	Total FY 2017
a) guarantees given	113	110
b) credit derivatives	–	–
c) administration, brokerage and consultancy services:	51,357	50,116
1. trading in financial instruments	4,672	4,194
2. currency dealing	–	–
3. portfolio management	37,587	40,059
3.1. individual	6,112	5,941
3.2. collective	31,475	34,118
4. custody and administration of securities	465	349
5. depository bank	–	–
6. placement of securities	4,832	3,472
7. reception and transmission of orders	–	1
8. consultancy services	2,505	1,231
8.1. on investments	595	419
8.2. on financial structure	1,910	812
9. distribution of third-party services	1,296	810
9.1. portfolio management	161	127
9.1.1. individual	–	–
9.1.2. collective	161	127
9.2. insurance products	1,135	683
9.3. other products	–	–
d) collection and payment services	394	258
e) servicing related to securitisations	–	–
f) factoring services	–	–
g) tax collection services	–	–
h) multilateral trading systems management	–	–
i) management of current accounts	355	309
j) other services	2,638	2,323
Total	**54,857**	**53,116**

Some 2017 items were reclassified for a like-for-like comparison with 2018.

The following table provides the information about contracts with customers required by IFRS 15.

Revenue from contracts with customers (IFRS 15)

	FY 2018 Revenue	Revenue recognised in 2018 included in the opening balance of the liabilities deriving from contracts at the start of the year	FY 2017 Revenue	Revenue recognised in 2017 included in the opening balance of the liabilities deriving from contracts at the start of the year
Breakdown by type of service				
- consultancy services	2,505	69	1,232	38
- specialist	1,306	–	1,111	7
- trading	3,366	–	3,083	–
- placement	4,832	–	3,472	–
- individual management	4,862	–	4,104	–
- collective management	31,083	113	33,642	–
- delegated management	1,250	–	1,837	–
- services to listed issuers (seq and equity research)	267	62	204	40
- distribution of insurance products	1,135	–	683	–
- distribution of third-party services	553	–	603	–
- other services	3,698	–	3,145	–
Total fee and commission income	**54,857**	**244**	**53,116**	**85**
Line by line impairment losses for the period on trade receivables	(3,276)	–	(3,030)	–
Collective impairment losses of the period on trade receivables (for 2017 they pertain to the FTA as at 1 January 2018)	(232)	–	(1,932)	–
Losses for derecognition of receivables	(12)	–	–	–
Total impairment losses and losses on trade receivables	**(3,520)**		**(4,962)**	

As required by IFRS 15, the following information is provided:

- during the year, the Bank recorded performance fees accrued on management amounting to 8 thousand euros and success fees accrued on consultancy services for Corporate Finance activities amounting to 70 thousand euros;
- the subsidiary InvestiRE SGR S.p.A. recorded performance fees amounting to 3,863 thousand euros during the year. As prescribed by the fund regulation, 50% of this amount will be liquidated only at the expiration of the fund if there is no significant downwards adjustment of the amount of the cumulated revenue. The subsidiary of the assessment made, the subsidiary does not deem this eventuality to be highly probable;
- at the closing date of the year, there were no unrecognised fees and commissions on contracts above one year.

2.2 Fee and commission expense: breakdown

Services/Amounts	Total FY 2018	Total FY 2017
a) guarantees received	–	–
b) credit derivatives	–	–
c) management and brokerage services:	1,532	1,998
1. trading in financial instruments	644	520
2. currency dealing	–	–
3. portfolio management:	92	290
3.1 own portfolio	36	32
3.2 third-party portfolio	56	258
4. custody and administration of securities	272	278
5. placement of financial instruments	524	910
6. “door-to-door” sale of financial instruments, products and services	–	–
d) collection and payment services	243	68
e) other services	641	470
Total	**2,416**	**2,536**

Net commissions amount to 52,441 thousand euros versus 50,580 thousand euros in the previous financial year.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total FY 2018	
	Dividends	Similar income
A. Financial assets held for trading	5	1
B. Other financial assets mandatorily at fair value	–	1,752
C. Financial assets designated at fair value through other comprehensive income	592	–
D. Equity investments	–	–
Total	**597**	**1,753**

Although not fully comparable, the table at 31 December 2017 relating to dividends and similar income: breakdown 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 FY 2017	
	Dividends	Income from UCI units
A. Financial assets held for trading	2	1
B. Financial assets available for sale	981	1,822
C. Financial assets measured at fair value	–	–
D. Equity investments	–	X
Total	**983**	**1,823**

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	**688**	**1,204**	**1,277**	**1,103**	**(488)**
1.1 Debt securities	121	73	543	635	(984)
1.2 Equity	567	1,125	272	434	986
1.3 UCI units	–	6	462	34	(490)
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**	**319**
3. Derivatives	**65**	**562**	**98**	**492**	**(1)**
3.1 Financial derivatives:	65	562	98	492	(1)
- On debt securities and interest rates	38	–	–	38	–
- On equity and stock indexes	27	562	98	454	37
- On currencies and gold	X	X	X	X	(38)
- Other	–	–	–	–	–
3.2 Credit derivatives	–	–	–	–	–
of which: natural hedges related to the fair value option	X	X	X	X	–
Total	**753**	**1,766**	**1,375**	**1,595**	**(170)**

Profit (Losses) on trading, referring exclusively to the Bank, features a negative balance of 170 thousand euros, compared to the positive balance of 1,726 thousand euros in 2017, and may be broken down as follows:

- Negative difference between unrealised capital gains and losses, in connection with the fair value measurement of the trading portfolio, totalling 660 thousand euros (in 2017, there was a positive balance of 902 thousand euros);

- A positive balance between realised profits and losses related to trading on securities and derivatives of 171 thousand euros (in 2017, a positive balance of 669 thousand euros);
- Negative difference of 38 thousand euros between unrealised capital gains and losses in connection with the fair value measurement of currency forwards and 38 thousand euros for the capital gain on the measurement of Interest Rate Swap Amortising (in 2017, a positive balance of 73 thousand euros);
- A positive balance of 319 thousand euros between realised foreign exchange gains and losses (in 2017, a positive balance of 82 thousand euros).

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

6.1 Profit (Loss) from disposal/repurchase: breakdown

Items/Income items	Total 31.12.2018		
	Profit	Losses	Net income
Financial assets			
1. Financial assets designated at amortised cost	377	–	377
1.1 Due from banks	–	–	–
1.2 Loans to customers	377	–	377
2. Financial assets designated at fair value through other comprehensive income	940	–	940
2.1 Debt securities	940	–	940
2.2 Loans	–	–	–
Total assets (A)	**1,317**	**–**	**1,317**
Financial liabilities designated at amortised cost			
1. Due to banks	–	–	–
2. Due to customers	–	–	–
3. Securities issued	–	–	–
Total liabilities (B)	**–**	**–**	**–**

Item 1.2 Loans to customers, referring exclusively to the Bank, refers to gains realised by the sale of Debt securities including the reversals of the valuation reserve for credit risk (331 thousand euros).

Item 2.1 Debt securities refers for 921 thousand euros to the Bank and it includes the reversal of the valuation reserve for credit risk (269 thousand euros).

Although not fully comparable, the table at 31 December 2017 relating to Profits (losses) on disposal or repurchase: breakdown 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 FY 2017		
	Profit	Losses	Net income
Financial assets			
1. Due from banks	–	–	–
2. Loans to customers	–	–	–
3. Financial assets available for sale	38,185	7	38,178
3.1 Debt securities	12	–	12
3.2 Equity	38,173	–	38,173
3.3 UCI units	–	7	(7)
3.4 Loans	–	–	–
4. Investments held to maturity	–	–	–
Total assets	**38,185**	**7**	**38,178**
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	**374**	**–**	**686**	**77**	**(389)**
1.1 Debt securities	–	–	–	75	(75)
1.2 Equity	–	–	–	–	–
1.3 UCI units	374	–	686	2	(314)
1.4 Loans	–	–	–	–	–
2. Financial assets in foreign currencies: foreign exchange differences	X	X	X	X	–
Total	374	–	686	77	(389)

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 FY 2018 (1) – (2)
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3	
		Write-off	Other			
A. Due from banks	1	–	–	35	–	(34)
- Loans	1	–	–	35	–	(34)
- Debt securities	–	–	–	–	–	–
of which: acquired or originated impaired loans	–	–	–	–	–	–
B. Loans to customers	2,877	39	991	499	146	3,262
- Loans	1,591	39	991	499	146	1,976
- Debt securities	1,286	–	–	–	–	1,286
of which: acquired or originated impaired loans	–	–	–	–	–	–
C. Total	**2,878**	**39**	**991**	**534**	**146**	**3,228**

Please refer to the comments provided in the asset item 4.2 Financial assets designated at amortised cost: breakdown by product of loans to customers.

Although not fully comparable, the table at 31 December 2017 relating to Net losses on impairment of receivables: breakdown 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 FY 2017 (1) – (2)
	Individual		Portfolio	Individual		Portfolio		
	Derecognition	Other		A	B	A	B	
A. Due from banks	–	–	–	–	–	–	–	–
- Loans	–	–	–	–	–	–	–	–
- Debt securities	–	–	–	–	–	–	–	–
B. Loans to customers	386	2,444	71	107	454	–	–	2,340
Purchased non-performing loans	–	–	–	–	–	–	–	–
- Loans	–	–	X	–	–	X	X	–
- Debt securities	–	–	X	–	–	X	X	–
Other receivables	386	2,444	71	107	454	–	–	2,340
- Loans	386	2,444	71	107	454	–	–	2,340
- Debt securities	–	–	–	–	–	–	–	–
C. Total	**386**	**2,444**	**71**	**107**	**454**	**–**	**–**	**2,340**

Key: A = from interest B = other recoveries

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 FY 2018 (1) – (2)
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3	
		Write-off	Other			
A. Debt securities	775	–	–	–	–	775
B. Loans	–	–	–	–	–	–
- Customers	–	–	–	–	–	–
- Banks	–	–	–	–	–	–
of which: acquired or originated impaired financial assets	–	–	–	–	–	–
Total	**775**	**–**	**–**			**775**

Although not fully comparable, the table at 31 December 2017 relating to Net losses on impairment of financial assets available for sale: breakdown 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 FY 2017 (1) – (2)
	Individual		Individual		
	Derecognitions	Other	A	B	
A. Debt securities	–	–	–	–	–
B. Equity	–	705	X	X	705
C. UCI units	–	3,072	X	–	3,072
D. Loans to banks	–	–	–	–	–
E. Loans to customers	–	–	–	–	–
F. Total	**–**	**3,777**	**–**	**–**	**3,777**

Key: A = from interest B = other recoveries

Although not fully comparable, the table at 31 December 2017 relating to Net losses on impairment of other financial transactions: breakdown 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.

8.4 Net losses on impairment of other financial transactions: breakdown

Transactions/Income items	Impairment losses (1)			Value recoveries (2)				Total FY 2017 (1) - (2)
	Individual		Portfolio	Individual		Portfolio		
	Derecognition	Other		A	B	A	B	
A. Guarantees given	–	–	–	–	–	–	–	–
B. Credit derivatives	–	–	–	–	–	–	–	–
C. Commitments to disburse funds	–	–	–	–	–	–	–	–
D. Other transactions	–	2	–	–	–	–	–	2
E. Total	**–**	**2**	**–**	**–**	**–**	**–**	**–**	**2**

Key: A = from interest B = other recoveries

Section 12 - Administrative expenses – Item 190

12.1 Personnel expenses: breakdown

Type of expense/Segments	Total FY 2018	Total FY 2017
1) Personnel employed	34,032	32,643
a) wages and salaries	24,530	23,673
b) social security charges	6,358	6,125
c) termination indemnities	604	626
d) supplementary benefits	–	–
e) provisions for termination indemnities	484	447
f) provisions for post employment benefits:	–	–
- defined contribution plans	–	–
- defined benefit plans	–	–
g) payments to external pension funds:	470	426
- defined contribution plans	470	426
- defined benefit plans	–	–
h) costs from share based payments	–	–
i) other benefits in favour of employees	1,586	1,346
2) Other non-retired personnel	584	533
3) Directors and statutory auditors	1,573	1,522
4) Early retirement costs	–	–
Total	**36,189**	**34,698**

Personnel expenses grew by 1,491 thousand euros compared to the same period last year. The change is due to the increase recorded by the Bank for 1,219 thousand euros (mainly as a result of the expansion of the work force), by InvestiRE SGR S.p.A. for 199 thousand euros, by Natam for 156 thousand euros, and to the decrease in other subsidiaries for 83 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.

12.2 Average number of employees by category

	Total FY 2018	Total FY 2017
Personnel employed	**342**	**328**
(a) senior managers	52	49
(b) executives	144	109
(c) rest of staff	146	170
Other personnel	**11**	**9**

12.4 Other benefits in favour of employees

Benefits in favour of employees amount to 1,586 thousand euros (versus 1,346 thousand euros last year) and concern luncheon voucher, collective health care policies, professional training, cars and other benefits.

12.5 Other administrative expenses: breakdown

Type of expense/Segments	Total FY 2018	Total FY 2017
Rentals and condominium fees	3,175	3,039
Membership fees	242	191
EDP materials	76	71
Stationery and printing supplies	69	78
Consultancy and outsourced professional services	2,441	3,087
Outsourcing services	1,972	1,942
Auditing company fees	304	340
Maintenance	987	1,068
Utilities and connections	1,739	1,673
Postal, transport and shipment fees	73	82
Insurance companies	251	244
Public relations and advertising expenses	140	174
Office cleaning	333	329
Books, newspapers and magazines	89	69
Entertainment expenses	584	478
Travel expenses and mileage based reimbursements	658	542
Other duties and taxes	4,579	4,049
Security charges	214	178
Contributions to National Resolution Fund	909	463
Other	1,157	1,267
TOTAL	**19,992**	**19,364**

The other administrative expenses increase by 628 thousand euros compared to 2017.

The increase referred to the Bank for 789 thousand euros concerned mainly stamp duty and substitute tax of 514 thousand euros (fully recovered from customers), higher payments to the National Resolution Fund of 414 thousand euros. The other companies of the Group instead recorded a reduction by a total amount of 161 thousand euros.

Auditing company fees

In accordance with the requirements of art. 149-duodecies of Consob Resolution no. 15915 of 3 May 2007, we list the fees paid for 2018 for the different types of services provided to the Group by the auditing firms and by the entities belonging to their networks.

	Party who provided the service	Payment due in 2018 (in thousands of euros)
Auditing services	EY S.p.A.	184
Auditing services	Dreieck Fiduciaria SA	4
Auditing services	PwC	13
Declaration of compliance services	EY S.p.A.	9
Other services	Ernst & Young Financial-Business Advisors S.p.A.	20
Other services	Dreieck Fiduciaria SA	2
Totale		**232**

The auditing activities include the auditing of financial statements, the accounting auditing of the Group as well as the consolidated financial statements and the consolidated half-yearly report of the Parent Company.
The declaration of compliance services refer to the controls carried out on the Unico tax return form, Irap, CNM (domestic consolidation), ordinary 770 and single certification form.
Payments do not include VAT, expense repayments and supervisory contribution. The total expense amounts to 304 thousand euros.
The other services relating to Ernst & Young Financial-Business Advisors S.p.A. refer to the support activity for the assessment of the ICAAP/ILAAP Report and do not include VAT, whilst those relating to Dreieck Fiduciaria SA refer to the LRD Revision (Swiss Law on money laundering).

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 FY 2018
Commitments to lend funds	–	12	(12)
Financial guarantees given	2	4	(2)
Total	**2**	**16**	**(14)**

13.3 Net provisions for risks and charges: breakdown

	Total FY 2018	Total FY 2017
Allocations	(134)	(100)
Utilisation	–	–
Total	**(134)**	**(100)**

Both items of Section 13, pertaining exclusively to the Bank, are commented in Section 10 - “Provisions for risks and charges - Item 100” of the liabilities in the Balance Sheet.

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	469	–	–	469
- Used in operations	469	–	–	469
- For investment	–	–	–	–
- Inventory	X			
A.2 Acquired under finance lease	–	–	–	–
- Used in operation	–	–	–	–
- For investment	–	–	–	–
Total	**469**	**–**	**–**	**469**

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	177	–	–	177
- Internally generated by the company	–	–	–	–
- Other	177	–	–	177
A.2 Acquired under financial lease	–	–	–	–
Total	**177**	**–**	**–**	**177**

Section 16 - Other operating income/expenses – Item 230

16.1 Other operating expense: breakdown

	Total FY 2018	Total FY 2017
Amounts reimbursed to customers	5	3
Amortisation for improvements to third party assets	34	43
Other expense	50	114
Total	**89**	**160**

16.2 Other operating income: breakdown

	Total FY 2018	Total FY 2017
Rental income	132	128
Recovery of stamp duty	4,030	3,597
Recovery of substitute tax	169	99
Recovery of other expenses	840	569
Dividend and prescription waiver	214	185
Other income	238	1,092
Total	**5,623**	**5,670**

Other operating income and expenses show a positive balance of 5,534 thousand euros versus 5,510 thousand euros of 2017.

The item comprises the recoveries of costs from customers, amounting to 5,039 thousand euros (4,265 thousand euros in 2017).

Among the other income 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 (loss) from equity investments – Item 250

17.1 Profit (loss) from equity investments: breakdown

Income items/Segments	Total FY 2018	Total FY 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	296	1,708
1. Write-downs	–	–
2. Net losses on impairment	296	1,708
3. Losses from disposals	–	–
4. Other expense	–	–
Net income	**(296)**	**(1,708)**
Total	**(296)**	**(1,708)**

Item B.2 Net losses on impairment refers to the associate Imbrebanca S.p.A. In 2017, the losses referred to Imprebanca S.p.A. for 1,502 thousand euros, and Previra S.p.A. in liquidation for 206 thousand euros.

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

21.1 Taxes on income from continuing operations: breakdown

Income items/Segments		Total FY 2018	Total FY 2017
1.	Current taxes (-)	(3,704)	(5,499)
2.	Changes in current taxes compared with previous years (+/-)	(58)	(58)
3.	Reduction in current taxes (+)	–	–
3.bis	Reduction in current taxes for tax		–
	receivables set forth in Italian Law No. 214/2011		
4.	Change in deferred tax assets (+/-)	(528)	(1,530)
5.	Change in deferred tax liabilities (+/-)	263	2,072
6.	**Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)**	**(4,027)**	**(5,015)**

Current taxes refer to the Bank (957 thousand euros), to InvestiRE SGR S.p.A., (2,884 thousand euros), to the other companies of the group (186 thousand euros).

The change in advanced taxes refers mainly to InvestiRE SGR S.p.A. (-324 thousand euros) and to the Bank (-210 thousand euros) while the change in deferred taxes refers mainly to the Bank (173 thousand euros).

21.2 Reconciliation of theoretical tax charge to total income tax expense for the period

	FY 2018		
	IRES	IRAP	TOTAL
Pre-tax profit (loss)	13,060	13,060	
Applicable tax rate	24.00	5.57	29.57
THEORETICAL TAX CHARGE	**(3,134)**	**(727)**	**(3,861)**
3.5% IRES surtax for credit and financial institutions	(247)		(247)
THEORETICAL GLOBAL TAX CHARGE	**(3,381)**	**(727)**	**(4,108)**
Effect of income that is exempt or taxed with concessional rates	945	1,023	1,968
Effect of charges that are fully or partially non-deductible	(275)	(319)	(594)
Effect of income/charges that are not included in the IRAP taxable income	–	(1,007)	(1,007)
Change in deferred tax liabilities	(252)	13	(239)
Changes in current taxes compared with previous years	(47)		(47)
Rate change on deferred tax assets/liabilities	–		–
CURRENT TAX CHARGE	**(3,010)**	**(1,017)**	**(4,027)**

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 FY 2018	Total FY 2017
Consolidated equity investments with significant interests in third parties		
1. InvestiRE SGR S.p.A.	2,838	3,782
Other equity investments	132	97
Totale	**2,970**	**3,879**

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

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 year is calculated based on the ordinary shares outstanding at the beginning of the year, adjusted by the amount of ordinary shares purchased or issued or sold during the year multiplied by the number of days that the shares were outstanding, in proportion to the total days in the year. 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.

	31.12.2018	31.12.2017
Profit (loss) for the year (in Euro)	5,342,556	36,307,587
Weighted average of ordinary shares	334,069,360	333,640,587
Basic earnings (loss) per share	0.015992	0.108822

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

	31.12.2018	31.12.2017
Adjusted profit (loss) for the year (in Euro)	5,342,556	36,307,587
Weighted average of ordinary shares for diluted capital	334,069,360	333,640,587
Diluted earnings (loss) per share	0.015992	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 D – Consolidated statement of comprehensive income

ANALYTICAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Items	
10.	**Profit (loss) for the year**	**8,313**
	Other comprehensive income that may not be reclassified to the income statement	
20.	Equity designated at fair value through other comprehensive income	3,282
	a) Changes in fair value	3,282
	b) Transfers to other shareholders' equity components	–
30.	Financial liabilities designated at fair value through profit or loss (changes of own credit rating)	
	a) Changes in fair value	
	b) Transfers to other shareholders' equity components	
40.	Hedges of equity designated at fair value through other comprehensive income:	
	a) Changes in fair value (hedged instrument)	
	b) Changes in fair value (hedging instrument)	
50.	Property and equipment	
60.	Intangible assets	
70.	Defined benefit plans	(188)
80.	Non-current assets held for sale and discontinued operations	
90.	Share of valuation reserves connected with investments carried at equity	72
100.	Income taxes relating to other comprehensive income that may not be reclassified to the income statement	183
	Other income items that may be reclassified to the income statement:	
110.	Foreign investment hedge:	
	a) changes in fair value	
	b) reclassification to the income statement	
	c) other changes	
120.	Foreign exchange differences:	
	a) changes in value	
	b) reclassification to the income statement	
	c) other changes	
130.	Cash flow hedge:	
	a) changes in fair value	
	b) reclassification to the income statement	
	c) other changes	
	of which: result of net positions	
140.	Hedging instruments (non-designated elements)	
	a) changes in value	
	b) reclassification to the income statement	
	c) other changes	
150.	Financial assets (other than equity) measured at fair value through other comprehensive income	(12,596)
	a) changes in fair value	(13,061)
	b) reclassification to the income statement	465
	– losses on credit risk	772
	– profits/losses from disposal	(307)
	c) other changes	–

continue to next page

following from the previous page

Items	
160. Non-current assets held for sale and discontinued operations	
a) changes in fair value	
b) reclassification to the income statement	
c) other changes	
170. Share of valuation reserves connected with investments carried at equity:	
a) changes in fair value	
b) reclassification to the income statement	
– adjustments from impairment	
– profits/losses from disposal	
c) other changes	
180. Income taxes relating to other comprehensive income that may be reclassified to the income statement	(4,407)
190. Total other income items	**(5,206)**
200. Comprehensive income (Item 10+190)	**3,107**
210. Consolidated comprehensive income pertaining to minority interests	2,920
220. Consolidated comprehensive income pertaining to the Parent Company	**187**

The positive change of Item 20. Equity designated at fair value through other comprehensive income of 3,282 thousand euros refers to the Bank and it is due to changes in fair value (before taxes) of the other equity (of which SIA S.p.A. +3,480 thousand euros, CSE S.r.l. -67 thousand euros and Net Insurance -131 thousand euros);

The negative change of Item 150.Financial assets (other than equity) designated at fair value through other comprehensive income (before taxes) of 12,596 thousand euros is mainly due to the Government bonds.

At the end of the year, the valuation reserves of the Group (after taxes) are as follows:

Financial assets designated at fair value through other comprehensive income		
Parent Company		
SIA S.p.A. Shares	3,238	euros
CSE S.r.l. Shares	-63	euros
Net Insurance S.p.A. Shares	49	euros
Debt Securities	-7,739	euros
	-4,515	**euros**
Other Group Companies		
Debt Securities	3	euros
	3	**euros**
Total A)	**-4,512**	**euros**
Defined benefit plans B)	**-380**	**euros**
Share of valuation reserve connected with investments carried at equity C)	**-64**	**euros**
Total (A+B+C)	**-4,956**	**euros**

Valuation reserves are negative by 3,592 thousand euros and comprise, in addition to what is detailed above, also the valuation reserves per Law no. 576/75, Law no. 72/83 and Law no. 413/91, recognised in the financial statements of the Bank for a total amount of 1,364 thousand euros.

Part E - Information on risks and related hedging policies

Foreword

The Parent Company Banca Finnat and the subsidiaries carry out their activities according to criteria of prudence and reduced exposure to risks, applying the principle of sound and prudent management.

The Bank defined the credit risk as the risk to incur losses due to the unexpected worsening of the creditworthiness of a customer, also following contractual default. The credit risk can be broken down into:

- default risk: risk that the borrowing counterparty is unable to meet its own obligations;
- spread/migration risk: risk of change in the counterparty's credit rating that determines an effect on the market value of the credit position;
- recovery risk: risk that the recovery actually achieved at the end of the liquidation of a counterparty's assets becomes insolvent is lower than what was originally estimated by the bank.

The credit risk of the Bank is continuously monitored by the Risk Control Function of the Parent Company, by the Credit Department, by the Credit Committee and by the other assigned functions.
For the quantification of the current internal capital on credit risk, the standardised methodology for determining the prudential capital requirements per Regulation EC 575/2013 is used.

The criteria and logic used for the purposes of determining the prudential capital requirements are adopted, consistently with the guidelines defined in the multi-year budgeting and planning process, also for the quantification of the prospective internal capital in view of the credit risk.

Section 1 - Accounting consolidation risks

Quantitative information

A. Credit quality

A.1 Non-performing and performing credit exposures: balances, impairment losses, changes and breakdown by type

A.1.1 Breakdown of credit exposures by portfolio classification and credit quality (book values)

Portfolio/Quality	Bad Loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets designated at amortised cost	3,182	1,775	2,205	13,445	1,443,427	1,464,034
2. Financial assets designated at fair value through other comprehensive income	–	–	–	–	289,998	289,998
3. Financial assets designated at fair value	–	–	–	–	–	–
4. Other financial assets mandatorily at fair value	–	–	–	–	–	–
5. Financial assets under disposal	–	–	–	–	–	–
Total 2018	**3,182**	**1,775**	**2,205**	**13,445**	**1,733,425**	**1,754,032**

The table below shows at 31 December 2017 the Breakdown of credit exposures by portfolio classification and credit quality (book values) in compliance with IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular No. 262 (4th update).

A.1.1 Breakdown of credit exposures by portfolio classification and credit quality (book values)

Portfolio/Quality	Bad Loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	Total
1. Financial assets available for sale	–	–	–	–	1,190,703	1,190,703
2. Investments held to maturity	–	–	–	–	–	–
3. Due from banks	–	–	–	–	88,150	88,150
4. Loans to customers	2,013	2,047	1,657	8,104	356,657	370,478
5. Financial assets measured at fair value	–	–	–	–	–	–
6. Financial assets under disposal	–	–	–	–	–	–
Total 2017	**2,013**	**2,047**	**1,657**	**8,104**	**1,635,510**	**1,649,331**

A.1.2 Breakdown of credit exposures by portfolio classification and credit quality (gross and net values)

Portfolio/Quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total impairment losses	Net exposure	Total partial write-offs*	Gross exposure	Total impairment losses	Net exposure	
1. Financial assets designated at amortised cost	17,623	10,461	7,162	–	1,462,074	5,202	1,456,872	1,464,034
2. Financial assets designated at fair value through other comprehensive income	–	–	–	–	290,861	863	289,998	289,998
3. Financial assets designated at fair value	–	–	–	–	X	X	–	–
4. Other financial assets mandatorily at fair value	–	–	–	–	X	X	–	
5. Financial assets under disposal	–	–	–	–	–	–	–	–
Total 2018	**17,623**	**10,461**	**7,162**	**–**	**1,752,935**	**6,065**	**1,746,870**	**1,754,032**

Portfolio/Quality	Assets of evidently low credit quality		Other assets
	Cumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	–	–	26,571
2. Hedging derivatives	–	–	–
Total 2018	**–**	**–**	**26,571**

The table below shows at 31 December 2017 the Breakdown of credit exposures by portfolio classification and credit quality (gross and net book values) in compliance with IAS 39, prepared in accordance with the provisions of the previous version of Bank of Italy Circular No. 262 (4th update).

A.1.2 Breakdown of credit exposures by portfolio classification and credit quality (gross and net amounts)

Portfolio/Quality	Non-performing assets			Performing assets			Total (net exposure)
	Gross exposure	Specific impairment losses	Net exposure	Gross exposure	Portfolio impairment losses	Net exposure	
1. Financial assets available for sale	–	–	–	1,190,703		1,190,703	1,190,703
2. Investments held to maturity	–	–	–			–	
3. Due from banks	–	–	–	88,150		88,150	88,150
4. Loans to customers	15,094	9,377	5,717	366,723	1,962	364,761	370,478
5. Financial assets measured at fair value	–	–	–	X	X		
6. Financial assets under disposal	–	–	–			–	
Total 2017	**15,094**	**9,377**	**5,717**	**1,645,576**	**1,962**	**1,643,614**	**1,649,331**

Portfolio/Quality	Assets of evidently low credit quality		Other assets
	Cumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	–	–	33,405
2. Hedging derivatives	–	–	–
Total 2017	**–**	**–**	**33,405**

Section 2 - Prudential consolidation risks

1.1 - Credit risk

Qualitative information

1. General aspects

2. Credit risk mitigation techniques

2.1 Organisational aspects

The Group's strategy, which has always been directed at optimising customer relationship, is oriented to perform high value added financial services to high standing customers, with the goal of securing their loyalty.

With this view, the Group intends to offer to customers or potential customers, in addition to services of primary interest, such as those relating to private banking, to investment banking, fiduciary and financial consultancy, also credit facilities to build long-term relationships. For the performance of assets entailing the assumption of credit risk, the Bank has adopted a dedicated Credit Regulation, formalising the processes and the criteria to be applied to the issue of new loans or in the concession of credit facilities consistently with the credit policies and corporate strategic guidelines.

The credits issued by the Bank can be mainly classified in the following categories:

- loans to customers and to banks (typically irrevocable credit line on demand and at maturity and mortgages requiring fixed or otherwise determinable payments);
- trade receivables;
- repurchase agreements.

After their initial recognition, receivables are designated at their amortised cost, which is equal to the initial recognition value reduced/increased by capital repayments, by any impairment losses/value recoveries and by the amortisation calculated with the effective interest rate method.

In order to mitigate credit risk and avoid situations that would imply losses and write-downs on the loan portfolio, the Bank carries out credit activities that privilege receivables "guaranteed" by collateral securities or those guaranteed by liens on securities, asset management and property mortgages. Well-known customers are occasionally granted credit lines based on the creditworthiness of the customer in question.

Moreover, the company structure and organisation – which are characterised by the reduced size and accurate formalisation of credit line/loan disbursement procedures – enable to offer customers primary services, granted with rapid appraisal processes.

The operating strategy adopted by the Bank and outlined above ensured that:

- transactions carried out have low-risk exposures;
- the amount of bad loans (net of write-downs) represent less than 1% of the total shown in table "A.1.1 Breakdown of credit exposures by portfolio classification and credit quality (book values)" in the

following pages. The bad loans consist mainly of receivables secured by ample first mortgages on property;

- lending activities provide positive image and prestige feedback for the Bank, with a positive impact on "traditional" activities.

2.2 Management, measurement and control systems

The valuation of credit risk and creditworthiness of customers is carried out by delegated bodies, which operate by means of proper proxies. The delegated bodies receive all information necessary to evaluate the creditworthiness of the customers, so that they can readily express their opinion on credit line transactions.

The Bank's credit process is illustrated below.

Evaluation of the creditworthiness of credit line applicants

Creditworthiness evaluation, which is performed according to a specific procedure, is mainly aimed at verifying that credit line applicants have the ability to reimburse as well as verifying the compatibility of the individual credit line applications and the company's strategies with regard to the chosen size and breakdown of the credit portfolio.

The company functions that are involved in the creditworthiness assessment procedure act as follows:

- they accept the loan application of customers;
- they gather the documents required to examine the asset, financial and economic situation of the loan applicant and any guarantor to start filling in all the credit line forms;
- they analyse the qualitative information concerning the new customers and update the information of former customers whose creditworthiness has already been assessed;
- they verify the reliability of the data included in the document and in the information required;
- they formulate, by reference to the files set up, a creditworthiness score of the loan applicant;
- they examine all the various relationships that the Bank has in place with the same loan applicant, both credit and debit ones, and compare loans granted with guarantees offered and guarantees received with proposed guarantors;
- they prepare a summary of the assessments based on the creditworthiness of the customer and formulate an opinion with regard to the amount of the loan that could be granted, the technical use of the loan by the customer, and specify the guarantees to be received based on both qualitative and quantitative information.

The Bank also carried out a qualitative assessment of the credit exposures on the basis of a managerial internal rating system offered by the outsourcer CSE that allows to classify customers, dividing them into risk classes to which correspond different probabilities of insolvency.

For the assessment of the credit merit and the connected division into rating classes, the main areas of investigation cover the analysis of the data listed below:

- internal performance data;
- system performance data (report from central credit register):
- financial statement information (central financial statement archives);

- socio-demographic information
- Variables are estimated individually on the areas of investigation and subsequently integrated in the final model, separately for individuals and enterprises.

Credit granting

Credit granting is performed by the Deliberative Body, taking all the reasons supporting the definition of the amount that could be granted and the guarantees requested into due consideration, based on the risk inherent in the transaction.

Once the loan proposal has been positively resolved upon:
- the guarantees are requested and the loan granting process takes place;
- the credit line/loan is granted;
- the transaction is input in the IT system so that it can be regularly verified: instalments due, review of the interest rate, if contractually provided for, and/or of the associated guarantees.

Management of anomalous loans

The management of anomalous loans is carried out through a careful and periodic analysis of expired positions by the company functions and with the supervision of the General Management. In particular, the General Management of the Bank receives, at a predetermined frequency, appropriate reports containing the trend of impaired loans, broken down by customer with or without loans.

“Non-performing” loans, net of write-downs, amounted in total to 5,717 thousand euros, of which 2,013 thousand euros were bad loans, 2,047 thousand euros were unlikely to pay and 1,657 thousand euros were past due exposures.

To this end, it should be stressed that non-performing loans at the end of 2018 were less than 2% of the total amount of the item loans to customers detailed in table A.1.1 Breakdown of credit exposures by portfolio classification and credit quality below.

Carrying out stress tests

The Bank performs stress tests every six months on credit risk in order to quantify the absorption of capital and to determine the related capital ratios. The methodologies adopted for conducting the stress test on the credit and counterparty risk assumes two different stress scenarios occurring at the same time and due to an increase in bad loans and non-performing loans and a reduction in the value of the collateral securities held.

2.3 Methods for measuring expected losses

The criteria and logic used for the purposes of determining expected losses are described in the ECL Policy of the Bank, whose scope of application consists of financial and trade receivables, as well as owned financial instruments, to verify and assess their creditworthiness.

The amount of expected losses depends on the extent of the impairment of the credit quality with respect to the initial recognition and takes into account the guarantees held to mitigate the credit risk.

Consistently with the provisions of IFRS9, the Bank has adopted the following approach for calculating impairment:

- 12-months expected credit losses (Stage 1): if, at the reporting date, the credit risk of a financial instrument is not significantly increased with respect to the date of "first recognition", the Bank measures the losses for this financial instrument as the amount equal to the losses expected in the following 12 months;
- Lifetime expected credit losses (Stage 2): at each reporting date, the Bank measures the losses for a financial instrument as the amount equal to lifetime expected losses if the credit risk of this instrument increased significantly with respect to the date of first recognition.

Concerning the staging rules and the criteria for the recognition of credits in the respective "buckets", reference is made to the staging allocation Policy approved by the Board of Directors.

In accordance with the provisions of IFRS9, the model entails the calculation of a provision at each cash flow date of the loan to carry out a "multi-period" final totalisation. In case of loans at maturity, a calculation is made at each future instalment, while for on-demand loans a single calculation is made relating to the cash flow at the maturity date.

For each period, the calculation is as follows:

- ECL(t) = EAD(t) * LGD(t) * PD marginal(t) * DF(t)
- ECL(t) = contribution to the provision of period t (from initial date of validity to date of maturity). The first period (first instalment for items at maturity or all those on demand) always starts from the date of calculation of the provisions
- t = cash flow maturity date
- EAD(t) = exposure at date t; amortised cost for loans at maturity, balance for loans on demand
- LGD(t) = lgd at time t obtained with IFRS9 logic
- PD marginal(t) = PD cumulated(t) - PD cumulated(t-1) derived from the PD lifetime curves for the segment and the class associated with the counterparty
- DF(t) = discount at time t calculated at IRR (internal rate of return) on a 360 basis

The expected credit loss of the financial instruments represented by securities is computed by the specialised external company and provided, for each financial instrument, through management applications. The information flow has quarterly periodicity and the organisational units apply the rules prescribed in the Staging allocation policy for classification in the correct reference bucket. Default probability measures are extracted from quoted credit spreads and thus have an information content able to summarise the expectation of occurrence of future events incorporated by the market (forward looking measures). The probability of default and the LGD are estimated for each individual issuer and associated with the respective issues, providing a differentiation by level of subordination (senior and subordinate issues).

The default probability term structure for each issuer is estimated starting from the information and from the credit spreads quoted daily on the financial markets (i.e. CDS spread and prices of bonds). Specific credit spread of individual issuers are preferentially used; in this context, a credit spread is considered specific when it can be directly referred to the “risk group” to which the measured issuer belongs. If, for a given issuer, equally significant specific credit spreads are available on multiple markets, the market used preferentially is that of the CDS.

The individual issuers are mapped to the comparable issuer or to the reference cluster on the basis of the following axes of analysis:

- industrial sector,
- geographic area of interest,
- rating (ECAI);
- analysis of the fundamental financial statement data.

For financial instruments, the loss given default is assumed to be constant throughout the time horizon of the financial asset analysed and it is a function of two factors:

- ranking of the instrument;
- classification of the country of the issuer entity.

For countries considered to be developed, the LGD is set to 0.6 for senior issues and 0.8 for subordinate issues. For covered issues, the value changes with changes in the rating attributed to the individual security in question. Otherwise for emerging countries for equal subordination the level of the LGD is higher, as senior issues shall be subject to an LGD of 0.75 and subordinate issues to an LGD of 1.

2.4 Credit risk mitigation techniques

Credit risk mitigation techniques are an instrument to reduce or transfer part of the credit risk on the exposures originated and to reduce the loss that would be incurred in case of counterparty default (Loss given default).

Credit risk mitigation is carried out by privileging mainly transactions guaranteed by collateral securities. Credit lines and disbursements are granted, by the corporate bodies, only after a careful analysis of the creditworthiness and the validity and consistency of the guarantees given. Guarantees shall be explicit and not subject to conditions, as prescribed by the Supervisory Instructions.

The collateral most used by the Bank consists of mortgages on residential and non residential properties, lines on financial instruments and on liquidity. On the collateral, the estimated or appraised value of the asset (net of any encumbrances) or the market value, in the case of listed securities, is monitored. For property assets pledged as collateral, and subject to value oscillations, a “deviation” is applied on the value as such subjected to periodic revisions and otherwise every time there are sensitive contractions on their price. In relation to mortgages, the value of properties is periodically revised. For this purposes, the Bank relies on third parties with proven experience on the basis of the provisions of Article 120-*duodecies* of the Consolidated Law on Banking.

In case of personal guarantees received, the guarantor shall take on the juridically binding commitment to meet the obligations relating to one or more credit issues pertaining to a determined party. With reference to "comfort letters", the only ones to be considered are those that are not declarative of the equity investment relationship of the parent company, but for which the guarantee function is pre-eminent, because the commitment made can actually represent a surety obligation, with accessory character with respect to the main one of the subsidiary.

3. Non-performing credit exposures

3.1 Management strategies and policies

The classification of impaired financial assets in the different default categories takes place in compliance with the instructions issued by the Supervisory Authority according to the indications of Bank of Italy Circular 272 of 2008 (as updated). Receivables classified as bad loans are subjected to an itemised assessment by the Credits Committee, by the Credits Department and by the Risk management Function which analyse the position and the Guarantees held in order to estimate their estimated realisable value. The analysis carried out follows criteria clearly defined in the company Policies. Within this context are also established the recovery times, so-called Time value on bad loans. UTP and Past due loans, in accordance with IFRS9, are subjected to a process of valorisation of the provision that incorporates the forward looking valuation.

In consideration of the small number of positions classified as past-due or UTP, and with the goal of making a valuation that is as refined as possible, the Bank also carried out itemised assessment of past-due and UTP loans using the same logic prescribed for loans classified as bad loans, when peculiarities are identified that make itemised valuation more reliable than statistical valuation.
The monitoring of receivables to customers carried out by the Risk Control Organisation Unit, which, with the support of automated IT instruments, prepares on an established basis appropriate reports for the Senior Management. Subsequent measurement and classification of impaired loans are carried out by special committees set up within the Bank, which assess each time single credit exposures, the customers' creditworthiness, guarantees and all other relevant factors that may affect the assessment of credit exposures.

With reference to bad loans, management is carried out by the Legal Department for the management of collection activities.

3.2 Write-off

A write-off is an event that gives rise to derecognition when there no longer are any reasonable expectations to recover the financial asset. It can take place before legal actions to recover the financial asset have been exhausted and it does not necessarily entail the waiver of the bank's legal right to recover the receivable.
The write-off can involve the entire amount of a financial asset or a portion thereof corresponds:

- to the reversal of total impairment losses, as a corresponding item of the gross value of the financial asset, and
- for the part exceeding the amount of the total impairment losses, to the impairment of the financial asset recognised directly in the income statement.

Any amounts recovered from collection after write-off are recognised in the income statement among value recoveries.

The term "Total write-offs" means the cumulated amounts of the partial and total write-offs on financial assets.

During the financial year ended 31 December 2018, the amount of written-off position is negligible.

3.3 Acquired or originated impaired financial assets

These are the exposures that meet the definition of acquired or originated impaired financial asset per Appendix A of IFRS9. They include, among others, the impaired credit exposures acquired within sale transactions (individual or portfolio) and business combinations.

At 31 December 2018, the Group does not hold any financial assets belonging to this category.

4. Financial assets subject to renegotiation and forborne exposures

The 7th update of Bank of Italy Circular 272, on 20 January 2015, introduced two important changes pertaining to credit quality:

- the elimination of two types of non-performing loans (objectively impaired loans and restructured loans);
- the new meaning of forborne loans.

"Forborne exposures" are those deriving from concessions made in the presence of both of the following conditions:

- the borrower is (or is about to become) incapable of fulfilling the terms of the agreement as a result of financial hardship;
- the lender makes a favourable concession to the borrower because of the hardship pointed out.

The classification as forborne is assigned at the level of individual credit facility upon occurrence of specific conditions of difficulty of the borrower to fulfil his commitments, associated with an activity of the Bank directed at overcoming these difficulties (forbearance measures).
Forborne exposures can be both in each of the categories of non-performing loans (bad loans, unlikely to pay and past due exposures) and among performing loans, in relation to the state of risk of the exposure at the time of the report.

With reference to the two main directives, dictated by the EBA first and foremost, harmonised with the seventh update of Circular 272 and expressed and clarified with the Report of the Consultation prepared by Bank of Italy, the Bank sets the following lines for:

- identification of forbearance measures;
- management and monitoring of the receivables subjected to these measures.

In general, the following forbearance measures are identified:

a) maturity date extension;
b) reduction of the interest rate applied;
c) transformation of the credit facility from maturity to revocation;
d) change to instalment periodicity;

e) change to type of amortisation.

According to the internal Policies, this does not include the forbearance measures applied by the Bank to borrowers that do not have financial hardship conditions considering:

- either earning capacity;
- or the credit reserve with the banking system and their ability to obtain loans from it.

The attribution of the forborne qualification rests with the body that decides to apply the forbearance measure. The management of forborne loans takes place through the IT procedure and monitoring entails, among other activities, a quarterly information report to the Credits Committee in addition to the intervention of the head of the Risk Control in Credits Committee every time a currently or previously forborne position is analysed.

At 31 December 2018, there were 19 “forborne” exposures of which:

- 5 non-performing positions totalling 909 thousand euros (of which 1 position included among bad loans for 141 thousand euros, 3 positions included among unlikely to pay for 116 thousand euros and 1 position included among past due loans for 652 thousand euros).
- 14 performing positions, amounting to 11,749 thousand euros;

* * *

Quantitative information

A. Credit quality

A.1 Non-performing and performing exposures: balances, impairment losses, changes, breakdown by type and geographical area

A.1.1 Prudential consolidation - Distribution of financial assets by maturity brackets (book values)

Portfolio/risk stages	Stage 1		
	From 1 day to 30 days	From over 30 days to 90 days	More than 90 years
1. Financial assets designated at amortised cost	2,022	1	–
2. Financial assets designated at fair value through other comprehensive income	–	–	–
Total 2018	**2,022**	**1**	**–**

Stage 2			Stage 3		
From 1 day to 30 days	From over 30 days to 90 days	More than 90 years	From 1 day to 30 days	From over 30 days to 90 days	More than 90 years
7,070	44,339	2,149	–	–	7,050
–	–	–	–	–	–
7,070	**44,339**	**2,149**	**–**	**–**	**7,050**

A.1.2 Financial assets, commitments to lend funds and financial guarantees given: changes in total impairment losses and total allocations

Reasons/risk stages	Total					
	Assets in stage 1				Assets	
	Financial assets designated at amortised cost	Financial assets designated at fair value through other comprehen-sive income	of which: individual write-downs	of which: collective write-downs	Financial assets designated at amortised cost	Financial assets designated at fair value through other comprehen-sive income
Total opening adjustments	**1,460**	**–**	**–**	**1,460**	**502**	**–**
Increases from financial assets acquired or originated	1,575	604	–	2,179	286	–
Derecognitions other than write-offs	(378)	(270)	–	(648)	(4)	–
Net losses/recoveries on credit risk	(166)	170	–	4	(318)	–
Contractual changes without derecognition	(89)	–	–	(89)	831	–
Changes in estimation methodology	134	358	–	492	2,525	–
Write-offs not recognised directly in the income statement	–	–	–	–	(1,155)	–
Other changes	–	–	–	–	–	–
Total closing adjustments	**2,536**	**862**	**–**	**3,398**	**2,667**	**–**
Recoveries from collection on financial assets written off	–	–	–	–	–	–
Write-offs recognised directly in the income statement	14	–	–	14	–	–

impairment losses							Total allocations on commitments to lend funds and financial guarantees given			Total
in stage 2		Assets in stage 3								
of which: individual write-downs	of which: collective write-downs	Financial assets designated at amortised cost	Financial assets designated at fair value through other comprehen-sive income	of which: individual write-downs	of which: collective write-downs	Of which: acquired or originated impaired financial assets	Stage 1	Stage 2	Stage 3	
–	**502**	**9,378**	**–**	**9,378**	**–**	**–**	**–**	**–**	**2**	**11,342**
–	286	330	–	330	–	–	32	–	–	2,827
–	(4)	(18)	–	(18)	–	–	(3)	–	–	(673)
–	(318)	788	–	788	–	–	18	(30)	(2)	460
–	831	–	–	–	–	–	–	–	–	742
–	2,525	–	–	–	–	–	40	44	–	3,101
–	(1,155)	(17)	–	(17)	–	–	–	–	–	(1,172)
–	–	–	–	–	–	–	–	–	–	–
–	**2,667**	**10,461**	**–**	**10,461**	**–**	**–**	**87**	**14**	**–**	**16,627**
–	–	17	–	17	–	–	–	–	–	17
–	–	4	–	4	–	–	–	–	–	18

A.1.3 Prudential consolidation - Financial assets, commitments to lend funds and financial guarantees given: transfers between the different credit risk stages (gross and nominal values)

Types of exposures/risk stages	Gross values/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets designated at amortised cost	33,083	1,822	2,703	111	217	1
2. Financial assets designated at fair value through other comprehensive income	–	–	–	–	–	–
3. Commitments to lend funds and financial guarantees given	22	529	–	12	–	299
TOTAL 2018	**33,105**	**2,351**	**2,703**	**123**	**217**	**300**

A.1.4 Prudential consolidation - On-balance sheet and off-balance sheet credit exposures to banks: gross and net amounts

Type of exposures/amounts	Gross exposure		Total impairment losses and total allocations	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. ON-BALANCE SHEET CREDIT EXPOSURES					
a) Bad Loans	–	X	–	–	–
- of which: forborne exposures	–	X	–	–	–
b) Unlikely to pay	–	X	–	–	–
- of which: forborne exposures	–	X	–	–	–
c) Non-performing past due exposures	–	X	–	–	–
- of which: forborne exposures	–	X	–	–	–
d) Performing past due exposures	X	–	–	–	–
- of which: forborne exposures	X	–	–	–	–
e) Other performing exposures	X	139,777	457	139,320	–
- of which: forborne exposures	X	–	–	–	–
TOTAL A	**–**	**139,777**	**457**	**139,320**	**–**
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing	–	X	–	–	–
a) Performing	X	575	–	575	–
TOTAL B	**–**	**575**	**–**	**575**	**–**
TOTAL A+B	**–**	**140,352**	**457**	**139,895**	**–**

* Value to be reported for disclosure purposes

The table below shows On-balance sheet and off-balance sheet credit exposures to banks: gross and net amounts and maturity brackets 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).

A.1.3 Banking group - On-balance sheet and off-balance sheet credit exposures to banks: gross and net amounts and maturity brackets

Type of exposures/Amounts	Gross exposure					Specific impairment losses	Portfolio impairment losses	Net exposure
	Non-performing assets				Performing assets			
	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	More than 1 year				
A. ON-BALANCE SHEET EXPOSURES								
a) Bad Loans	–	–	–	–	X	–	X	–
- of which: forborne exposures	–	–	–	–	X	–	X	–
b) Unlikely to pay	–	–	–	–	X	–	X	–
- of which: forborne exposures	–	–	–	–	X	–	X	–
c) Non-performing past due exposures	–	–	–	–	X	–	X	–
- of which: forborne exposures	–	–	–	–	X	–	X	–
d) Performing past due exposures	X	X	X	X	–	X	–	–
- of which: forborne exposures	X	X	X	X	–	X	–	–
e) Other performing exposures	X	X	X	X	132,700	X	–	132,700
- of which: forborne exposures	X	X	X	X	–	X	–	–
TOTAL A	**–**	**–**	**–**	**–**	**132,700**	**–**	**–**	**132,700**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	–	–	–	–	X		X	
b) Performing	X	X	X	X	593	X	–	593
TOTAL B	**–**				**593**	**–**	**–**	**593**
TOTAL A+B	**–**	**–**	**–**	**–**	**133,293**	**–**	**–**	**133,293**

A.1.5 Prudential consolidation - On-balance sheet and off-balance sheet credit exposures to customers: gross and net amounts

Type of exposures/amounts	Gross exposure		Total impairment losses and total allocations	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. ON-BALANCE SHEET CREDIT EXPOSURES					
a) Bad Loans	12,879	X	9,697	3,182	–
- of which: forborne exposures	141	X	141	–	–
b) Unlikely to pay	2,306	X	531	1,775	–
- of which: forborne exposures	116	X	49	67	–
c) Non-performing past due exposures	2,438	X	233	2,205	–
- of which: forborne exposures	652	X	11	641	–
d) Performing past due exposures	X	14,443	998	13,445	–
- of which: forborne exposures	X	5,356	431	4,925	–
e) Other performing exposures	X	1,624,799	4,612	1,620,187	–
- of which: forborne exposures	X	6,393	581	5,812	–
TOTAL A	**17,623**	**1,639,242**	**16,071**	**1,640,794**	**–**
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing	1	X	–	1	–
b) Performing	X	165,402	101	165,301	–
TOTAL B	**1**	**165,402**	**101**	**165,302**	**–**
TOTAL A+B	**17,624**	**1,804,644**	**16,172**	**1,806,096**	**–**

* Value to be reported for disclosure purposes

The table below shows On-balance sheet and off-balance sheet credit exposures to customers: gross and net amounts and maturity brackets 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).

A.1.6 Banking group - On-balance sheet and off-balance sheet credit exposures to customers: gross and net amounts and maturity brackets

Type of exposures/Amounts	Gross exposure					Specific impairment losses	Portfolio impairment losses	Net exposure
	Non-performing assets				Performing assets			
	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	More than 1 year				
A. ON-BALANCE SHEET EXPOSURES								
a) Bad Loans	–	–	–	9,006	X	6,993	X	2,013
- of which: forborne exposures	–	–	–	–	X	–	X	–
b) Unlikely to pay	230	–	70	4,022	X	2,275	X	2,047
- of which: forborne exposures	142	–	–	157	X	153	X	146
c) Non-performing past due exposures	52	14	137	1,564	X	110	X	1,657
- of which: forborne exposures	–	–	46	650	X	5	X	691
d) Performing past due exposures	X	X	X	X	8,157	X	53	8,104
- of which: forborne exposures	X	X	X	X	–	X	–	–
e) Other performing exposures	X	X	X	X	1,537,835	X	1,909	1,535,926
- of which: forborne exposures	X	X	X	X	2,820	X	14	2,806
TOTAL A	**282**	**14**	**207**	**14,592**	**1,545,992**	**9,378**	**1,962**	**1,549,747**
B. OFF-BALANCE SHEET EXPOSURES								–
a) Non-performing	311	–	–	–	X	2	X	309
b) Performing	X	X	X	X	17,997	X	–	17,997
TOTAL B	**311**	**–**	**–**	**–**	**17,997**	**2**	**–**	**18,306**
TOTAL A+B	**593**	**14**	**207**	**14,592**	**1,563,989**	**9,380**	**1,962**	**1,568,053**

A.1.7 Prudential consolidation - On-balance sheet credit exposures to customers: changes in gross non-performing exposures

Reason/Category	Bad Loans	Unlikely to pay	Non-performing past due exposures
A. Gross opening exposure	**9,006**	**4,322**	**1,767**
- of which: exposures sold and not derecognised	–	–	–
B. Increases	**4,047**	**657**	**1,774**
B.1 inflows fromperforming exposures	1,615	155	1,315
B.2 inflows from acquired or originated impaired financial assets	–	–	–
B.3 transfers from other categories of non-performing exposures	2,406	338	9
B.4 contractual changes without derecognition	–	–	–
B.5 other increases	26	164	450
C. Decreases	**174**	**2,673**	**1,103**
C.1 outflows to performing exposures	–	–	1
C.2 write-off	20	4	–
C.3 collection	115	430	619
C.4 gains from disposals	–	–	–
C.5 losses from disposals	–	–	–
C.6 transfers to other categories of non-performing exposures	34	2,239	480
C.7 contractual changes without derecognition	–	–	–
C.8 other decreases	5	–	3
D. Gross closing exposure	**12,879**	**2,306**	**2,438**
- of which: exposures sold and not derecognised	–	–	–

A.1.7-*bis* Prudential consolidation - On-balance sheet credit exposures to customers: changes in gross forborne exposures by credit quality

Reasons/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Gross opening exposure	**995**	**2,820**
- of which: exposures sold and not derecognised	–	–
B. Increases	**405**	**9,065**
B.1 inflows from non forborne performing exposures	83	8,916
B.2 inflows from forborne performing exposures	–	X
B.3 inflows from forborne non-performing loans	X	120
B.4 other increases	322	29
C. Decreases	**491**	**136**
C.1 outflows to non forborne performing exposures	X	1
C.2 outflows to forborne performing exposures	120	X
C.3 outflows to forborne non-performing loans	X	–
C.4 write-off	1	–
C.5 collection	195	135
C.6 gains from disposals	–	–
C.7 losses from disposals	–	–
C.8 other decreases	175	–
D. Gross closing exposure	**909**	**11,749**
- of which: exposures sold and not derecognised	–	–

A.1.9 Prudential consolidation - Non-performing on-balance sheet credit exposures to customers: changes in overall impairment losses

Reason/Category	Bad Loans		Unlikely to pay probabili		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**6,993**		**2,275**	**153**	**110**	**5**
- of which: exposures sold and not derecognised	–	–	–	–	–	–
B. Increases	**2,824**	**141**	**436**	**49**	**223**	**6**
B.1 impairment losses from acquired or originated impaired financial assets	–	X	–	X	–	X
B.2 other impairment losses	332	10	435	49	223	6
B.3 losses from disposals	–	–	–	–	–	–
B.4 transfers from other categories of non-performing exposures	2,216	131	1	–	–	–
B.5 contractual changes without derecognition	–	X	–	X	–	X
B.6 other increases	276	–	–	–	–	–
C. Decreases	**120**	**–**	**2,180**	**153**	**100**	**–**
C.1 valuation value recoveries	50	–	28	2	4	–
C.2 cash value recoveries	52	–	29	19	1	–
C.3 profit from disposals	–	–	–	–	–	–
C.4 write-off	18	–	1	1	–	–
C.5 transfers to other categories of non-performing exposures	–	–	2,122	131	95	–
C.6 contractual changes without derecognition	–	X	–	X	–	X
C.7 other decreases	–	–	–	–	–	–
D. Total closing adjustments	**9,697**	**141**	**531**	**49**	**233**	**11**
- of which: exposures sold and not derecognised	–	–	–	–	–	–

A.2 Classification of exposures based on external and internal ratings

A.2.1 Prudential consolidation - Distribution of financial assets, of commitments to lend funds and of financial guarantees given: by external rating classes (gross values)

Exposures		
	class 1	class 2
A. Financial assets designated at amortised cost		
- Stage 1	–	–
- Stage 2	–	–
- Stage 3	–	–
B. Financial assets designated at fair value through other comprehensive income		
- Stage 1	65,040	8,187
- Stage 2	–	–
- Stage 3	–	–
Total (A+B)	**65,040**	**8,187**
of which: acquired or originated impaired financial assets		
C. Commitments to lend funds and financial guarantees given		
- Stage 1	–	–
- Stage 2	–	–
- Stage 3	–	–
Total C	**–**	**–**
Total (A+B+C)	**65,040**	**8,187**

A.2.2 Prudential consolidation - Distribution of financial assets, of commitments to lend funds and of financial guarantees given: by internal rating classes (gross values)

The table is not filled in, because the Group does not use internal ratings.

External rating classes				Without rating	Total
class 3	class 4	class 5	class 6		
982,481	–	–	–	386,229	1,368,710
–	–	–	–	93,365	93,365
–	–	–	–	17,622	17,622
215,563	2,071	–	–	–	290,861
–	–	–	–	–	–
–	–	–	–	–	–
1,198,044	**2,071**	**–**	**–**	**497,216**	**1,770,558**
–	–	–	–	39,570	39,570
–	–	–	–	5,414	5,414
–	–	–	–	–	–
–	**–**	**–**	**–**	**44,984**	**44,984**
1,198,044	**2,071**	**–**	**–**	**542,200**	**1,815,542**

A.3 Distribution of guaranteed exposures by type of guarantee

The data shown are exclusively ascribable to the Bank.

A.3.2 Prudential consolidation - Guaranteed on-balance sheet and off-balance sheet credit exposures to customer

	Gross exposure	Net exposure	Collateral (1)			
			Real estate - mortgages	Real estate - finance lease	Securities	Other collateral
1. Guaranteed on-balance sheet credit exposures:	331,573	316,799	127,753	–	88,577	83,790
1.1 fully guaranteed	299,956	286,661	124,440	–	77,310	76,959
- of which non-performing	10,620	5,248	5,078	–	12	–
1.2 partly guaranteed	31,617	30,138	3,313	–	11,267	6,831
- of which non-performing	61	13	13	–	–	–
2. Guaranteed off-balance sheet credit exposures:	54,450	54,354	7,583	–	16,364	25,668
2.1 fully guaranteed	45,763	45,684	7,583	–	14,079	22,976
- of which non-performing	–	–	–	–	–	–
2.2 partly guaranteed	8,687	8,670	–	–	2,285	2,692
- of which non-performing	–	–	–	–	–	–

Personal guarantees (2)									Total (1)+(2)
Credit derivatives					Unsecured loans				
CLN	Other derivatives				Public administrations	Banks	Other financial institutions	Other entities	
	Central counterparties	Banks	Other financial institutions	Other entities					
–	–	–	–	–	–	2,170	–	5,782	308,072
–	–	–	–	–	–	2,170	–	5,782	286,661
–	–	–	–	–	–	–	–	158	5,248
–	–	–	–	–	–	–	–	–	21,411
–	–	–	–	–	–	–	–	–	13
–	–	–	–	–	–	30	–	1,003	50,648
–	–	–	–	–	–	–	–	993	45,631
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	30	–	10	5,017
–	–	–	–	–	–	–	–	–	–

B. Distribution and concentration of credit exposures

B.1 Prudential consolidation - Segment distribution of on-balance sheet and "off-balance sheet" credit exposures to customers

Exposures/Counterparties	Public administrations		Financial institutions	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On-balance sheet credit exposures				
A.1 Bad Loans	–	–	1,085	2,279
- of which: forborne exposures	–	–	–	–
A.2 Unlikely to pay	–	–	12	2
- of which: forborne exposures	–	–	–	–
A.3 Non-performing past due exposures	–	–	144	16
- of which: forborne exposures	–	–	–	–
A.4 Performing exposures	1,202,536	1,917	122,378	483
- of which: forborne exposures	–	–	106	5
TOTAL (A)	**1,202,536**	**1,917**	**123,619**	**2,780**
B. Off-balance sheet credit exposures				
B.1 Non-performing exposures	–	–	–	–
B.2 Performing exposures	362	–	14,128	1
TOTAL (B)	**362**	**–**	**14,128**	**1**
TOTAL (A+B) 2018	**1,202,898**	**1,917**	**137,747**	**2,781**

The table below shows Segment distribution of on-balance sheet and off-balance sheet credit exposures to customers (book value) 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).

	Financial institutions (of which: insurance companies)		Non financial institutions		Households	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
	–	–	1,498	6,184	599	1,234
	–	–	–	–	–	141
	–	–	33	92	1,730	437
	–	–	–	–	67	49
	–	–	72	57	1,989	160
	–	–	–	–	641	11
	–	–	177,921	2,858	130,797	352
	–	–	8,304	993	2,327	14
	–	**–**	**179,524**	**9,191**	**135,115**	**2,183**
	–	–	–	–	1	–
	–	–	114,243	98	36,568	2
	–	**–**	**114,243**	**98**	**36,569**	**2**
	–	**–**	**293,767**	**9,289**	**171,684**	**2,185**

B.1 Banking Group - Segment distribution of on-balance sheet and off-balance sheet credit exposures to customers (book value)

Exposures/Counterparties	Governments			Other public entities		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. On-balance sheet exposures						
A.1 Bad Loans	–	–	X	–	–	X
- of which: forborne exposures	–	–	X	–	–	X
A.2 Unlikely to pay	–	–	X	–	–	X
- of which: forborne exposures	–	–	X	–	–	X
A.3 Non-performing past due exposures	–	–	X	–	–	X
- of which: forborne exposures	–	–	X	–	–	X
A.4 Performing exposures	1,175,285	X	–	–	X	–
- of which: forborne exposures	–	X	–	–	X	–
TOTAL A	**1,175,285**	**–**	**–**	**–**	**–**	**–**
B. Off-balance sheet exposures						
B.1 Bad Loans	–	–	X	–	–	X
B.2 Unlikely to pay	–	–	X	–	–	X
B.3 Other non-performing assets	–	–	X	–	–	X
B.4 Performing exposures	–	X	–	–	X	–
TOTAL B	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL (A+B) 2017	**1,175,285**	**–**	**–**	**–**	**–**	**–**

	Financial institutions			Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
	–	23	X	–	–	X	1,430	6,010	X	583	960	X
	–	–	X	–	–	X	–	–	X	–	–	X
	140	3	X	–	–	X	18	95	X	1,889	2,177	X
	139	3	X	–	–	X	1	19	X	6	134	X
	10	–	X	–	–	X	470	4	X	1,177	106	X
	–	–	X	–	–	X	–	–	X	691	5	X
	71,333	X	249	–	X	–	173,331	X	1,403	124,081	X	310
	–	X	–	–	X	–	1,038	X	8	1,768	X	6
	71,483	**26**	**249**	**–**	**–**	**–**	**175,249**	**6,109**	**1,403**	**127,730**	**3,243**	**310**
	–	–	X	–	–	X	–	–	X	–	–	X
	–	–	X	–	–	X	–	–	X	–	–	X
	–	–	X	–	–	X	309	2	X	–	–	X
	2,279	X	–	–	X	–	6,098	X	–	9,620	X	3
	2,279	**–**	**–**	**–**	**–**	**–**	**6,407**	**2**	**–**	**9,620**	**–**	**3**
	73,762	**26**	**249**	**–**	**–**	**–**	**181,656**	**6,111**	**1,403**	**137,350**	**3,243**	**313**

B.2 Prudential consolidation - Territorial distribution of on-balance sheet and off-balance sheet credit exposures to customers

Exposures/Geographic area	Italy		Other european countries		America		Asia		Rest of the world	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On-balance sheet credit exposures										
A.1 Bad Loans	3,182	9,674	–	23	–	–	–	–	–	–
A.2 Unlikely to pay	1,756	505	18	5	1	21	–	–	–	–
A.3 Non-performing past due exposures	2,205	233	–	–	–	–	–	–	–	–
A.4 Other prforming exposures	1,621,689	5,607	11,942	3	1	–	–	–	–	–
TOTAL (A)	**1,628,832**	**16,019**	**11,960**	**31**	**2**	**21**	**–**	**–**	**–**	**–**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	1	–	–	–	–	–	–	–	–	–
B.2 Performing exposures	164,069	101	1,014	–	218	–	–	–	–	–
TOTAL (B)	**164,070**	**101**	**1,014**	**–**	**218**	**–**	**–**	**–**	**–**	**–**
TOTAL A+B 2018	**1,792,902**	**16,120**	**12,974**	**31**	**220**	**21**	**–**	**–**	**–**	**–**

The table below shows Geographical distribution of on-balance sheet and off-balance sheet credit exposures to customers (book value) 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).

B.2 Banking group - Geographical distribution of on-balance sheet and off-balance sheet credit exposures to customers (book value)

Exposures/Geographic area	Italy		Other european countries		America		Asia		Rest of the world	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On-balance sheet exposures										
A.1 Bad Loans	2,013	6,971	–	22	–	–	–	–	–	–
A.2 Unlikely to pay	2,045	2,257	1	–	1	18	–	–	–	–
A.3 Non-performing past due exposures	1,651	110	6	–	–	–	–	–	–	–
A.4 Other prforming exposures	1,536,951	1,939	7,079	23	–	–	–	–	–	–
TOTAL A 1,542,660	**11,277**	**7,086**	**45**	**1**	**18**	**–**	**–**	**–**	**–**	
B. Off-balance sheet exposures										
B.1 Bad Loans	–	–	–	–	–	–	–	–	–	–
B.2 Unlikely to pay	–	–	–	–	–	–	–	–	–	–
B.3 Other non-performing assets	309	2	–	–	–	–	–	–	–	–
B.4 Performing exposures	17,443	–	554	–	–	–	–	–	–	–
TOTAL B	**17,752**	**2**	**554**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL A+B 2017	**1,560,412**	**11,279**	**7,640**	**45**	**1**	**18**	**–**	**–**	**–**	**–**

B.3 Prudential consolidation - Territorial distribution of on-balance sheet and off-balance sheet credit exposures to banks

Exposures/Geographic area	Italy		Other european countries		America		Asia		Rest of the world	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On-balance sheet credit exposures										
A.1 Bad Loans	–	–	–	–	–	–	–	–	–	–
A.2 Unlikely to pay	–	–	–	–	–	–	–	–	–	–
A.3 Non-performing past due exposures	–	–	–	–	–	–	–	–	–	–
A.4 Performing exposures	130,701	415	8,619	42	–	–	–	–	–	–
TOTAL (A)	**130,701**	**415**	**8,619**	**42**	**–**	**–**	**–**	**–**	**–**	**–**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	–	–	–	–	–	–	–	–	–	–
B.2 Performing exposures	575	–	–	–	–	–	–	–	–	–
TOTAL (B)	**575**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL A+B 2018	**131,276**	**415**	**8,619**	**42**	**–**	**–**	**–**	**–**	**–**	**–**

The table below shows Geographical distribution of on-balance sheet and off-balance sheet credit exposures to banks (book value) 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).

B.3 Banking group - Geographical distribution of on-balance sheet and off-balance sheet credit exposures to banks (book value)

Exposures/Geographic area	Italy		Other european countries		America		Asia		Rest of the world	
	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses	Net exposure	Total impairment losses
A. On-balance sheet exposures										
A.1 Bad Loans	–	–	–	–	–	–	–	–	–	–
A.2 Unlikely to pay	–	–	–	–	–	–	–	–	–	–
A.3 Non-performing past due exposures	–	–	–	–	–	–	–	–	–	–
A.4 Performing exposures	124,507	–	8,193	–	–	–	–	–	–	–
TOTAL A	**124,507**	**–**	**8,193**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. Off-balance sheet exposures										
B.1 Bad Loans	–	–	–	–	–	–	–	–	–	–
B.2 Unlikely to pay	–	–	–	–	–	–	–	–	–	–
B.3 Other non-performing assets	–	–	–	–	–	–	–	–	–	–
B.4 Performing exposures	593	–	–	–	–	–	–	–	–	–
TOTAL B	**593**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL A+B 2017	**125,100**	**–**	**8,193**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

B.4 Major exposures

a) Amount (book value) 2,481,702 thousand euros

b) Amount (weighted value) 148,801 thousand euros

c) Number 11

The provisions contained in Regulation (EU) no. 575/2013 establish that a major exposure is the exposure of an entity towards a customer or a group of connected customers whose value is equal to or greater than 10% of the entity's admissible capital.

The same provisions that the amount of the exposure of an entity towards an individual customer or a group of connected customers may not exceed 25% of the entity's admissible capital. Obviously, the amount of 25% takes into account credit risk attenuation techniques, the type of guarantee acquired and the debtor counterparty.

The corporate control functions, at a predetermined frequency, audit the total exposure of the customers or groups of connected customers that fall under the category of major exposures and provide adequate information to the Corporate Bodies.

C. Securitisation

The Group has not carried out any securitisation transaction. At the reporting date, no such transactions, issued by the Group, were in place.

D. Disposal of companies

A. Financial assets sold and not derecognised in full

Qualitative information

Financial assets sold and not derecognised in full refer Government Bonds used in repos carried out exclusively by the Bank with Cassa di Compensazione e Garanzia.

Quantitative information

D.1 Prudential consolidation - Financial assets sold recognised in full and associated financial liabilities: book values

	Financial assets sold recognised in full				Associated financial liabilities		
	Book value	of which: subject of securitisations	of which: subject of sale agreements with repurchase pact	of which non-performing	Book value	of which: subject of securitisations	of which: subject of sale agreements with repurchase pact
A. Financial assets held for trading	**-**	**-**	**-**	**X**	**-**	**-**	**-**
1. Debt Securities	-	-	-	X	-	-	-
2. Equity	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt Securities	-	-	-	-	-	-	-
2. Equity	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt Securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets designated at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt Securities	-	-	-	-	-	-	-
2. Equity	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets designated at amortised cost	**942,073**	**-**	**-**	**-**	**938,918**	**-**	**-**
1. Debt Securities	942,073	-	-	-	938,918	-	-
2. Loans	-	-	-	-	-	-	-
Total 31.12.2018	**942,073**	**-**	**-**	**-**	**938,918**	**-**	**-**

The tables below relate to Financial assets sold and not derecognised at 31 December 2017: book value and whole value and to Financial liabilities for assets sold and not derecognised: book value 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).

E.1 Banking group - Financial assets sold and not derecognised: book value and full value

Categories/Portfolio	Financial assets held for trading			Financial assets measured at fair value		
	A	B	C	A	B	C
A. Cash assets	**–**	**–**	**–**	**–**	**–**	**–**
1. Debt Securities	–	–	–	–	–	–
2. Equity	–	–	–	–	–	–
3. UCI	–	–	–	–	–	–
4. Loans	–	–	–	–	–	–
B. Derivatives	**–**	**–**	**–**	**X**	**X**	**X**
Total 31.12.2017	**–**	**–**	**–**	**–**	**–**	**–**
of which non-performing						

Key:

A = financial assets sold recognised in full (book value)

B = financial assets sold recognised in part (book value)

C = financial assets sold recognised in part (full value)

	Financial assets available for sale			Investments held to maturity			Due from banks			Due from customers			Total
	A	B	C	A	B	C	A	B	C	A	B	C	31.12.2017
	983,637	**–**	**–**										**983,637**
	983,637	–	–	–	–	–	–	–	–	–	–	–	983,637
	–	–	–	X	X	X	X	X	X	X	X	X	–
	–	–	–	X	X	X	X	X	X	X	X	X	–
	–	–	–	–	–	–	–	–	–	–	–	–	–
	X	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**
	983,637	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**983,637**

E.2 Banking group - Financial liabilities for assets sold and not derecognised: book value

Liabilities/ Asset portfolio	Financial assets held for trading	Financial assets measured at fair value	Financial assets available for sale	Investments held to maturity	Due from banks	Due from customers	Total
1. Due to customers	**–**	**–**	**980,102**	**–**	**–**	**–**	**980,102**
a) relating to fully recognised assets	–	–	980,102	–	–	–	980,102
b) relating to partially recognised assets	–	–	–	–	–	–	–
2. Due to banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) relating to fully recognised assets	–	–	–	–	–	–	–
b) relating to partially recognised assets	–	–	–	–	–	–	–
Total 31.12.2017	**–**	**–**	**980,102**	**–**	**–**	**–**	**980,102**

E. Prudential consolidation - credit risk measurement models

In order to assess the Credit Risk, the Bank uses a standardised method for the quantification of (current and perspective) internal capital in compliance with the guidelines set out in the budgeting and multi-year planning process.

In compliance with the supervisory provisions, the method adopted by the Bank to quantify internal capital enables to use collateral (pledge and mortgage) and personal guarantees as a form of credit risk mitigation. The bank prefers the acquisition of collateral characterised by high liquidity (listed financial instruments) and low-price volatility (Sovereign debt Securities).

With a view to verifying the suitability of the internal capital, also in the event of adverse outlooks linked to the negative trend of loans, the Bank carries out stress testing during ICAAP/ILAAP reporting on the credit risk. To carry out these tests, reference is made to the statistics given in the public information of the Bank of Italy, in view of the limited historical series in the Bank's possession, which has only made investments in this area for the last few years.

1.2 - Market risks

1.2.1 Interest rate risk and price risk – Regulatory trading portfolio

Qualitative information

General aspects

The Bank defined the market risk as the risk of an unfavourable change in the value of a position in financial instruments – included in the trading portfolio for regulatory purposes – due to the adverse performance of interest, exchange and inflation rates, volatility, share prices, credit spreads, price of goods (generic risk) and creditworthiness of the issuer (specific risk).

Management processes and measurement methods for the interest rate risk and the price risk

Interest rate risk

The "trading portfolio" – as defined in the supervisory regulations – includes all financial instruments subject to capital requirements for market risks.

The trading portfolio includes:

- debt securities;
- shares;
- UCI units;
- derivatives held for trading.

Most of the debt securities in the portfolio at 31 December 2018 consist of government bonds whose overall duration is short. Share investments mainly refer to securities listed on the Italian Stock Exchange, with high liquidity. The portfolio instruments are denominated in euro.

The Managing Director and the General Management of the Bank provide strategic guidelines on market risk acceptance with regard to the purchase and dealing in trading securities.

With regard to the interest rate risk, the Bank monitors the changes in market rates and prepares a proper report that is sent to the Management.

Price risk

Price risk is the risk of capital losses on listed financial assets or assets that are similar to listed instruments due to fluctuations in the price of securities or to factors attributable to the peculiar situation of the issuer. The Bank adopted special internal regulations that govern and limit the risk assumption with regard to some types of financial instruments and allow the continuous monitoring of the main risk indicators (VAR – Expected Shortfall – Volatility etc.)

In addition, limits were identified and prescribed in stress conditions, considering simultaneous shocks on the credit risk - spread increases and stock price contraction.

The method adopted to calculate VaR is historical; the bank uses a holding period of 2 years, a confidence interval of 99% and a daily time horizon for the quantification of the expected risk.

The trading portfolio is mainly represented by Government debt securities. As a result, price risk is associated with the specific situation of the issuer.
With regard to the equity portfolio, it should be underlined that it almost exclusively includes listed shares with a high degree of liquidity.

Lastly, with reference to market risk management, it should be specified that transactions with similar characteristics in terms complexity, type of issuer or risk are screened by the Managing Director and by the General Management, which performs a specific evaluation also with regard to the risk profiles associated with them.

Quantitative information

1. Regulatory trading portfolio: distribution of financial assets and liabilities for cash and financial derivatives by residual duration (repricing date)

Currency: Euro

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Undated
1. Cash assets	**–**	**1,000**	**9,997**	**–**	**14,997**	**1**	**–**	**–**
1.1 Debt securities	–	1,000	9,997	–	14,997	1	–	–
- with the option of early redemption	–	–	–	–	999	–	–	–
- other	–	1,000	9,997	–	13,998	1	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Reverse repos	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**724**	**17,283**	**942**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	724	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	724	–	–	–	–	–	–	–
+ Long positions	362	–	–	–	–	–	–	–
+ Short positions	362	–	–	–	–	–	–	–
3.2 Without underlying security	–	17,283	942	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	17,283	942	–	–	–	–	–
+ Long positions	–	8,437	471	–	–	–	–	–
+ Short positions	–	8,846	471	–	–	–	–	–

1. Regulatory trading portfolio: distribution of financial assets and liabilities for cash and financial derivatives by residual duration (repricing date)

Currency: Other currencies

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Undated
1. Cash assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
- with the option of early redemption	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Reverse repos	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**10,663**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	10,663	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	10,663	–	–	–	–	–	–
+ Long positions	–	5,536	–	–	–	–	–	–
+ Short positions	–	5,127	–	–	–	–	–	–

2. Regulatory trading portfolio: distribution of exposures in equity and stock indexes in the main countries of the market.

Transaction type/Listing index	Listed			Unlisted
	Italy	Germany	Other	
A. Equity				
- Long positions	4,148	–	209	39
- Short positions	243	–	–	–
B. Sales not yet settled on equity				
- Long positions	105	–	22	–
- Short positions	120	–	34	–
C. Other derivatives on equity				
- Long positions	–	–	–	3
- Short positions	–	–	–	–
D. Derivatives on stock indexes				
- Long positions	–	–	–	–
- Short positions	–	–	–	–

1.2.2 Interest rate risk and price risk – Banking book

Qualitative information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

Interest rate risk

The interest rate risk for the banking book is defined as the current and prospective risk of profit/capital volatility due to unfavourable fluctuations in interest rates. From the definition of the interest rate risk, it is readily apparent that said risk is generated by the imbalances deriving from core business activities as a consequence of the difference in maturity and in the periods of redefinition of the interest rate conditions of assets and liabilities. The Bank's policy for managing the interest rate risk on the banking book is directed at stabilising the interest margin on the banking book.

The internal structures of the Bank monitor on a regular basis and provide adequate reporting of the interest rate risk on the banking book to the Senior Management and to the Board of Directors of the Bank. Stress tests are also carried out on a regular basis on the interest rate risk of the Repricing Gap and Duration Gap banking book. The operating limits to risk assumption were defined by the Board of Directors of the Bank and are reviewed by it on a regular basis.

The banking book comprises financial instruments (assets and liabilities) that are not in the trading portfolio. It is mainly made up of due to/from banks and customers as well as hedging derivatives.

As regards the banking book, attention is drawn to the following aspects concerning interest rate risk:

Cash assets

- debt securities, all in Euro, total 1,231 million euros and are represented by the securities present in the portfolio of Financial assets designated at amortised cost, amounting to 941 million euros, and those present in the Financial assets designated at fair value through other comprehensive income portfolio, amounting to 290 million euros. Debt securities are mainly represented by Government Bonds with 2019 maturity amounting to 465 million euros, with 2020 maturity amounting to 567 million euros, with 2024 maturity amounting to 100 million euros and with 2025 maturity amounting to 80 million euros;
- loans to banks (Euro and foreign currencies), totalling 89 million euros, of which 67 million euros in deposits to banks and current accounts, mainly with floating rate, 7 million euros in compulsory floating rate reserve and 15 million euros in other loans;
- loans to customers (Euro and foreign currencies), totalling 435 million euros, mainly consisting of current account credit lines of 189 million euros and mortgages to customers of 180 million euros, mostly with variable rate.

Cash liabilities

- due to customers (Euro and foreign currencies), totalling 1,613 million euros, of which 183 million euros in fixed rate time deposits (with 2019 maturity, for a nominal amount of 87 million euros, with 2020 maturity for a nominal amount of 39 million euros, with 2021 maturity for a nominal amount of 53 million euros and maturity by 2030 for a nominal amount of 4 million euros), 470 million euros in current accounts with floating rate or with revisable fixed rate, 939 million euros in repos on securities listed in regulated markets;
- due to banks (Euro and foreign currencies) relate to loans and deposits totalling 0.3 million euros;
- debt securities totalling 28 million euros are floating-rate bonds (Euribor plus 30 b.p.) with maturity in October 2020.

Given the above, it may be concluded that the interest rate risk is low.

Price risk

Price risk is the risk of capital losses on listed financial assets or assets that are similar to listed instruments due to fluctuations in the price of securities or to factors attributable to the peculiar situation of the issuer.

The Bank adopted special internal regulations that govern and limit the risk assumption with regard to some types of financial instruments and allow the continuous monitoring of the main risk indicators (VAR – Expected Shortfall – Volatility etc.)

Quantitative information

1. Banking portfolio: distribution of financial assets and liabilities by residual duration (repricing date)

Currency: Euro

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Indefinite life
1. Cash assets	**316,547**	**168,666**	**395,867**	**227,351**	**620,916**	**403**	**24**	**–**
1.1 Debt securities	–	25,723	385,854	224,380	594,636	–	2	
- with the option of early redemption	–	2,069	–	–	21,456	–	–	–
- other	–	23,654	385,854	224,380	573,180	–	2	–
1.2 Loans to banks	71,698	7,075	–	–	–	–	–	–
1.3 Loans to customers	244,849	135,868	10,013	2,971	26,280	403	22	–
– current accounts	175,295	–	–	–	–	–	–	–
– other loans	69,554	135,868	10,013	2,971	26,280	403	22	–
- with the option of early redemption	35,645	131,455	10,013	2,565	340	348	22	–
- other	33,909	4,413	–	406	25,940	55	–	–
2. Cash liabilities	**483,499**	**13,234**	**246,649**	**254,039**	**632,329**	**3,494**	**85**	**–**
2.1 Due to customers	483,228	13,234	218,399	254,039	632,329	3,494	85	–
– current accounts	462,994	13,000	19,007	54,865	91,976	3,494	85	–
– other payables	20,234	234	199,392	199,174	540,353	–	–	–
- with the option of early redemption	–	–	–	–	–	–	–	–
- other	20,234	234	199,392	199,174	540,353	–	–	–
2.2 Due to banks	271	–	–	–	–	–	–	–
- current accounts	271	–	–	–	–	–	–	–
- other payables	–	–	–	–	–	–	–	–
2.3 Debt securities	–	–	28,250	–	–	–	–	–
- with the option of early redemption	–	–	–	–	–	–	–	–
- other	–	–	28,250	–	–	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
- with the option of early redemption	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**13,768**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	13,768	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	13,768	–	–	–	–	–	–
+ Long positions	–	13,768	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
4. Other off-balance sheet transactions	**17,614**	**3,141**	**–**	**–**	**975**	**14**	**100**	**–**
+ Long positions	6,692	3,141	–	–	975	14	100	–
+ Short positions	10,922	–	–	–	–	–	–	–

1. Banking portfolio: distribution of financial assets and liabilities by residual duration (repricing date)

Currency: Other currencies

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Undated
1. Cash assets	**24,259**	–	–	–	–	–	–	–
1.1 Debt securities	–	–	–	–	–	–	–	
- with the option of early redemption								
- other								
1.2 Loans to banks	10,090							
1.3 Loans to customers	14,169	–	–	–	–	–	–	–
– current accounts	14,032							
– other loans	137							
- with the option of early redemption								
- other	137							
2. Cash liabilities	**8,662**	–	–	–	–	–	–	–
2.1 Due to customers	8,662							
– current accounts	7,849							
– other payables	813							
- with the option of early redemption								
- other	813							
2.2 Due to banks	–							
- current accounts	–	–	–	–	–	–	–	–
- other payables	–	–	–	–	–	–	–	–
2.3 Debt securities								
- with the option of early redemption	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
2.4 Other liabilities								
- with the option of early redemption	–	–	–	–	–	–	–	–
- other	–	–	–	–	–	–	–	–
3. Financial derivatives	–	**13,768**	–	–	–	–	–	–
3.1 With underlying security								
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	13,768	–	–	–	–	–	–
- Options								
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	13,768	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	13,768	–	–	–	–	–	–
4. Other off-balance sheet transactions	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–

1.2.3 Exchange rate risk

Qualitative information

A. General aspects, management processes and measurement methods for exchange rate risk

Exchange rate risk management is the responsibility of the General Management and the Finance Department carries out trading, hedging and brokering activities within specific operating limits (amounts) with regard to both financial assets and liabilities denominated in foreign currencies in its own account or on behalf of customers.

Generally, the exposure to exchange rate risk is quite low and limited to temporary misalignments in opposite sign positions. The Bank keeps this risk to a minimum by monitoring the treasury exposure due to the time mismatching between asset and liability items.

B. Exchange rate risk hedging activity

At 31 December 2018, two hedges for GBP 1,600 thousand and CHF 13,500 thousand were open for the Bank.

Quantitative information

1. Distribution by currency of assets, liabilities and derivatives

Items	Currencies					
	US dollar	Pound sterling	Yen	Canadian dollar	Swiss Franc	Other currencies
A. Financial assets	**5,717**	**2,478**	**25**	**88**	**15,508**	**443**
A.1 Debt securities	–	–	–	–	–	–
A.2 Equity	–	–	–	–	–	–
A.3 Loans to banks	5,585	680	24	88	3,271	442
A.4 Loans to customers	132	1,798	1	–	12,237	1
A.5 Other financial assets	–	–	–	–	–	–
B. Other assets	**27**	**26**	**–**	**–**	**5**	**–**
C. Financial liabilities	**5,928**	**803**	**7**	**–**	**1,920**	**3**
C.1 Due to banks	–	–	–	–	–	–
C.2 Due to customers	5,928	803	7	–	1,920	3
C.3 Debt securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. Other liabilities	**–**	**–**	**–**	**–**	**–**	**–**
E. Financial derivatives	**6,984**	**3,851**	**–**	**–**	**12,881**	**716**
- Options	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–
- Other derivatives	6,984	3,851	–	–	12,881	716
+ Long positions	3,512	1,058	–	–	451	516
+ Short positions	3,472	2,793	–	–	12,430	200
Total assets	**9,256**	**3,562**	**25**	**88**	**15,964**	**959**
Total liabilities	**9,400**	**3,596**	**7**	**–**	**14,350**	**203**
Imbalance (+/-)	**(144)**	**(34)**	**18**	**88**	**1,614**	**756**

1.3 Derivative instruments and hedging policies

1.3.1 Derivative instruments held for trading

A. Financial derivatives

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

Underlying assets/Type of derivatives	Total 31.12.2018				Total 31.12.2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counter-parties	Without central counterparties			Central counter-parties	Without central counterparties		
		With offset agreements	Without offset compensazione			With offset agreements	Without offset agreements	
1. Debt securities and interest rates	**–**	**–**	**4,686**	**4,216**	**–**	**–**	**1,379**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	471	–	–	–	1,379	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	4,215	4,216	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
2. Equity and stock indexes	**–**	**–**	**2,394**	**1,339**	**–**	**–**	**600**	**–**
a) Options	–	–	1,055	–	–	–	600	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	–	–	–	–	–	–
d) Futures	–	–	1,339	1,339	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
3. Currencies and gold	**–**	**–**	**21,620**	**–**	**–**	**–**	**38,576**	**–**
a) Options	–	–	–	–	–	–	–	–
b) Swaps	–	–	–	–	–	–	–	–
c) Forwards	–	–	21,620	–	–	–	38,576	–
d) Futures	–	–	–	–	–	–	–	–
e) Other	–	–	–	–	–	–	–	–
4. Goods	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5. Other	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**28,700**	**5,555**	**–**	**–**	**40,555**	**–**

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

Derivative types	Total 31.12.2018			
	Over the counter			Organised markets
	Central counter-parties	Without central counterparties		
		With offset agreements	Without offset agreements	
1. Positive fair value				
a) Options	–	–	456	–
b) Interest rate swaps	–	–	–	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	–	–	33	–
f) Futures	–	–	–	–
g) Others	–	–	–	–
Total	**–**	**–**	**489**	**–**
2. Negative fair value				
a) Options	–	–	–	–
b) Interest rate swaps	–	–	8	–
c) Cross currency swaps	–	–	–	–
d) Equity swaps	–	–	–	–
e) Forwards	–	–	72	–
f) Futures	–	–	–	–
g) Others	–	–	–	–
Total	**–**	**–**	**80**	**–**

The tables below show, at 31 December 2017, Financial derivatives: gross positive fair value - breakdown by product and Financial derivatives: gross negative fair value - breakdown by product 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).

A.3 Financial derivatives: gross positive fair value - breakdown by product

Derivative types/Portfolios	Positive fair value	
	Total 31.12.2017	
	Over the counter	Central counterparties
A. Regulatory trading portfolio	**280**	**–**
a) Options	183	–
b) Interest rate swaps	–	–
c) Cross currency swaps	–	–
d) Equity swaps	–	–
e) Forwards	97	–
f) Futures	–	–
g) Others	–	–
B. Banking portfolio - hedging	**–**	**–**
a) Options	–	–
b) Interest rate swaps	–	–
c) Cross currency swaps	–	–
d) Equity swaps	–	–
e) Forwards	–	–
f) Futures	–	–
g) Others	–	–
C. Banking portfolio - other derivatives	**9**	**–**
a) Options	–	–
b) Interest rate swaps	–	–
c) Cross currency swaps	–	–
d) Equity swaps	–	–
e) Forwards	9	–
f) Futures	–	–
g) Others	–	–
Total	**289**	**–**

A.4 Financial derivatives: gross negative fair value - breakdown by product

Derivative types/Portfolios	Negative fair value	
	Total 31.12.2017	
	Over the counter	Central counterparties
A. Regulatory trading portfolio	**142**	**–**
a) Options	–	
b) Interest rate swaps	45	–
c) Cross currency swaps	–	–
d) Equity swaps	–	–
e) Forwards	97	–
f) Futures	–	–
g) Others	–	–
B. Banking portfolio - hedging	**–**	**–**
a) Options	–	–
b) Interest rate swaps	–	–
c) Cross currency swaps	–	–
d) Equity swaps	–	–
e) Forwards	–	–
f) Futures	–	–
g) Others	–	–
C. Banking portfolio - other derivatives	**–**	**–**
a) Options	–	–
b) Interest rate swaps	–	–
c) Cross currency swaps	–	–
d) Equity swaps	–	–
e) Forwards	–	–
f) Futures	–	–
g) Others	–	–
Total	**142**	**–**

A.3 OTC Financial derivatives held for trading: notional values, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial institutions	Other entities
Contracts not covered by offset agreements				
1) Debt securities and interest rates				
- notional value	X	932	3,542	212
- positive fair value	X	–	–	–
- negative fair value	X	8	–	–
2) Equity and stock indexes				
- notional value	X	–	85	2,309
- positive fair value	X	2	4	450
- negative fair value	X	–	–	–
3) Currencies and gold				
- notional value	X	17,694	3,926	–
- positive fair value	X	28	5	–
- negative fair value	X	44	28	–
4. Goods				
- notional value	X	–	–	–
- positive fair value	X	–	–	–
- negative fair value	X	–	–	–
5) Other				
- notional value	X	–	–	–
- positive fair value	X	–	–	–
- negative fair value	X	–	–	–
Contracts covered by offset agreements				
1) Debt securities and interest rates				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
2) Equity and stock indexes				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
3) Currencies and gold				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
4. Goods				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–
5) Other				
- notional value	–	–	–	–
- positive fair value	–	–	–	–
- negative fair value	–	–	–	–

A.4 Residual life of OTC financial derivatives held for trading: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	More than 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	4,686	–	–	4,686
A.2 Financial derivatives on equity and stock indexes	2,124	228	42	2,394
A.3 Financial derivatives on currencies and gold	21,620	–	–	21,620
A.4 Financial derivatives on goods	–	–	–	–
A.5 Other financial derivatives	–	–	–	–
Total 2018	**28,430**	**228**	**42**	**28,700**

The table below shows Residual life of OTC financial derivatives: notional values 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).

A.9 Residual life of OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	More than 5 years	Total
A. Regulatory trading portfolio	**39,559**	**931**	**65**	**40,555**
A.1 Financial derivatives on debt securities and interest rates	908	471	–	1,379
A.2 Financial derivatives on equity and stock indexes	75	460	65	600
A.3 Financial derivatives on foreign exchange rates and gold	38,576	–	–	38,576
A.4 Financial derivatives on other values	–	–	–	–
B. Banking portfolio	**1,780**	**–**	**–**	**1,780**
B.1 Financial derivatives on debt securities and interest rates	–	–	–	–
B.2 Financial derivatives on equity and stock indexes	–	–	–	–
B.3 Financial derivatives on foreign exchange rates and gold	1,780	–	–	1,780
B.4 Financial derivatives on other values	–	–	–	–
Total 2017	**41,339**	**931**	**65**	**42,335**

1.4 Liquidity risk

Qualitative information

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

The Group defined the liquidity risk as the inability to meet own payment commitments. This risk is linked to the inability to raise funds (funding liquidity risk) or to the existence of limits for the disinvestment of assets (market liquidity risk).

Funding liquidity risk means the risk according to which the Bank and the companies of the Group are not able to meet their own payment commitments and obligations efficiently (compared to the "desired" risk profile and/or "fair" economic conditions) due to the inability to raise funds without compromising their core business activities and/or financial situation.

Market liquidity risk means the risk according to which the Group is able to dispose of an asset only by incurring capital losses due to the low liquidity of the reference market and/or due to the timing with which the transaction will be carried out.

The analysis of the Group's financial instruments (assets and liabilities) highlights that, overall, liquidity risk is low. In fact, the loans portfolio is mostly made up of short-term funding sources both on the interbank market and with regard to customers (as it comprises mainly on-demand loans that are directly connected with the private banking activity). Most of the securities trading portfolio is made up of highly liquid debt securities issued by countries of the Eurozone.

Concerning the sources of funding, they comprise current accounts, time deposits, repos and the issue of floating rate bonds. The concentration of the funding sources, present on primary and consolidated customers, is the consequence of the business model adopted by the Bank that entails issuing loans and providing services to highly selected customers.

The Group's overall exposure to liquidity risk is therefore maintained at modest levels thanks to the structure of the financial portfolio described above.

The ability to meet commitments promptly and economically is guaranteed by carefully monitoring the position through the use of information systems that ensure the ongoing monitoring of the liquidity requirements that are managed, where necessary, by resorting to the interbank deposits and, alternatively, to the repos market.

On the basis of the supervisory provisions, the Bank has defined the guidelines on the governance and management of liquidity risk and the methods of stress tests to be carried out. More specifically, the roles and responsibilities have been defined by the company bodies involved, the calculation methods of the LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) and the criteria to be applied in carrying out stress testing.

The short-term liquidity management policy, monitoring using the LCR indicator, includes all limits and alert thresholds that allow, both in normal market conditions and in stressful periods, for the measurement of the liquidity risk to which it is exposed. The liquidity needed to cope with any structural imbalance in the

breakdown of assets and liabilities along a one-year timeframe, instead, is monitored through the NSFR indicator.
Within the liquidity risk management process, the Bank's Risk Control organisational unit:

- periodically carries out the stress tests identified by the Bank for risk measurement, performing the measurements necessary to determine the value of the LCR - Liquidity Coverage Ratio - indicator: (aimed at assuring that the Bank holds an amount of high quality liquid assets that enables it to withstand stress situations on the funding market for a time horizon of 30 days) and the NSFR - Net Stable Funding Ratio - indicator (aimed at assuring a structural balance of the financial statements of the bank);
- prepare the reports to be sent to the Senior Management, illustrated the exposure to liquidity risk, also determined on the basis of the stress tests.

The analyses carried out at 31 December 2018 show that the potential outgoing cash flows are entirely covered by the inflows and by the liquidity buffer held by the Bank, and therefore no risk situations are noted.

Quantitative information

1. Time distribution of financial assets and liabilities by residual duration

Currency: Euro

Item/Time frame	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	More than 5 years	Undated
Cash assets	**313,700**	**–**	**1,093**	**1,305**	**8,427**	**256,969**	**236,948**	**734,520**	**243,776**	**7,077**
A.1 Treasury Bonds	–	–	–	–	61	250,425	224,918	558,306	180,003	–
A.2 Other debt securities	–	–	1,035	177	2,229	29	159	51,005	–	–
A.3 UCI units	29,203	–	–	–	–	–	–	–	–	–
A.4 Loans	284,497	–	58	1,128	6,137	6,515	11,871	125,209	63,773	7,077
- Banks	71,728	–	–	–	–	–	–	–	–	7,077
- Customers	212,769	–	58	1,128	6,137	6,515	11,871	125,209	63,773	–
Cash liabilities	**483,185**	**–**	**178**	**600**	**12,702**	**218,438**	**254,243**	**660,576**	**3,579**	**–**
B.1 Deposits and current accounts	462,950	–	178	357	12,468	19,041	55,064	91,976	3,579	–
- Banks	271	–	–	–	–	–	–	–	–	–
- Customers	462,679	–	178	357	12,468	19,041	55,064	91,976	3,579	–
B.2 Debt securities	–	–	–	–	–	5	5	28,248	–	–
B.3 Other liabilities	20,235	–	–	243	234	199,392	199,174	540,352	–	–
Off-balance sheet transactions	**182,519**	**2,927**	**–**	**9**	**21,774**	**118**	**5,904**	**10,350**	**7,864**	**–**
C.1 Financial derivatives with exchange of capital	–	2,927	–	–	21,620	–	–	–	15	–
- Long positions	–	1,440	–	–	17,694	–	–	–	–	–
- Short positions	–	1,487	–	–	3,926	–	–	–	15	–
C.2 Financial derivatives without exchange of capital	464	–	–	–	–	–	–	–	–	–
- Long positions	456	–	–	–	–	–	–	–	–	–
- Short positions	8	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Commitments to lend funds	180,908	–	–	–	147	74	5,289	4,406	1,025	–
- Long positions	84,984	–	–	–	147	74	5,289	4,406	1,025	–
- Short positions	95,924	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	1,147	–	–	9	7	44	615	5,944	6,824	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

Bank "Undated Loans" refer to the deposit in the Compulsory reserve.
Item C.1 includes the value of the purchases and sales of securities not yet settled.

1. Time distribution of financial assets and liabilities by residual duration

Currency: Other currencies

Item/Time frame	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	More than 5 years	Undated
Cash assets	**24,300**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
A.1 Treasury Bonds	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 UCI units	–	–	–	–	–	–	–	–	–	–
A.4 Loans	24,300	–	–	–	–	–	–	–	–	–
- Banks	10,100	–	–	–	–	–	–	–	–	–
- Customers	14,200	–	–	–	–	–	–	–	–	–
Cash liabilities	**8,662**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	7,849	–	–	–	–	–	–	–	–	–
- Banks	–	–	–	–	–	–	–	–	–	–
- Customers	7,849	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	813	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**308**	**2,811**	**–**	**–**	**21,620**	**–**	**–**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of capital	–	2,811	–	–	21,620	–	–	–	–	–
- Long positions	–	1,610	–	–	3,926	–	–	–	–	–
- Short positions	–	1,201	–	–	17,694	–	–	–	–	–
C.2 Financial derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Commitments to lend funds	308	–	–	–	–	–	–	–	–	–
- Long positions	154	–	–	–	–	–	–	–	–	–
- Short positions	154	–	–	–	–	–	–	–	–	–
C.5 Financial guarantees issued	–	–	–	–	–	–	–	–	–	–
C.6 Financial guarantees received	–	–	–	–	–	–	–	–	–	–
C.7 Credit derivatives with exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–
C.8 Credit derivatives without exchange of capital	–	–	–	–	–	–	–	–	–	–
- Long positions	–	–	–	–	–	–	–	–	–	–
- Short positions	–	–	–	–	–	–	–	–	–	–

1.5 Operating risk

Qualitative and quantitative information

A. General aspects, management processes and measurement methods for operating risk

Operating risk is defined as the risk to incur losses arising from the inadequacy or weakness in procedures, human resources and internal systems, or from external events. These include losses arising from frauds, human errors, interruptions in business activities, unavailability of systems, contractual default, natural and/or geopolitical disasters. The operating risk includes the legal risk, while it does not include strategic and reputational risks.

The Bank, albeit adopting a standardised calculation method of the operating risks, periodically carries out their analysis/self-assessment. In order to standardise the quantification process of operating risks, the Bank has also formalised the adopted method in the document called "Management of operating risks in Banca Finnat".

The analysis of operational risks and the identification of processes with major impact are periodically carried out by the Risk Control Organisational Unit to detect in a timely manner the business areas and the processes with higher operational risk in order to take the necessary corrective actions.

In particular, the analysis focuses on the identification, within the above-mentioned operating procedures, of the activities that may generate operating risks for the Bank and of the related controls to mitigate the risks themselves.

During the year ended 31 December 2018, periodic meetings continued to be held between the Parent Company and the subsidiaries InvestiRE SGR S.p.A. and Finnat Fiduciaria S.p.A.; during the meetings the controls applied by the subsidiaries were analysed without observing any anomalies.

With regards to the quantification of internal capital supporting the operating risk, as previously indicated, the Bank uses the basic approach under the scope of determining prudential equity requirements, as envisaged by the supervisory provisions per Regulation 575/2013.

In this context, the internal control function verifies that said procedures, and any revisions thereof, are correctly implemented and are observed, as well as ensuring that they comply with regulations in force.

Section 4 - Risks of other companies

At 31 December 2018, all the subsidiaries of the Parent Company belong to the Group; therefore, there are no risks of other companies.

Part F – Information on the consolidated shareholders' equity

Section 1 – Consolidated net equity

Qualitative and quantitative information

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.

Pursuant to the above-mentioned regulations, the Bank is required to comply with a minimum capital ratio of 8%, calculated by reference to credit and market prices.

The consolidated shareholders' equity of the Group and of Minority interests totals 249,826 thousand euros, of which the group shareholders' equity is 209,138 thousand euros. It is detailed in the table below.

B.1 Consolidated equity: breakdown by company type

Shareholders' equity items	Prudential consolidation	Insurance companies	Other companies	Consolidation cancellations and adjustments	Total
1. Share capital	72,576	–	–	–	72,576
2. Share issue premiums	–	–	–	–	–
3. Reserves	186,707	–	–	–	186,707
4. Capital instruments	–	–	–	–	–
5. (Treasury shares)	(14,059)	–	–	–	(14,059)
6. Valuation reserves:	(3,711)	–	–	–	(3,711)
- Equity designated at fair value through other comprehensive income	3,224	–	–	–	3,224
- Hedges of equity designated at fair value through other comprehensive income	–	–	–	–	–
- Financial assets (other than equity) measured at fair value through other comprehensive income	(7,736)	–	–	–	(7,736)
- Property and equipment	–	–	–	–	–
- Intangible assets	–	–	–	–	–
- Foreign investment hedge	–	–	–	–	–
- Cash flow hedge	–	–	–	–	–
- Hedging instruments (non-designated elements)	–	–	–	–	–
- Foreign exchange differences	–	–	–	–	–
- Non-current assets held for sale and discontinued operations	–	–	–	–	–
- Financial liabilities designated at fair value through profit or loss (changes of own credit rating)	–	–	–	–	–
- Actuarial profit (loss) on defined benefit social security plans	(499)	–	–	–	(499)
- Share of valuation reserves connected with investee companies carried at equity	(64)	–	–	–	(64)
- Special revaluation regulations	1,364	–	–	–	1,364
7. Profit (loss) for the year	8,313	–	–	–	8,313
Consolidated shareholders' equity	**249,826**	**–**	**–**	**–**	**249,826**

The table below shows Shareholders' equity: breakdown 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).

B.1 Consolidated equity: breakdown by company type

Shareholders' equity items	Banking group	Insurance companies	Other companies	Consolidation cancellations and adjustments	Total
Share capital	72,576	–	–	–	72,576
Share issue premiums	–	–	–	–	–
Reserves	163,950	–	–	–	163,950
Capital instruments	–	–	–	–	–
(Treasury shares)	(14,059)	–	–	–	(14,059)
Valuation reserves:	1,592	–	–	–	1,592
- Financial assets available for sale	721	–	–	–	721
- Property and equipment	–	–	–	–	–
- Intangible assets	–	–	–	–	–
- Foreign investment hedge	–	–	–	–	–
- Cash flow hedge	–	–	–	–	–
- Foreign exchange differences	–	–	–	–	–
- Non-current assets being disposed	–	–	–	–	–
- Actuarial profit (loss) on defined benefit social security plans	(357)	–	–	–	(357)
- Share of valuation reserves connected with investments carried at equity	(136)	–	–	–	(136)
- Special revaluation regulations	1,364	–	–	–	1,364
Profit (loss) for the year (+/-) of the Group and third parties	40,187	–	–	–	40,187
Consolidated shareholders' equity	**264,246**	**–**	**–**	**–**	**264,246**

B.2 Valuation reserves of financial assets designated at fair value through other comprehensive income: breakdown

Assets/amounts	Banking group		Insurance companies		Other companies		Consolidation cancellations and adjustments		Total 31.12.2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt Securities	1,046	8,782	–	–	–	–	–	–	1,046	8,782
2. Equity	3,287	63	–	–	–	–	–	–	3,287	63
3. Loans	–	–	–	–	–	–	–	–	–	–
Total 31.12.2018	**4,333**	**8,845**	**–**	**–**	**–**	**–**	**–**	**–**	**4,333**	**8,845**

The breakdown of the valuation reserves refers to the Group and concerns almost exclusively the fair value adjustment, after taxes, of the securities held by the Bank.

The table below, shows at 31 December 2017 the Valuation reserves of financial assets available for sale: breakdown 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).

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

Assets/amounts	Banking group		Insurance companies		Other companies		Consolidation cancellations and adjustments		Total 31.12.2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt Securities	1,276	85	–	–	–	–	–	–	1,276	85
2. Equity	171	–	–	–	–	–	–	–	171	–
3. UCI units	406	525	–	–	–	–	–	–	406	525
4. Loans	–	–	–	–	–	–	–	–	–	–
Total 31.12.2017	**1,853**	**610**	**–**	**–**	**–**	**–**			**1,853**	**610**

B.3 Valuation reserves of financial assets designated at fair value through other comprehensive income: annual changes

	Debt Securities	Equity	Loans
1. Initial amount	**452**	**171**	**–**
2. Positive changes	**999**	**3,238**	**–**
2.1 Increases in fair value	222	3,238	–
2.2 Losses on credit risk	765	X	–
2.3 Reclassification of negative reserves to the income statement	12	X	–
2.4 Transfers to other shareholders' equity components (equity securities)	–	–	–
2.5 Other changes	–	–	–
3. Negative changes	**9,187**	**185**	**–**
3.1 Decreases in fair value	8,967	185	–
3.2 Recoveries on credit risk	1	–	–
3.3 Reclassification to the income statement from positive reserves: from disposal	219	X	–
3.4 Transfers to other shareholders' equity components (equity securities)	–	–	–
3.5 Other changes	–	–	–
4. Final amount	**(7,736)**	**3,224**	**–**

The initial amount refers to 1 January 2018 after FTA reclassifications and adjustments.

The comment of changes in Valuation reserves of financial assets designated at fair value through other comprehensive income is provided in part D - Comprehensive income.

B.4 Valuation reserves related to defined benefit plans: annual changes

Reserves related to defined benefit plans were negative by 499 thousand euros (of which the Group's amounted to 380 thousand euros and third parties' reserves amounted to 119 thousand euros). At 31 December 2017, these Reserves were negative by 357 thousand euros (of which the Group's reserves were negative by 289 thousand euros and third parties' reserves by 68 thousand euros).

Section 2 – Own funds and capital ratios

Please refer to the disclosure on own fund and on capital adequacy contained in the public disclosure ("Third Pillar").

Part G - Business combinations pertaining to entities or business units

Section 1 - Combinations completed during the year

No business combinations were completed during the year, as regulated by IFRS 3, which would have entailed the acquisition of control over businesses or legal entities.

Section 2 - Combinations completed after the end of the year

In the period spanning the end of the 2018 financial year and the date on which these financial statements were prepared, no business combinations regulated by IFRS 3 were carried out.

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 Directors' 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 31 December 2018 separately for different types of related parties under IAS 24.

BALANCE SHEET	Financial receivables (payables)	Other receivables (payables)	Sureties issued	Available margins on sureties and irrevocable credit lines granted
ASSOCIATED COMPANIES				
Imprebanca S.p.A.	(214)	–	23	–
MANAGEMENT WITH STRATEGIC RESPONSIBILITIES AND COMPANY REPRESENTATIVES	**(2,522)**	**–**	**10**	**(612)**
OTHER RELATED PARTIES	**(4,212)**	**404**	**1**	**–**

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

With regard to associated companies, the income statement items include only interest income from Imprebanca S.p.A. and amount approximately a thousand euros.

Part I - Payment agreements based on own capital instruments

There are no payment agreements based on own capital instruments.

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 internal reports used by the Corporate Management were revised in 2017, and consequently the breakdown by segment set forth in the present segment reporting was adopted starting from the 2017 Financial Statements.

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 fees and commissions: these 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, Profits (losses) on disposal or repurchase of financial assets available for sale: they are reclassified line by line on the individual pertinent sectors.
- Operating costs: the aggregate includes personnel expenses, other administrative expenses (net of recovered costs), net losses 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 impairment of receivables, of financial assets available for sale and of the other financial transactions: 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 2018 by the individual segments are commented on in the Report on Operations.

Consolidated aggregate income statement values for 2018, by business segment

Business segments	Private Banking	Investment Banking (*)	Advisory and Corporate Finance	Trusteeship	Asset Management Real Estate Funds	Financial Holding and Governance Centre (**)	TOTAL
Interest margin	3,715	8,641		17	60	98	12,531
Net fees and commissions	13,041	5,607	2,280	2,390	29,250	(127)	52,441
Dividends	160	46				2,144	2,350
Profits (Losses) on trading		(170)					(170)
Profit (Loss) on disposal or repurchase of:		1,298		19			1,317
a) financial assets designated at amortised cost		377					377
b) financial assets designated at fair value through other comprehensive income		921		19			940
Profits (losses) on other financial assets and liabilities designated at fair value through profit or loss	20	(600)			15	176	(389)
b) other financial assets mandatorily at fair value	20	(600)			15	176	(389)
NET BANKING INCOME	**16,936**	**14,822**	**2,280**	**2,426**	**29,325**	**2,291**	**68,080**
Operating costs	(12,952)	(4,271)	(1,282)	(864)	(19,699)	(12,373)	(51,441)
Net losses/recoveries on credit risk relating to:	(1,753)	(2,029)	(229)	(86)	224	(130)	(4,003)
a) financial assets designated at amortised cost	(1,753)	(1,297)	(229)	(43)	224	(130)	(3,228)
b) financial assets designated at fair value through other comprehensive income		(732)		(43)			(775)
Profit (Loss) from equity investments						(296)	(296)
PRE-TAX PROFIT	**2,231**	**8,522**	**769**	**1,476**	**9,850**	**(10,508)**	**12,340**

(*) 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 31 December 2018 by business segment

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		37,410			922	21,838	60,170
a) financial assets held for trading		37,410					37,410
c) other financial assets mandatorily at fair value					922	21,838	22,760
Financial assets designated at fair value through other comprehensive income		288,482		1,516	1	8,666	298,665
Financial assets designated at amortised cost	353,249	1,039,062	845	3,789	43,220	23,869	1,464,034
a) due from banks		71,356		3,074	14,433		88,863
b) loans to customers	353,249	967,706	845	715	28,787	23,869	1,375,171
Equity investments					167	6,233	6,400
Liability items							
Financial liabilities designated at amortised cost	522,440	1,118,825			234	492	1,641,991
a) due to banks		271					271
b) due to customers	495,050	1,117,694			234	492	1,613,470
c) debt securities issued	27,390	860					28,250
Financial liabilities held for trading		8				315	323

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

The table below shows the Segment reporting 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).

Consolidated aggregate income statement values for 2017, by business segment

Business segments	Private Banking	Investment Banking (*)	Advisory and Corporate Finance	Trusteeship	Asset Management Real Estate Funds	Financial Holding and Governance Centre (**)	TOTAL
Interest margin	2,627	6,088		17	125	177	9,034
Net fees and commissions	10,876	4,972	899	2,223	31,677	(67)	50,580
Dividends	192	70				2,544	2,806
Profits (Losses) on trading	33	1,961				(268)	1,726
Profit (loss) from AFS acquisition		12			(7)	38,173	38,178
NET BANKING INCOME	**13,728**	**13,103**	**899**	**2,240**	**31,795**	**40,559**	**102,324**
Operating costs	(11,550)	(3,986)	(1,101)	(1,773)	(19,532)	(11,353)	(49,295)
Profits (losses) on disposal or repurchase of							
- receivables							
Net losses on impairment of:							
- receivables	(184)	5	(272)	(10)		(1,879)	(2,340)
- financial assets available for sale					(121)	(3,656)	(3,777)
- other financial transactions	(2)						(2)
Profit (Loss) from equity investments						(1,708)	(1,708)
PRE-TAX PROFIT	**1,992**	**9,122**	**(474)**	**457**	**12,142**	**21,963**	**45,202**

(*) 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 31 December 2017 by business segment

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 held for trading		45,712					45,712
Financial assets available for sale		1,189,176		1,527	1,509	27,321	1,219,533
Investments held to maturity							
Due from banks		76,727		2,717	16,264	(7,558)	88,150
Loans to customers	305,257	15,712	482	789	27,273	20,965	370,478
Hedging derivatives							
Equity investments						6,457	6,457
Liability items							
Due to banks		1,474					1,474
Due to customers	422,580	1,074,875			214	(3,122)	1,494,547
Securities issued	21,734	860					22,594
Financial liabilities held for trading		45				98	143

(*) 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 mainly in Italy.

The following table provides the information about contracts with customers required by IFRS 15.

Revenue from contracts with customers (IFRS 15)

IFRS 15 STATEMENT - FEE AND COMMISSION INCOME BY BUSINESS UNIT

Business segments	Private Banking	Investment Banking (*)	Advisory and Corporate Finance	Trusteeship	Asset Management Real Estate Funds	Financial Holding and Governance Centre (**)	TOTAL
Breakdown by type of service							
- consultancy services	557	38	1,910	–	–	–	2,505
- listed issuer services	8	1,580	–	–	–	–	1,588
- trading	2,420	942	–	–	–	4	3,366
- placement	3,125	1,340	359	–	–	9	4,833
- management	3,452	1,892	–	779	29,746	–	35,869
- delegated management	894	349	–	–	–	6	1,249
- distribution of insurance products	1,098	19	–	–	–	18	1,135
- distribution of third-party services	94	458	–	–	–	1	553
- other services	1,724	360	–	1,615	–	60	3,759
Total	**13,372**	**6,978**	**2,269**	**2,394**	**29,746**	**98**	**54,857**

Business segments	Private Banking	Investment Banking (*)	Advisory and Corporate Finance	Trusteeship	Asset Management Real Estate Funds	Financial Holding and Governance Centre (**)	TOTAL
Breakdown by assessment procedure							
Over time	10,065	4,743	1,780	2,395	29,746	25	48,754
At a given moment	3,308	2,235	489	–	–	71	6,103
Total	**13,373**	**6,978**	**2,269**	**2,395**	**29,746**	**96**	**54,857**

(*) 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.

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 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 2018, 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 Group transactions in the 2018 financial year are commented on in a special section of the Report on Operations of the individual Financial Statements.

Building a better
working world

EY S.p.A.
Via Po, 32
00198 Roma

Tel: +39 06 324751
Fax: +39 06 32475504
ey.com

Relazione della società di revisione indipendente ai sensi dell'art. 14 del D. Lgs. 27 gennaio 2010, n. 39 e dell'art. 10 del Regolamento (UE) n. 537/2014

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

Relazione sulla revisione contabile del bilancio consolidato

Giudizio

Abbiamo svolto la revisione contabile del bilancio consolidato del Gruppo Banca Finnat Euramerica (il "Gruppo"), costituito dallo stato patrimoniale al 31 dicembre 2018, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario per l'esercizio chiuso a tale data e dalla nota integrativa.

A nostro giudizio, il bilancio consolidato fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria del Gruppo al 31 dicembre 2018, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data, in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. 28 febbraio 2005, n. 38 e dell'art. 43 del D. Lgs. 18 agosto 2015, n. 136.

Elementi alla base del giudizio

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nella sezione *Responsabilità della società di revisione per la revisione contabile del bilancio consolidato* della presente relazione. Siamo indipendenti rispetto alla Banca Finnat Euramerica S.p.A. in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Aspetti chiave della revisione contabile

Gli aspetti chiave della revisione contabile sono quegli aspetti che, secondo il nostro giudizio professionale, sono stati maggiormente significativi nell'ambito della revisione contabile del bilancio consolidato dell'esercizio in esame. Tali aspetti sono stati da noi affrontati nell'ambito della revisione contabile e nella formazione del nostro giudizio sul bilancio consolidato nel suo complesso; pertanto su tali aspetti non esprimiamo un giudizio separato.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

Building a better working world

Abbiamo identificato il seguente aspetto chiave della revisione contabile:

Aspetto chiave	Risposte di revisione
Impairment test Avviamento La voce 100 dell'attivo consolidato espone l'avviamento pari a 37 milioni di Euro iscritto dalla controllata InvestiRE SGR S.p.A. a seguito della fusione per incorporazione nell'esercizio 2015, di Beni Stabili Gestioni SGR S.p.A. e Polaris RE SGR S.p.A.. Come previsto dal principio contabile internazionale IAS 36 "Riduzione di valore delle attività", la controllata InvestiRE SGR S.p.A. sottopone annualmente l'avviamento al procedimento di verifica del valore recuperabile ("impairment test"). L'impairment test dell'avviamento è un aspetto rilevante per la revisione contabile in quanto il suddetto procedimento di verifica si basa su assunzioni che richiedono agli amministratori l'esercizio di una significativa discrezionalità nella scelta di metodologie, assunzioni e parametri, quali il Weighted Average Cost of Capital (WACC), il costo del capitale proprio, (Ke) e il tasso di crescita (g), che possono risultare sensibili anche agli andamenti futuri dei mercati e degli scenari economici. L'informativa di bilancio relativa all'avviamento è riportata nella Sezione 10 "Attività Immateriali" della Parte B della nota integrativa.	Le nostre procedure di revisione in risposta all'aspetto chiave della revisione contabile hanno incluso, tra l'altro: - la comprensione delle modalità di determinazione del valore recuperabile adottate dalla controllata InvestiRE SGR S.p.A., con l'ausilio di un esperto interno della controllata, in linea con la metodologia di impairment e di valutazione approvata anche dai competenti organi aziendali della Capogruppo; - la valutazione della competenza, della capacità e dell'obiettività dell'esperto interno della Direzione della controllata; - l'analisi delle assunzioni alla base delle previsioni dei flussi di cassa futuri e della loro determinazione; - la valutazione delle previsioni rispetto all'adeguatezza storica delle precedenti previsioni. Nello svolgimento delle nostre verifiche ci siamo anche avvalsi dell'ausilio di nostri esperti in tecniche di valutazione d'azienda, in particolare con riferimento alla valutazione dell'appropriatezza della metodologia e della ragionevolezza delle assunzioni utilizzate dagli amministratori per la determinazione del valore recuperabile, nonché per la verifica dell'accuratezza matematica dei calcoli e l'analisi di sensitività sulle assunzioni chiave. Infine, abbiamo esaminato l'adeguatezza dell'informativa resa in nota integrativa.

Responsabilità degli amministratori e del collegio sindacale per il bilancio consolidato

Gli amministratori sono responsabili per la redazione del bilancio consolidato che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. 28 febbraio 2005, n. 38 e dell'art. 43 del D. Lgs. 18 agosto 2015, n. 136 e, nei termini previsti dalla legge, per quella parte del controllo interno dagli stessi ritenuta necessaria per consentire la redazione di un bilancio che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli amministratori sono responsabili per la valutazione della capacità del Gruppo di continuare ad operare come un'entità in funzionamento e, nella redazione del bilancio consolidato, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale, nonché per una adeguata informativa in materia. Gli amministratori utilizzano il presupposto della continuità aziendale nella redazione del bilancio consolidato a meno che abbiano valutato che sussistono le condizioni per la liquidazione della capogruppo Banca Finnat Euramerica S.p.A. o per l'interruzione dell'attività o non abbiano alternative realistiche a tali scelte.

Il collegio sindacale ha la responsabilità della vigilanza, nei termini previsti dalla legge, sul processo di predisposizione dell'informativa finanziaria del Gruppo.

Responsabilità della società di revisione per la revisione contabile del bilancio consolidato

I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio consolidato nel suo complesso non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali, e l'emissione di una relazione di revisione che includa il nostro giudizio. Per ragionevole sicurezza si intende un livello elevato di sicurezza che, tuttavia, non fornisce la garanzia che una revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia) individui sempre un errore significativo, qualora esistente. Gli errori possono derivare da frodi o da comportamenti o eventi non intenzionali e sono considerati significativi qualora ci si possa ragionevolmente attendere che essi, singolarmente o nel loro insieme, siano in grado di influenzare le decisioni economiche degli utilizzatori prese sulla base del bilancio consolidato.

Nell'ambito della revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia), abbiamo esercitato il giudizio professionale e abbiamo mantenuto lo scetticismo professionale per tutta la durata della revisione contabile. Inoltre:

- abbiamo identificato e valutato i rischi di errori significativi nel bilancio consolidato, dovuti a frodi o a comportamenti o eventi non intenzionali; abbiamo definito e svolto procedure di revisione in risposta a tali rischi; abbiamo acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio. Il rischio di non individuare un errore significativo dovuto a frodi è più elevato rispetto al rischio di non individuare un errore significativo derivante da comportamenti od eventi non intenzionali, poiché la frode può implicare l'esistenza di collusioni, falsificazioni, omissioni intenzionali, rappresentazioni fuorvianti o forzature del controllo interno;
- abbiamo acquisito una comprensione del controllo interno rilevante ai fini della revisione contabile allo scopo di definire procedure di revisione appropriate nelle circostanze, e non per esprimere un giudizio sull'efficacia del controllo interno del Gruppo;
- abbiamo valutato l'appropriatezza dei principi contabili utilizzati nonché la ragionevolezza delle stime contabili effettuate dagli amministratori e della relativa informativa;
- siamo giunti ad una conclusione sull'appropriatezza dell'utilizzo da parte degli amministratori del presupposto della continuità aziendale e, in base agli elementi probativi acquisiti, sull'eventuale esistenza di una incertezza significativa riguardo a eventi o circostanze che possono far sorgere dubbi significativi sulla capacità del Gruppo di continuare ad operare come un'entità in funzionamento. In presenza di un'incertezza significativa, siamo tenuti a richiamare l'attenzione nella relazione di revisione sulla relativa informativa di bilancio ovvero, qualora tale informativa sia inadeguata, a riflettere tale circostanza nella formulazione del nostro giudizio. Le nostre conclusioni sono basate sugli elementi probativi acquisiti fino alla data della presente relazione. Tuttavia, eventi o circostanze successivi possono comportare che il Gruppo cessi di operare come un'entità in funzionamento;

EY
Building a better working world

- abbiamo valutato la presentazione, la struttura e il contenuto del bilancio consolidato nel suo complesso, inclusa l'informativa, e se il bilancio consolidato rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione;
- abbiamo acquisito elementi probativi sufficienti e appropriati sulle informazioni finanziarie delle imprese o delle differenti attività economiche svolte all'interno del Gruppo per esprimere un giudizio sul bilancio consolidato. Siamo responsabili della direzione, della supervisione e dello svolgimento dell'incarico di revisione contabile del Gruppo. Siamo gli unici responsabili del giudizio di revisione sul bilancio consolidato.

Abbiamo comunicato ai responsabili delle attività di governance, identificati ad un livello appropriato come richiesto dai principi di revisione internazionali (ISA Italia), tra gli altri aspetti, la portata e la tempistica pianificate per la revisione contabile e i risultati significativi emersi, incluse le eventuali carenze significative nel controllo interno identificate nel corso della revisione contabile.

Abbiamo fornito ai responsabili delle attività di governance anche una dichiarazione sul fatto che abbiamo rispettato le norme e i principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano e abbiamo comunicato loro ogni situazione che possa ragionevolmente avere un effetto sulla nostra indipendenza e, ove applicabile, le relative misure di salvaguardia.

Tra gli aspetti comunicati ai responsabili delle attività di governance, abbiamo identificato quelli che sono stati più rilevanti nell'ambito della revisione contabile del bilancio dell'esercizio in esame, che hanno costituito quindi gli aspetti chiave della revisione. Abbiamo descritto tali aspetti nella relazione di revisione.

Altre informazioni comunicate ai sensi dell'art. 10 del Regolamento (UE) n. 537/2014

L'assemblea degli azionisti della Banca Finnat Euramerica S.p.A. ci ha conferito in data 29 Aprile 2011 l'incarico di revisione legale del bilancio d'esercizio e consolidato della Società per gli esercizi con chiusura dal 31 dicembre 2011 al 31 dicembre 2019.

Dichiariamo che non sono stati prestati servizi diversi dalla revisione contabile vietati ai sensi dell'art. 5, par. 1, del Regolamento (UE) n. 537/2014 e che siamo rimasti indipendenti rispetto alla Società nell'esecuzione della revisione legale.

Confermiamo che il giudizio sul bilancio consolidato espresso nella presente relazione è in linea con quanto indicato nella relazione aggiuntiva destinata al collegio sindacale, nella sua funzione di comitato per il controllo interno e la revisione contabile, predisposta ai sensi dell'art. 11 del citato Regolamento.

Relazione su altre disposizioni di legge e regolamentari

Giudizio ai sensi dell'art. 14, comma 2, lettera e), del D. Lgs. 27 gennaio 2010, n. 39 e dell'art. 123-bis, comma 4, del D. Lgs. 24 febbraio 1998, n. 58

Gli amministratori della Banca Finnat Euramerica S.p.A. sono responsabili per la predisposizione della relazione sulla gestione e della relazione sul governo societario e gli assetti proprietari del Gruppo Banca Finnat Euramerica al 31 dicembre 2018, incluse la loro coerenza con il relativo bilancio consolidato e la loro conformità alle norme di legge.

Building a better working world

Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n. 720B al fine di esprimere un giudizio sulla coerenza della relazione sulla gestione e di alcune specifiche informazioni contenute nella relazione sul governo societario e gli assetti proprietari indicate nell'art. 123-bis, comma 4, del D. Lgs. 24 febbraio 1998, n. 58 con il bilancio consolidato del gruppo Banca Finnat Euramerica al 31 dicembre 2018 e sulla conformità delle stesse alle norme di legge, nonché di rilasciare una dichiarazione su eventuali errori significativi.

A nostro giudizio, la relazione sulla gestione e alcune specifiche informazioni contenute nella relazione sul governo societario e gli assetti proprietari sopra richiamate sono coerenti con il bilancio consolidato del gruppo Banca Finnat Euramerica al 31 dicembre 2018 e sono redatte in conformità alle norme di legge.

Con riferimento alla dichiarazione di cui all'art. 14, c. 2, lettera e), del D. Lgs. 27 gennaio 2010, n. 39, rilasciata sulla base delle conoscenze e della comprensione dell'impresa e del relativo contesto acquisite nel corso dell'attività di revisione, non abbiamo nulla da riportare.

Roma, 29 marzo 2019

EY S.p.A.

Wassim Abou Said
(Socio)

BANCA FINNAT

GRUPPO BANCA FINNAT

ATTESTAZIONE DEL BILANCIO CONSOLIDATO 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 al 31 dicembre 2018.

2. Al riguardo non sono emersi aspetti di rilievo.

3. Si attesta, inoltre, che:

   3.1. il Bilancio consolidato:

   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 sulla gestione comprende un'analisi attendibile dell'andamento e del risultato della gestione, nonché della situazione dell'emittente e delle imprese incluse nel consolidamento, unitamente alla descrizione dei principali rischi e incertezze cui sono esposti.

Roma, 22 marzo 2019

L'Amministratore Delegato

(Arturo Nattino)

Il Dirigente preposto alla redazione dei documenti contabili societari

(Giulio Bastia)

SUMMARY OF THE RESOLUTIONS BY THE SHAREHOLDERS' MEETING

On 24 April 2019, the ordinary Shareholders' Meeting of Banca Finnat Euramerica S.p.A.

with reference to the first agenda item has approved the following:

(i) the Directors' report on operations and situation of the Group;

(ii) the Balance Sheet, the Income Statement and the Notes to the Financial Statements at 31 December 2018, as well as all related annexes, of Banca Finnat Euramerica S.p.A., presented by the Board of Directors as a whole and with regard to the individual items;

(iii) to allocate the year's profit as follows:

Profit for the year	**6,097,641**	**euros**
– 5% to legal reserve in compliance with the law and the articles of association	304,882	euros
– a gross dividend of Euro 0.010 per share to the 362,880,000 ordinary shares (5% of their nominal value) (in accordance with Article 2357-ter of the Italian Civil Code the profits due to treasury shares held as of the dividend registration date will be allocated proportionally to the other shares)	3,628,800	euros
– to the extraordinary reserve	2,163,959	euros
Total	**6,097,641**	**euros**

In accordance with Article 1 of Italian Ministerial Decree of 2 April 2008, it is assumed that the dividend under this proposal, exclusively for taxation purposes, consists of the profits generated in the years prior to 31 December 2007 after verifying the presence of adequate reserves made up from the profits reported up to the year at 31 December 2007.

Additionally, it must be noted that the stated allocation of the year's profit complies with the provisions of Art. 6 of Italian Legislative Decree no. 38/2005.

Finally, we are proposing the payment of a dividend of Euro 0.01 per share to be disbursed on 15 May 2019 (registration date 13 May 2019 – coupon 35).

With reference to the second agenda item, the following was resolved:

- to approve the Shareholders' Meeting regulations, the text of which is available in the explanatory report.

With reference to the third agenda item, the following was resolved:

- to approve the Remuneration Report pursuant to Art. 123-ter of Italian Legislative Decree 58/1998, including information on the remuneration policies applicable to Directors, Employees and outside workers who are not under an employment agreement.

- to grant to the Board of Directors, with the right of delegation to the Managing Director, the responsibility of implementing the contents of said Report, including the transposition of any requirements set forth by the Supervisory Authorities on this matter.

* * * *

Rome, 24 April 2019

DESIGN BY
Ape Communication Srl

DESIGN BY
Ape Communication Srl

Share Capital	72,576,000 euros fully paid-in	Telephone	+39 06 69933.1
Registered office	00186 Rome – Palazzo Altieri - Piazza del Gesù, 49	Fax	+39 06 6784950
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
Unique Code (SDI)	IOPVBGU		

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

www.bancafinnat.it