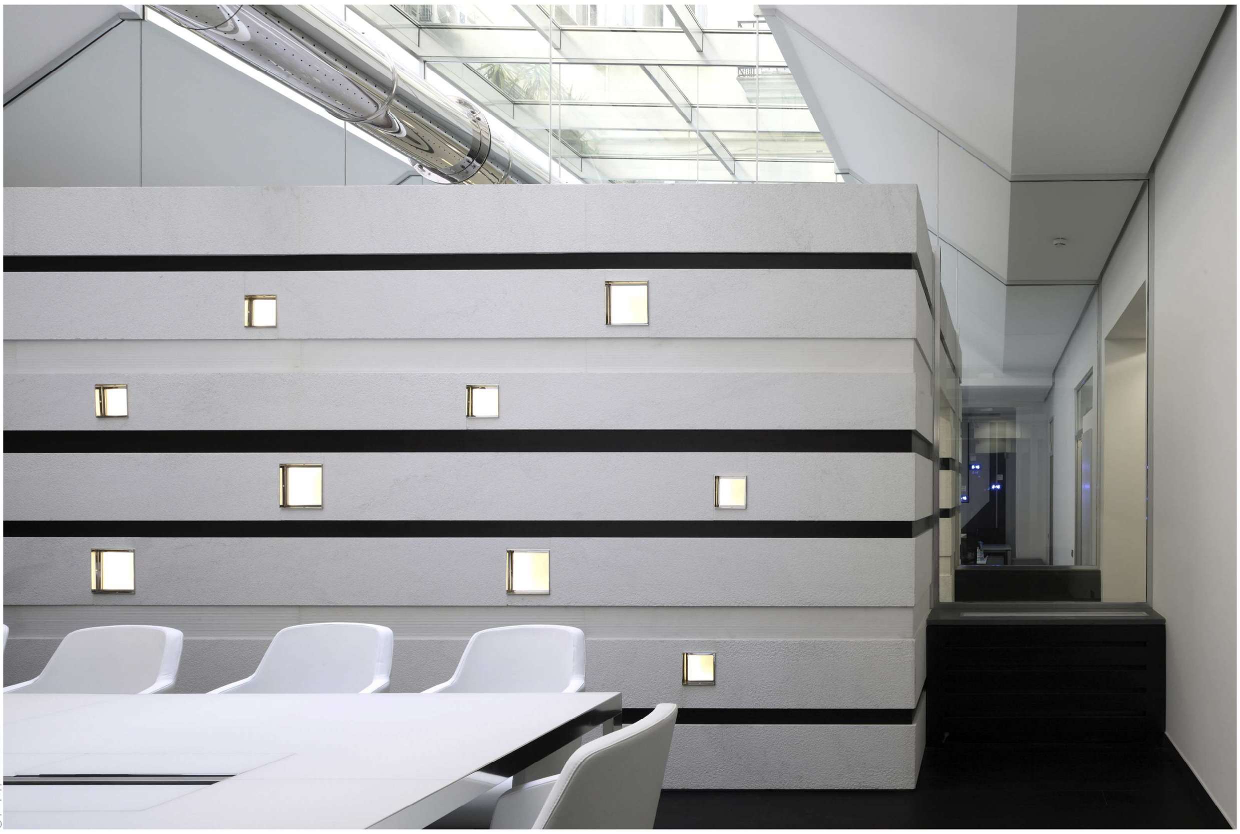
BANCA PROMOS





# FINANCIAL STATEMENTS AT 31 DECEMBER 2018

*38° year*

On the cover: *PH Peppe Maisto*

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# Call of Ordinary Meeting

BANCA PROMOS S.p.A.

Registered Office in Naples, Viale Gramsci 19

Share Capital € 7,740,000.00 fully paid-up - Economic and Administrative Index no. 329424

Shareholders are hereby convened at the Ordinary Meeting to be held at the registered office of the Bank, viale Antonio Gramsci 19, Naples, on first call on 30 April 2019 at 3:30 pm and, if necessary, on second call on 8 May 2019 at 10:00 am, order to discuss and resolve upon the following:

AGENDA

1. Approval of the financial statements at 31 December 2018, Directors' Report, report of the Board of Statutory Auditors and subsequent resolutions according to law provisions;
2. Appointment of the Independent Auditors and determination of their remuneration;
3. Appointment of the Board of Statutory Auditors and determination of their remuneration;
4. Remuneration policies;
5. Disclosures on the implementation of remuneration policies year 2018;
6. Any other business.

The procedures for attendance at the Shareholders' Meeting are governed by law and the Corporate By-Laws.

The Chairman of the Board of Directors

*Ugo Malasomma*

# Management and Independent Auditors

## Board of Directors

Ugo Malasomma (Chairman)

Tiziana Carano (CEO)

Stefano de Stefano

Umberto De Gregorio

Luigi Gorga

## Board of Statutory Auditors

Ugo Mangia (Chairman)

Sergio Vilone *(Standing Auditor)*

Pasquale Mauro *(Standing Auditor)*

Riccardo Pascucci *(Alternate Auditor)*

Giorgio Gargiulo *(Alternate Auditor)*

## Independent Auditors

Deloitte & Touche S.p.A.

# General aspects

The financial statements of Banca Promos SpA, pursuant to Legislative Decree no. 38 of 28 February 2005, were drafted in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and with the pertinent interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Commission in compliance with the EC Regulation no. 1606 dated 19 July 2002 – and in force at the reporting date.
These financial statements have been prepared on the basis of the instructions contained in Banca d'Italia's Circular no. 262 of 22 December 2005 entitled "Banks' financial statements: formats and drafting instructions": 5th update of 22 December 2017.
It should be noted that on 1 January 2018, the accounting standard IFRS 9 "Financial instruments" came into force, which amended the previous accounting standard governing the classification and measurement of financial instruments as well as financial statement presentation. For an in-depth analysis of the regulatory aspects relating to the accounting standard, the choices made by the Bank in this regard and the effects on the Bank shareholders' equity, please refer to the comments provided in Section A.1, paragraph 4.6 *"Transition to the IFRS 9"* - Part A "Accounting Policies" of this Report.
With specific reference to the approach for representing the effects of first-time adoption of IFRS 9, the Bank elected to apply the option provided in paragraph 7.2.15 of IFRS 9, according to which - without prejudice to the retrospective application of the new measurement and representation rules required by IFRS 9 - an entity is not required to restate comparative figures on a homogeneous basis, in the financial statements for the year of first time application of the standard.
In consideration of the above, the financial statements at 31 December 2018 envisaged by Banca d'Italia Circular no. 262 (5th update) have been appropriately modified to include the items required by IAS 39, for the aggregates affected by IFRS 9 and valid for 2017 only.

Thus, in reading the 2018 results contained in the Report on Operations account must be taken of the significant change compared to the 2017 Financial Statements, namely the first-time adoption of the IFRS 9 as of 1 January 2018.
Specifically, for the purpose of comparing income statement data with those of FY2017, it should be noted that income statement items were not restated in terms of values, but merely shown according to the new format envisaged by the 5th update of Circular No. 262, as pursuant to IFRS 9 an entity is not required to restate comparative figures on a homogeneous basis, in the financial statements for the year of first time application of the standard.

On the other hand, the comparison of balance sheet data is homogeneous, since the reclassified balance sheet and the related detailed tables show data as at 1 January 2018 for comparison, which therefore include the effects of first application of IFRS 9.

# Financial highlights and Ratios

## Financial Highlights and Performance Ratios

| Data (€/000) | 31/12/2018 | 31/12/2017 | Change in absolute terms | Change in % terms |
|---|---|---|---|---|
| Net interest income | **994** | 1,089 | (95) | (8.7) |
| Net commissions | **233** | 162 | 71 | 43.8 |
| Net result of financial assets/liabilities carried at fair value(*) | **1,809** | 2,892 | (1,083) | (37.4) |
| Net operating income | **3,440** | 4,322 | (882) | (20.4) |
| Operating costs | **(4,424)** | (4,694) | (270) | (5.8) |
| Net adjustments to receivables (**) | **(249)** | (115) | 134 | – |
| Net result | **(1,284)** | (476) | 808 | – |

| Ratios | 31/12/2018 | 31/12/2017 | Change in absolute terms | Change in % terms |
|---|---|---|---|---|
| Net result / Shareholders' equity (ROE) | **(11.2)** | (3.4) | 8 | – |
| ROA | **(2.2)** | (0.7) | 2 | – |
| Cost / income ratio (Operating costs/net operating income) | **128.6** | 108.6 | 20 | 18.4 |
| Net interest income / Brokerage margin | **32.7** | 26.3 | 6 | 24.3 |
| Net result of financial operations / Total assets | **4.5** | 6.0 | (2) | (25.0) |

*(*) The item includes items 80, 100 b) and (c) 110 of the Income Statement*
*(**) The item includes items 130 a) and 140 of the Income Statement*

# Financial Highlights and Equity Ratios

| Data (€/000) | 31/12/2018 | 01/01/2018 | Change in absolute terms | Change in % terms |
|---|---|---|---|---|
| Loans to customers | **23,331** | 26,155 | (2,824) | (10.8) |
| Financial assets other than loans (securities): | **20,056** | 18,771 | 1,285 | 6.8 |
| *- of which securities carried at fair value through profit or loss* | ***7,395*** | *7,611* | (216) | (2.8) |
| *- of which securities carried at fair value through other comprehensive income* | ***8,416*** | *8,327* | 89 | 1.1 |
| *- of which securities carried at amortised cost* | ***4,245*** | *2,833* | 1,412 | 49.8 |
| Customer financial assets | **92,793** | 110,287 | (17,494) | (15.9) |
| *- Direct deposits* | ***39,234*** | *44,288* | (5,054) | (11.4) |
| *- Indirect deposits including institutional customers* | ***53,559*** | *65,999* | (12,440) | (18.8) |
| Total assets | **61,311** | 66,356 | (5,045) | (7.6) |
| Shareholders' Equity | **11,466** | 12,993 | (1,527) | (11.8) |

| RISK RATIOS | 31/12/2018 | 01/01/2018 | Change in absolute terms | Change in % terms |
|---|---|---|---|---|
| Gross NPL ratio | **21.0** | 17.0 | 4.0 | 23.5 |
| Net NPL ratio | **14.5** | 10.3 | 4.2 | 40.8 |
| Overall adjustments to receivables/gross loans(hedging ratio) | **10.6** | 7.8 | 2.8 | 35.9 |
| Net non-performing loans / Loans to customers | **5.7** | 5.5 | 0.2 | 3.6 |
| Unlikely to pay / Loans to customers | **4.6** | 3.1 | 1.5 | 48.4 |
| Past due and overdrawn loans / Loans to customers | **4.2** | 1.7 | 2.5 | |

# Capital ratios

| Data (€/000) | 31/12/2018 | 31/12/2017 | Change in absolute terms | Change in % terms |
|---|---|---|---|---|
| Total RWA | **46,839** | 47,743 | (904) | (1.9) |
| Own Funds | **11,742** | 13,636 | (1,894) | (13.9) |
| Common Equity Tier 1 Ratio (Equity Tier 1/Risk-weighted assets) | **25.07** | 28.56 | (3) | (12.2) |
| Tier 1 Ratio (Equity Tier 1/Risk-weighted assets) | **25.07** | 28.56 | (3) | (12.2) |
| Total Capital Ratio | **25.07** | 28.56 | (3) | (12.2) |
| CET1 surplus compared to Minimum Requirement (4.50%) | **9,634** | 11,487 | (1,853) | (16.1) |
| T1 surplus compared to Minimum Requirement (6.00%) | **8,932** | 10,771 | (1,839) | (17.1) |
| Own funds surplus compared to Minimum Requirement (8.00%) | **7,995** | 9,816 | (1,821) | (18.6) |

# Structure Data

| Structure Data (units) | 31/12/2018 | 31/12/2017 | Change in absolute terms | Change in % terms |
|---|---|---|---|---|
| Number of employees (FTE=1) | **37** | 42 | (5) | (11.9) |
| Bank branches | **2** | 3 | (1) | (33.3) |

# Directors' Report

Dear Shareholders,

We submit to your attention the 2018 draft financial statements, drawn up according to the IAS/IFRS international accounting standards on a going concern basis, the Bank's own funds being also adequate to cover the risks to which it is exposed, and in compliance with the additional prudential requirements established by Banca d'Italia.

As usual, we firstly describe the main developments that characterized the global economic-financial scenario, merely to provide a reference background to analyse the activities and the specific performance of your Bank, which will be examined in greater detail in the following sections of this report.

## The reference framework

The global economy continued to grow in 2018, although prospects deteriorated at the end of the year.

While the start of the year was characterized by overall growth, driven by manufacturing production and good level of trade, the second half of the year showed signs of a slowdown which somewhat dampened the propulsive drive.

Investors' confidence in the economic outlook began to waver, giving rise to uncertainty, which shook the financial markets in the second half of 2018 and, in Italy, starting in May.

The various factors that adversely affected the markets were mainly linked to the geo-political balance and international tensions.

On the one hand, concerns spread with regard to trade negotiations between the United States and China, amid fears of further protectionist actions which, together with threats of retaliation from commercial partners, are imposing a burden on global trade; on the other hand, financial tensions rose in emerging areas where the debt recorded significant increases.

Lastly, we should not forget the trend in oil prices, which have fallen sharply since last October, mainly due to an increase in supply as the United States, Saudi Arabia and Russia stepped up production.

According to available indicators, US growth rate remained robust. In Japan, following the sharp drop in production recorded during the year on the wake of the natural disasters that hit the country, there was a moderate recovery in the last quarter.

As for the emerging economies, in China the activity slowed down despite the fiscal stimulus measures introduced by the government, while in India the expansion held its ground, albeit on a downward trend over the period. Finally, in Brazil a fragile macroeconomic scenario prevailed.
Moving to Europe, Brexit, with all its implications, and tense relations between Italy and the European Union have continued to raise concerns, also in relation to the budget plan launched by the Lega-M5S government.
In the euro area, the activity has been slowing down since the beginning of the summer, due to low business confidence and weak foreign demand, while the good performance of domestic demand was among the supporting factors.
Among the EU's leading economies, France performed well, while Germany and Italy lagged behind. The average annual level of inflation in the Euro area was 1.7%, an increase compared to the 1.5% average of the previous year.

The performance of the Italian economy was in line with the European trend: the expansion of the economic activity that had prevailed for about three years came to a stop in the second half of 2018, with the main indicators available outlining an overall weak picture and worsening business and consumer confidence. Overall, GDP growth for the year was 1.0% based on available data.

## The capital market

The international financial markets were marked by spikes of high volatility in 2018. The uncertain outlook of the world economy and the aforementioned trade tensions also affected the interest rate market, with significant repercussions on stock prices and government bond yields.
The increase in interest rates in the United States was higher than in the other major economies, and in 2018 the dollar strengthened against the other currencies, putting pressure on the economies of many emerging countries. The cost of debt for the emerging countries increased significantly both due to the depreciation of local currencies and the increase in yields, although the rise was not uniform across the various countries.
In general, long-term yields declined; this was especially the case for ten-year sovereign bonds which recorded decreasing yields in all the main economic regions. For example, US short-term treasury yields outperformed those of long-term bonds, with a reversal that markets have sometimes interpreted as a risk factor for the US economy.
Share prices also contracted significantly (-11% on average), a trend that also affected the United States.
In the Euro area, these technical and financial factors combined with the negative effects of the application of the new rules under the MIFID 2 directive which came into force at the beginning of 2018, the repercussions of which mainly affect market mobility and trade volume.

As far as Italy is concerned, the international situation built upon the domestic peculiarities arising from political events. In 2018, the spread between Italian BTPs and the corresponding 10-year German BUNDs, which is the major economic stability indicator, was back above 300 basis points on several occasions (reaching a maximum of over 326 points in October 2018), with an average of over 200 basis points.

Due to the climate just described, trading activity on the capital markets decreased strongly with trades concentrating on short-term securities and declining margins for operators.

## The banking sector in Italy and in the Campania region

In 2018, Italian banks operated in a rapidly changing environment which, it should be said, has been a leitmotif of the system in recent years.

The changes underway affect the banking universe on several fronts. The legislative framework is constantly changing, also due to new community regulations and supervision; the impact of new technologies is becoming increasingly evident; the banks' shrinking physical presence is generalized and obviously also affects Italy and our reference territory.

Propensity for innovation and the ability to reshape the business model are becoming increasingly important elements that, more than others, affect banks' strategic risk and their ability to pursue medium/long-term profit objectives, as they face competitive pressures from new market entrants.

Growing digitization ("fourth industrial revolution") increasingly influences the developments of the economic scenario, affecting both business models and firms' productive processes, but above all, giving rise to new ways of interacting with customers and markets, through more efficient, customized and immediate solutions which are made possible by technological advances.

In the digitalization challenge, banks are among the most exposed, as they have to fight against competitors that were unimaginable until recently (Apple, Facebook, Google, Alibaba, Amazon); online and mobile banking have significantly reduced branch activities, which led to the streamlining of branch networks worldwide while artificial intelligence and automation of internal and external processes are leading to a general rethinking of banks' organizational models.

To ensure their continued competitiveness on the market, banks must be able to offer innovative services, making them equally available on all channels through which banks and customers interact.

With regard to developments in bank loans to households and businesses, growth was 2.2% yoy according to data provided by ABI, with the mortgage loan market also improving, posting a 2.3% growth in the total amount of outstanding mortgage loans to households.

Credit supply conditions were loose, in line with the trend in interest rates, although conditions slightly tightened in the last quarter of the year.

Further positive signs were observed in terms of credit quality: net non-performing loans, net of write-downs and provisions already made by banks using own funds, amounted to € 37.5 billion in

November 2018, confirming a declining trend that has prevailed for about two years. Compared to the 2016 highs, when it reached peaks of almost 87 billion, the figure for net non-performing loans dropped by about 57% in 23 months.

The ratio of net non-performing loans to total loans stood at 2.18% in November 2018 (it was 4.89% at the end of 2016).

Funding was also positive, with contrasting performance between short and medium-long term forms of funding, in line with previous periods: deposits (current accounts, certificates of deposit) were up by about € 32 billion at the end of 2018 compared to the prior year (+ 2.2% yoy), while funding through bonds recorded a 15.3% decrease in the last 12 months, affecting the overall funding performance (- 0.6%).

Finally, the spread between the average rate on loans and the average rate on deposits to households and non-financial companies dropped further to 190 basis points from 202 in 2017, with consequent decline in profitability.

In the Campania region, the trend of economic activity was substantially in line with national trends, albeit with the usual differences due to the characteristics and difficulties of this region.

Exports were especially driven by the good performance in the sales of food processing products. On the other hand, the economic situation in the tertiary sector worsened with most companies recording decreased turnover and investments. The positive trend in the tourism sector continued with an increase in the number of tourists and in passenger and freight traffic in the main regional hubs, while expenditure incurred by foreign tourists slowed down. Employment eased off, showing slower progress compared to the national trend and affecting household consumption.

The real estate market was reasonably vibrant, although less than in 2017.

In the banking sector, credit expanded mainly to companies in the manufacturing and services sector, while the construction sector stagnated.

*(Sources: Banca d'Italia: Economic Bulletin no. 1, January 2019; Regional economies no. 39 November 2018; ABI: monthly report January 2019)*

## Banca Promos core operations

Dear Shareholders, 2018 was a complex year on the macroeconomic front and consequently on financial markets: near-zero short-term rates, moderate growth and structural elements (aging of the population, stagnating global productivity and lack of invested capital growth) compressed returns to extremely low levels, which especially affected the results of your bank.

Financial brokerage activities on the international capital markets were affected by the surrounding uncertainty and volatility described above.

In particular, the annual performance of the Bank's core business, namely trading, was characterized by several unfavourable regulatory, structural and temporary factors that increasingly affected transaction prices and volumes. The negative effects were visible in the decrease in trading volumes (-7.78% compared to 2017), but above all in the decrease in trading profits, (-37%) with inevitable effects also on the final result for the year.

In terms of regulations, at the beginning of the year the new EU directive known as MIFID 2 came into effect, which contains numerous measures for financial intermediaries active in inter-dealer trading. In practice, these obligations gave rise to uncertainty among the operators, with significant compliance costs in terms of adapting processes to models consistent with the aforementioned legislation.

From a regulatory standpoint, the introduction of the new accounting standard IFRS 9 is also worth mentioning, which, due to the new approach for the classification and measurement of financial instruments, contributed to a climate of uncertainty surrounding financial asset management by banking operators.

The above regulatory changes further combined with transitory elements that have characterized market dynamics to a non-negligible extent; among these, firstly (1) operators' expectations for a monetary policy expected to gradually tighten over the next 2 years (interest rate risk) as well as (2) the unexpected resurgence of credit risk on Italian sovereign bonds following the formation of the new government, due to concerns fuelled by expectations of deficit spending that could affect Italy's ability to repay its sovereign bonds.

Last but not least, structural elements of market evolution also affected the annual performance, such as the consolidation trend within the European banking-financial system that progressively reduces the number of active dealers or the growing automation of institutional trading that centralizes execution in a small number of locations, gradually reducing the role of OTC as a major market for debt trading.

The narrowing of margins, due among other things to the concentration of trading on short-term securities, was partially offset by the increase in the number of transactions completed during the year (+ 23%). The commercial thrust of our Finance desks continued incessantly also in the year under review, with 56 new relationships started with market counterparties, located in different geographical areas of the world (Peru, United Kingdom, France, Spain, Luxembourg) and of course, in Italy.

Lending showed signs of adjustment, as also illustrated later in this report. In 2018 direct customer deposits showed a declining trend, down 10.3% compared to the previous year in parallel with a 10.8% decrease in gross loans.

Therefore, the Financial Statements reported a loss of € 1,284,207.

The differences compared to expected results led to a review and consequent identification of areas for improvement, laying the foundations for a strategic repositioning of the bank with respect to the competitive scenario.
Hence the need for a renewed strategy aimed at increasing the Bank's competitive advantages, on the one hand focusing on its peculiarities while at the same time bringing it back to profitability.
The business model has been redesigned in light of the new scenarios, taking into account the availability of new technological tools, above all with respect to the territorial network which is no longer suitable to meet market demands for new and different professional skills.
The change is driven by a going-back to specialization logic, as the generic Bank model appears no longer sustainable in terms of profitability.

Hence, the need to ensure consistency between the strategic intentions outlined above and the organizational structure in place.
A redefinition of the organizational structure, combined with the inevitable need to reduce personnel costs led to a cut of the workforce in 2018, which resulted in a total of 37 FTEs at year-end (42 FTEs at 01/01/2018).
The main levers the management intends to use in future years to increase the Bank's value are the following:

1) Rationalization and conversion of the territorial network
2) Reorganization of the "Finance" Business Line
3) Reorganization of the "Corporate Finance" Business Line
4) Research and Development

During the year, some important initiatives were carried out aimed at implementing the new strategic plan and at recovering efficient cost/income levels, as well as a functional adjustment of the organization.
The first step in the network rationalization was to streamline the peripheral units, with the closure of the branch of Via Manzoni, in Naples, also in view of the substantial overlap with the other Naples branch, annexed to the Head Office. Thus, with a view to optimizing costs and resources, the Bank decided to concentrate its Naples operations in a single location.
The launch of the Smart Branch project is also heading towards the same direction, the objective being to strengthen "self-service" transactions at the branches, enabling the online opening of current accounts and through the installation of automatic teller machines for basic banking transactions.
In line with the operating trend in the banking system, which is increasingly moving towards technological and autonomous solutions away from traditional face-to-face bank-customer

relationship, the bank has implemented the aforementioned project which aims to reduce the role of bank clerks as mere transaction executors towards support and advisory based activities.
The Online Account Opening Service (ACO) is offered to customers through an IT module consisting of a web platform, through which a potential private customer can apply for the opening of an account. The process is then integrated into the management information system, so that customers are not required to personally go to the branch.
In November, the first Self-Service banking kiosk (CSA) was installed at the Naples branch, an advanced technology machine through which it is possible both to obtain information and perform transactions safely and in full autonomy. The CSA is installed inside the branch premises, which distinguishes it from ordinary ATMs and internet banking, as it allows customers to request the support of bank staff at any time, while the latter can develop direct relationships with customers. At the same time, the branch staff, discharged of day-to-day transactions at the counter, will be available for other more qualified and more productive activities.

The Finance Area has been redesigned in light of regulatory changes and market trends: the division of operators into Traders and Sales has been effectively overcome in light of the regulatory changes introduced by MIFID 2. The market is adapting to these regulatory changes by concentrating trading in automated markets, so that the share of OTC transactions is expected to undergo a structural contraction due to the burdensome reporting obligations imposed on counterparties.
It was necessary to make a selection of operators, focusing on those with strong commercial attitude towards end customers, while traders will be replaced by market platforms. In this regard, with a view to promptly seize business opportunities while keeping up with market developments, the Bank has developed an in-house web-trading platform called "PEx", intended for institutional customers; the platform offers a single standard for communication with the exchange community (Brokers and Financial Markets) and therefore simplifies interfacing with the various financial markets.
The Investment Banking department was set up for the management of the proprietary portfolio; it consists of one head of the department (portfolio manager) and one analyst for markets and issuers.

The strategic review also involved the corporate finance sector. In September, the business was spun off and a new ad hoc company was formed to cater to increased activities in this area and facilitate the management of this business line. “Promos Corporate Consulting" was thus launched, a limited liability company that will provide advice and assistance to companies and support in conceiving and structuring extraordinary corporate finance transactions, including of course assistance in issuing financial instruments and in mergers and acquisitions.
The company is 65% owned by Banca Promos, and is headed by Giuseppe Apicella Guerra, former Head of the internal corporate area of the bank.

Finally, a Research and Development Laboratory was set up, with the objective of encouraging technological innovation, a key strength of the bank for many years. As we know, your Bank has an internal IT office, which over time has developed various tools and software applications to support business operations.
The activity of the aforementioned Laboratory involves developing technical-scientific projects: from critical analysis to operational planning, through the definition of all necessary assumptions for research, development, technical-operational coordination and experimentation.
For the performance of these activities, the Bank is entitled to access financial aid under Law 190 of 23/12/2014 as well as under the Industry 4.0 National Plan launched by the Minister of Economic Development. In order to ensure competent support in carrying out the entire project, a consulting company with R&D experience was selected to support the Bank in the implementation process.

With a view to expanding business opportunities, various commercial agreements were signed during the reporting period, including:

- in February 2018, partnership with a company specializing in exchange rate risk management, which provides foreign currency transaction solutions to corporate customers, covering the various aspects of foreign currency payments, from exchange rate risk management to trade execution.
- in March 2018, collaboration with a leading operator in salary-backed loans;
- in November 2018, agreement with an Italian group leader in the insurance brokerage market and in risk management consulting, with a view to develop collaboration between intermediaries. In this regard, on 8 January 2018, the Bank was authorized to carry out insurance brokerage activities and has been registered in section D of the Single Register of Insurance and Reinsurance Intermediaries (RUI) of IVASS - the Insurance Regulatory Authority.

Furthermore, with the aim of optimizing the management of problem loans, the bank appointed a specialized operator to provide credit management and recovery services; the selected entity, has over twenty years of experience in out-of-court and judicial credit recovery and is active throughout Italy.

In the area of payment services, a sector that has undergone considerable changes under the pressure of technological evolution, the bank has joined the public payment system called "PAGOPA", launched by the Agency for Digital Italy of the Presidency of the Council of Ministers; said agency has the task of promoting the digitization of Italy, thereby enabling citizens and businesses to pay public administrations taxes and charges using their internet banking service (for example fines, health tickets, school canteens, etc.), through the CBILL channel, already available on the internet banking platform.

Aware that the development of employee professional skills is essential to successfully face legislative and operational changes, the training plan for the bank personnel started last year continued.

During the year the Bank delivered a combination of distance learning courses and classroom sessions. The topics ranged from new important regulations that came into force during the year (CIT, MIFID 2, Privacy) to more strictly commercial issues aimed at improving the knowledge of employees engaged in various sectors (assets under administration; assets under management; pension plans).

During the FY, 278 hours of training were provided in total.

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The changes in the main balance sheet and income statement items are described below, with specific information on the circumstances that led to the result for the year.

## Balance sheet items

### *Introduction*

To allow for a more straightforward reading of the Bank's financial position, a summary balance sheet has been prepared.

In particular, to facilitate comparison on a homogeneous basis, the reclassified balance sheet shown below compares the figures for the year with the figures for December 2017 restated at 1/1 2018 on the basis of IFRS 9 (First Time Adoption).

*Reclassified Balance Sheet*

*Tab.1.1 (€/000)*

| Assets | 31/12/2018 | 01/01/2018 | Change in absolute terms | Change in % terms |
|---|---|---|---|---|
| Loans to banks | **8,218** | 9,891 | (1,673) | (16.9) |
| Loans to customers | **23,331** | 26,155 | (2,824) | (10.8) |
| Financial assets other than loans (securities): | **20,056** | 18,771 | 1,285 | 6.8 |
| *- Financial assets carried at amortised cost, other than loans* | ***4,245*** | *2,833* | *1,412* | *49.8* |
| *- Financial assets carried at fair value through profit or loss* | ***7,395*** | *7,611* | *(216)* | *(2.8)* |
| *- Financial assets carried at fair value through other comprehensive income* | ***8,416*** | *8,327* | *89* | *1.1* |
| Equity investments | **33** | – | 33 | – |
| Tangible and intangible assets | **5,980** | 5,913 | 67 | 1.1 |
| Other assets | **3,693** | 5,626 | (1,933) | (34.3) |
| **Total assets** | **61,311** | **66,356** | **(5,045)** | **(7.6)** |

*Tab.1.2 (€/000)*

| Liabilities | 31/12/2018 | 01/01/2018 | Change in absolute terms | Change in % terms |
|---|---|---|---|---|
| Payables to banks | **6,562** | 5,064 | 1,498 | 29.6 |
| Payables to customers and outstanding securities | **39,234** | 44,288 | (5,054) | (11.4) |
| Other liabilities | **3,925** | 3,977 | (52) | (1.3) |
| Provisions for liabilities and charges | ***125*** | *34* | *91* | – |
| *of which: for commitments and financial guarantees* | ***38*** | *19* | *19* | – |
| Share capital | ***7,740*** | *7,740* | – | – |
| Reserves | **5,386** | 5,863 | (477) | (8.1) |
| Valuation reserves | **(377)** | (134) | 243 | – |
| Net result | **(1,284)** | (476) | 808 | – |
| **Total liabilities and shareholders' equity** | **61,311** | **66,356** | **(5,045)** | **(7.6)** |

With respect to the format envisaged by Banca d'Italia Circular no. 262/2005, some items were grouped as follows:

**Assets (table 1.1):**

- inclusion of Cash and cash equivalents, Tax assets and Other Assets under the residual item Other asset items;
- separate reporting of financial assets consisting of Loans to banks and Loans to customers;
- separate reporting of financial assets other than loans, broken down between financial assets carried at amortized cost, financial assets carried at fair value through profit or loss and financial assets carried at fair value through other comprehensive income. These items are net of the aggregate items Loans to banks and Loans to customers;
- grouping into a single item of tangible and intangible assets.

**Liabilities (table 1.2):**

- separate reporting of Payables to banks at amortized cost;
- grouping in a single item of the amount of Payables to customers at amortized cost and of Outstanding securities;
- inclusion of the items Tax liabilities, Other liabilities, Employee severance indemnity under the residual item Other liability items;
- aggregated reporting of the items Reserves and Share premium reserves.

### *Net interbank position*

The **net interbank position** (shown below in table **1**), at 31 December 2018, positive for € 1,656 thousand, showed a decrease of approximately € 3 million compared to 1 January of the same year, due to the combined effect of the decrease in the interbank asset position by € 1,673 thousand, on the one hand, and, the increase in liabilities by a total of € 1,498 thousand, essentially attributable to term deposits.

*Table 1 Net interbank position*

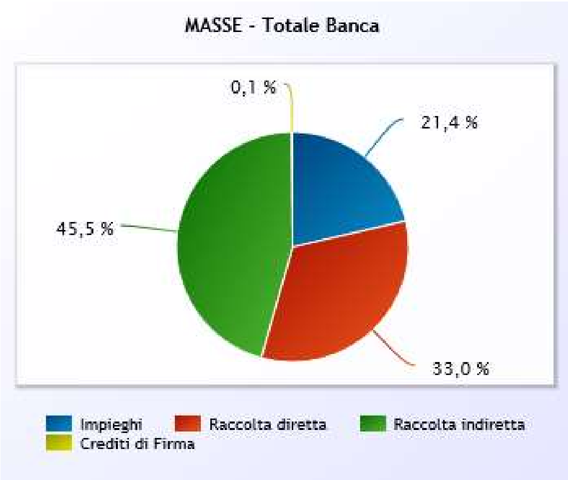
| Items €/000 | 31/12/2018 | Incid. in % terms | 01/01/2018 | Incid. in % terms | Change in absolute terms | Change in % terms |
|---|---|---|---|---|---|---|
| **Loans to banks** | **8,218** | | **9,891** | | **(1,673)** | **(16.9)** |
| a) Demand deposits at banks | **10** | 0.1 | 11 | 0.1 | (1) | (9.1) |
| b) Time deposit for the Mandatory Reserve | **226** | 2.8 | 224 | 2.3 | 2 | 0.9 |
| C) current accounts held with other banks | **7,982** | 97.1 | 9,656 | 97.6 | (1,674) | (17.3) |
| **Payables to banks** | **6,562** | | **5,064** | | **1,498** | **29.6** |
| a) Current accounts and sight deposits | *60* | 0.9 | 64 | 1.3 | (3) | (4.7) |
| b) Term deposits | **6,501** | **99.1** | **5,000** | **98.7** | **1,501** | **30.0** |
| **Net interbank position** | **1,656** | | **4,826** | | **(3,171)** | **(65.7)** |

## *Loans to customers*

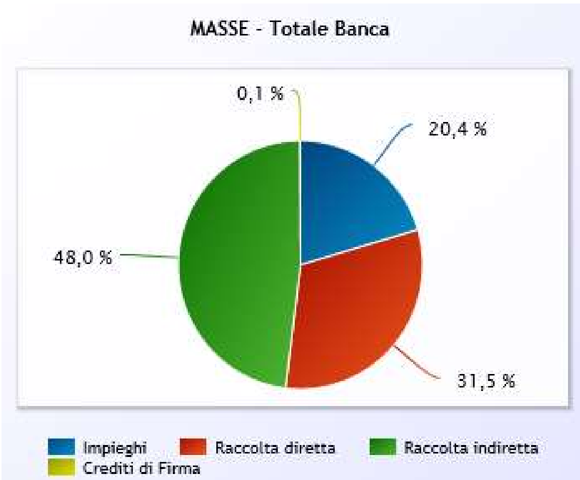
At 31 December 2018 loans to customers amounted to €23,331 thousand, net of adjustments made as part of credit risk monitoring, showing a decrease of 10.8% compared to 1 January 2018 (€ 26,155 thousand).

Based on an analysis of evidence received from Management Control, outstanding cash loans - accounting for approximately 21% of total volume of loans and funding managed by the Bank at the reporting date **(Table 1)** - are made up by 76% of loans, 15% of current accounts and the remainder of advances on invoices and on bills subject to collection **(Table 2)** .

*Table 1 Volume of loans and funding managed by the Bank*

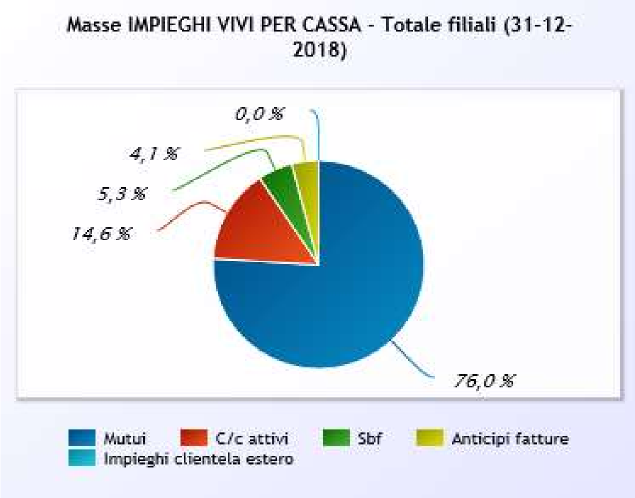


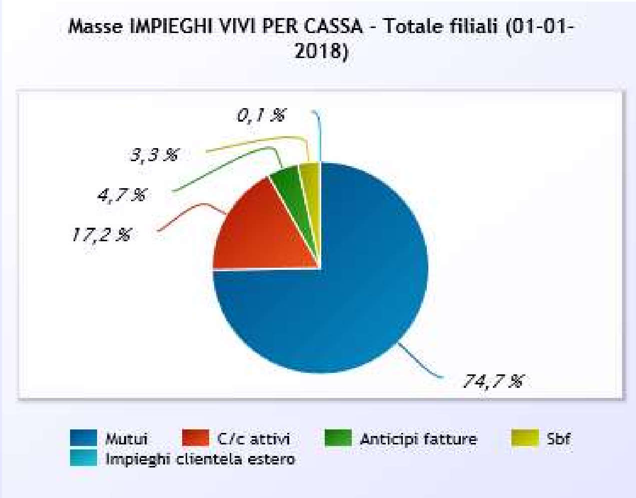

Figures at 31/12/2018




Figures at 01/01/2018

*Table 2 Breakdown of outstanding cash loans*



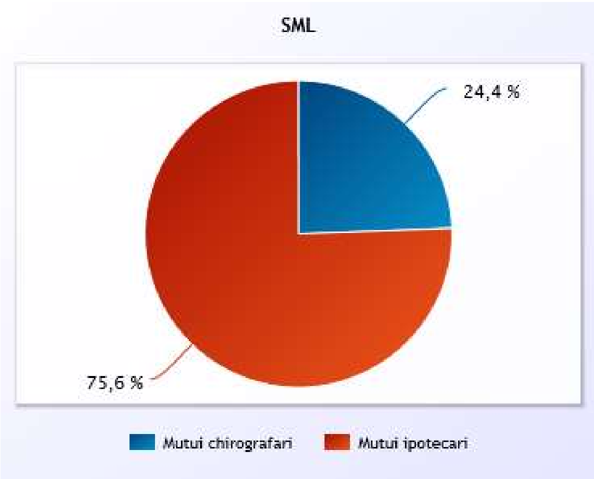



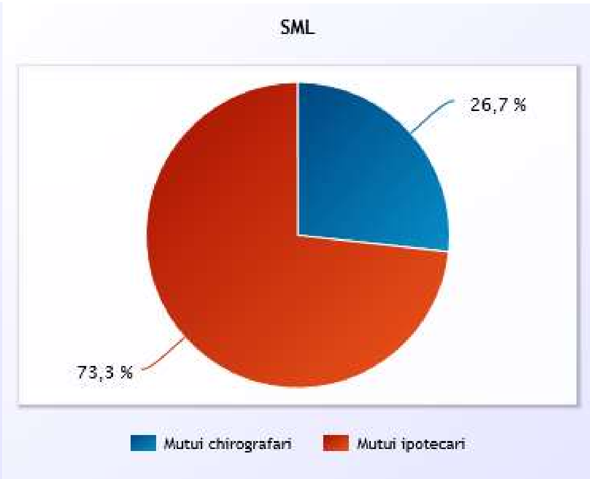

Figures at 31/12/2018

Figures at 01/01/2018

The breakdown of the item remained basically unchanged compared to the figure at the beginning of the year. Specifically: The year-on-year trend shows a total contraction of the technical forms making up the Bank's loans, except for mortgage loans which showed a slight increase (**Table 2**) . With regard to the loan sector, accounting for 76% of the credit portfolio, mortgage loans prevailed, accounting for 76%, up from the figure recorded at the beginning of the year (73%); the remainder, 24%, consisted of unsecured loans, as shown in (**Table 3**).

*Table 3 Classification of loans by nature*



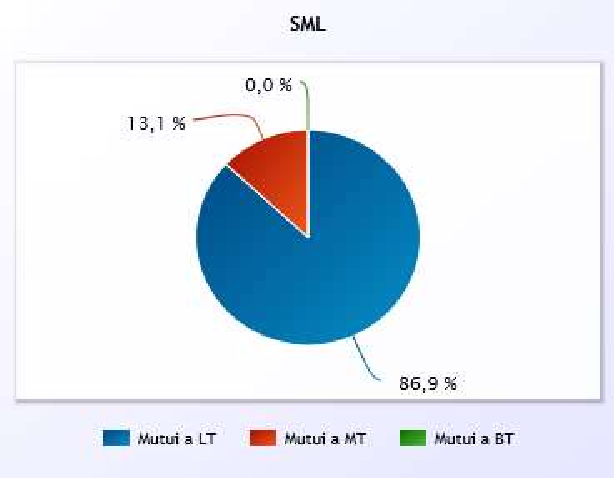



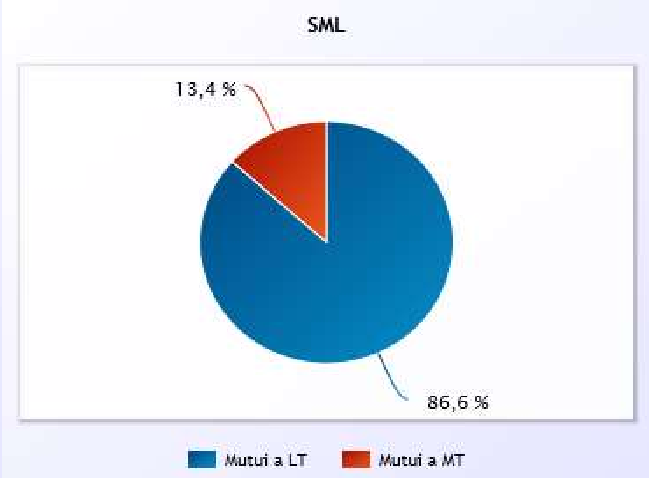

Figures at 31/12/2018

Figures at 01/01/2018

In terms of maturities that characterize the loans in the portfolio (Table 4), there was a greater concentration in the long term, which accounted for 86.9% of the total.

*Table 4 Classification of loans by maturity*

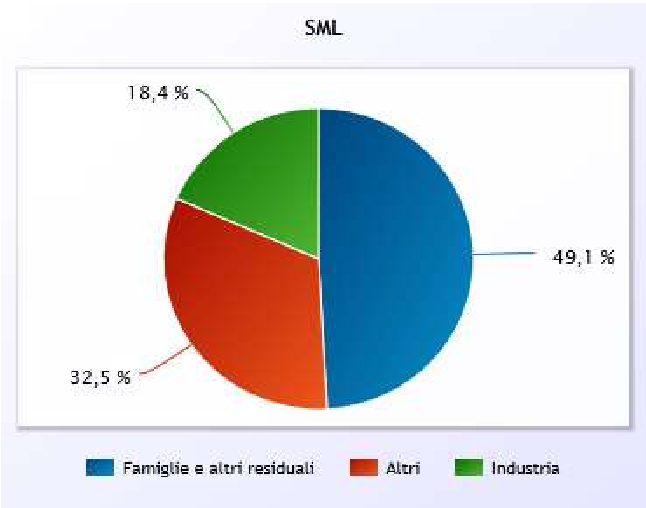


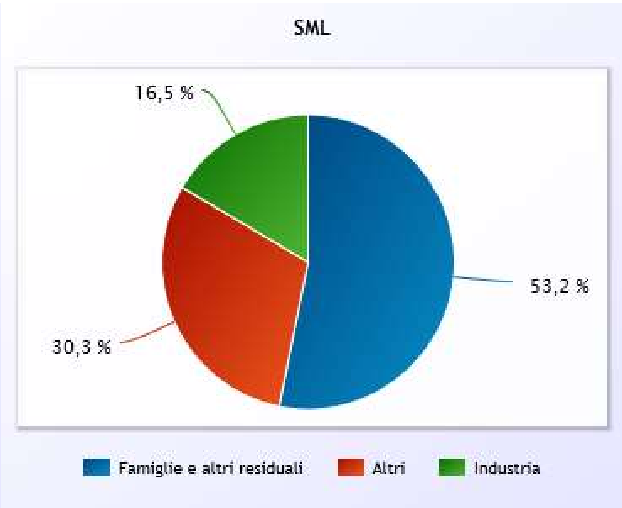




Figures at 31/12/2018 Figures at 01/01/2018

Lastly, **table 5** shows loans by borrower.

*Table 5 Classification of loans by code of economic activity (ATECO)*




Figures at 31/12/2018 Figures at 01/01/2018

*Key:*

*Industry : this figure includes exposures that, based on ATECO classification, refer to counterparties engaged in the "manufacturing" (food, textile, beverage, leather goods and similar industries, etc.), "constructions" and "supply of electricity, gas, steam and air" sectors.*

*Others : this figure includes exposures that, based on ATECO classification, refer to counterparties engaged in "wholesale and retail trade", "transport and storage", "real estate activities", "professional, scientific and technical activities", "health" and social care", etc.*

### *Loans to customers: credit quality*

Before describing the breakdown of loans to customers as at 31 December 2018, the effects of the application of the new IFRS 9 should be considered, especially with regard to the new impairment model. For a more in-depth analysis, please refer to the extensive comments provided in Section A.1, paragraph 4.6 *"Transition to the international accounting standard IFRS 9"* of Part A "Accounting Policies" of this Report.

Generally and in a nutshell, it can be stated that the introduction of the new IFRS 9 should be analysed with respect to two different moments: first, as at 1 January 2018 (First Time Adoption - FTA) when higher provisions for loans to customers were recognized for a total of € 833 thousand, mainly relating to performing loans; second, with respect to the reporting date of these financial statements, which takes into account the changes in loans during the year resulting in provisions amounting to € 217 thousand.

The impacts of the transition to the IFRS 9 on the Bank's loan portfolio as at 31/12/2017 (pursuant to IAS 39) are presented below (**table 1**) on a preliminary basis, with the balances restated as at 1 January 2018.

*Table 1 Quality of FTA credit: breakdown*

| Items | IFRS 9 (01/01/2018) | | | | | IAS 39 (31/12/2017) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| €/000 | Gross exp. | Amend ments | Net exp. | Hedging in % terms | Incid. in % term | Incid. in % term | Incid. in % term | Incid. in % term | Incid. in % term | Incid. in % term |
| Non-performing loans | 3,126 | -1,687 | 1,439 | 54.0 | 5.5 | 3,126 | -1.687 | 1,439 | 54.0 | 5.3 |
| Unlikely to pay | 1,256 | -440 | 816 | 35.0 | 3.1 | 1,256 | -286 | 970 | 22.8 | 3.6 |
| Past due/overdrawn loans | 583 | -150 | 433 | 25.7 | 1.7 | 583 | -150 | 433 | 25.7 | 1.6 |
| **Impaired loans** | **4,965** | **-2,277** | **2,688** | **45.9** | **10.3** | **4,965** | **-2,123** | **2,842** | **42.8** | **10.5** |
| **Loans in Stage 3** | **4,965** | **-2,277** | **2,688** | **45.9** | **10.3** | **n.a** | **n.a** | **n.a** | **n.a** | **n.a** |
| **Performing loans** | **24,298** | **-831** | **23,467** | **3.4** | **89.7** | **24,298** | **-152** | **24,146** | **0.6** | **89.5** |
| Loans in Stage 2 | 13,691 | -650 | 13,041 | 4.7 | 49.9 | n.a | n.a | n.a | n.a | n.a |
| Loans in Stage 1 | 10,607 | -181 | 10,426 | 1.7 | 39.9 | n.a | n.a | n.a | n.a | n.a |
| **Loans to customers** | **29,263** | **-3,108** | **26,155** | **10.6** | | **29,263** | **-2,275** | **26,988** | **7.8** | |

An analysis of the above data shows a significant increase in the coverage ratio for performing loans (classified on the basis of credit risk in stage 1 and stage 2, according to the accounting rules of IFRS 9 ), which - due to the new impairment model - rose from 0.6% at the end of 2017 to 3.4% at 1 January 2018. Therefore, collective impairment provisions for performing loans rose from € 152 thousand in December 2017 to € 831 thousand at 1 January 2018. As shown in the table, the most significant value adjustments mainly refer the credit exposures allocated to stage 2. Furthermore, there was an increase in total value adjustments related to loans classified as Unlikely to Pay, which increased by a total of € 154 thousand (which resulted in a coverage ratio of 35% at the beginning of 2018).

Thus, the transition to IFRS 9 on 1 January 2018 resulted in an overall significant increase in the coverage ratio of the entire stock of loans, which rose from 7.8% to 10.6%.

With reference to the values as at 31 December 2018, the trend of the customer loan portfolio (loans to customers) in the course of 2018 is reported below (**table 2**) in terms of gross and net amounts, allocation to the various stages and associated coverage ratio and weight.

*Table 2 Credit quality: breakdown*

| Items | 31/12/2018 | | | | | 01/01/2018 | | | | | Change |
|---|---|---|---|---|---|---|---|---|---|---|---|
| €/000 | Gross exp. | Overall adjustments | Net exp. | Hedging in % terms | Incid. in % terms | Gross exp. | Overall adjustments | Net exp. | Hedging in % terms | Incid. in % terms | Net exp. |
| Non-performing loans | 2,840 | -1,504 | 1,336 | 53.0 | 5.7 | 3,126 | -1,687 | 1,439 | 54.0 | 5.5 | (103) |
| Non-performing loans | 1,514 | -442 | 1,072 | 29.2 | 4.6 | 1,256 | -440 | 816 | 35.0 | 3.1 | 256 |
| Past due/overdrawn loans | 1,129 | -156 | 973 | 13.8 | 4.2 | 583 | -150 | 433 | 25.7 | 1.7 | 540 |
| **Impaired loans (Stage 3)** | **5,483** | **-2,102** | **3,381** | **38.3** | **14.5** | **4,965** | **-2,277** | **2,688** | **45.9** | **10.3** | **693** |
| **Performing loans** | **20,607** | **-657** | **19,950** | **3.2** | **85.5** | **24,298** | **-831** | **23,467** | **3.4** | **89.7** | **(3,517)** |
| Loans in Stage 2 | 11,137 | -578 | 10,559 | 5.2 | 45.3 | 13,691 | -650 | 13,041 | 4.7 | 49.9 | (2,482) |
| Loans in Stage 1 | 9,470 | -79 | 9,391 | 0.8 | 40.3 | 10,607 | -181 | 10,426 | 1.7 | 39.9 | (1,035) |
| **Loans to customers** | **26,090** | **-2,759** | **23,331** | **10.6** | | **29,263** | **-3,108** | **26,155** | **10.6** | | **(2,824)** |

At 31 December 2018, net impaired loans amounted to €3,381 thousand, up around 700 thousand on the figure at the beginning of the year (2,688 thousand). The percentage of net impaired exposures out of net total loans granted (NPE Ratio) stood at 14.5% in December 2018, improving compared to the 10.3% figure recorded at 1 January 2018. This trend was also strongly affected by the contraction in the stock of loans recorded at the end of the year (-10.8% for gross exposures, -10.8% for net exposures).

The coverage ratio for impaired loans went from 45.9% at the beginning of the year to 38.3% at 31 December 2018.

More specifically, with reference to loans to customers allocated to Stage 3, the following should be noted:

- gross and net non-performing loans dropped of € 286 thousand and € 103 thousand respectively at 31 December 2018. At 31 December 2018, the coverage ratio was around 53%;
- net unlikely to pay increased (+ € 256 thousand) compared to 1 January 2018. The coverage ratio stood at around 29.2% at 31 December 2018;

- net overdue/overdrawn loans were up € 540 thousand compared to the reference figure. At 31 December 2018, the coverage ratio was 13.8%.

Performing loans, amounting to € 19,950 thousand net of value adjustments, showed a 15% decrease (-3,517 thousand) with respect to the comparison figure (23,467 thousand). At 31 December 2018, the coverage ratio for performing loans stood at 3.2%, substantially in line with the comparison figure (3.4%) and a significant increase compared to 0.6% at 31/12/2017.
With regard to the allocation of performing loans to the "stages" required by IFRS 9, the breakdown of the performing loan portfolio, which accounted for 85.5% of total outstanding loans, was as follows as at 31 December 2018:

- **Stage 1**: loans included in this risk stage, net of the associated value adjustments, accounted for 47% of the Bank's performing portfolio and 40% of total loans. At the reporting date, the hedging ratio stood at 0.8%.
- **Stage 2**: loans included in this risk stage, net of the associated value adjustments, accounted for 53% of the Bank's performing loans and 45% of total loans. At the reporting date, the hedging ratio stood at 5,2%.

  The weight of this aggregate on the stock of performing loans was essentially attributable to some automatic triggers which led to the allocation of approximately 88% of performing exposures in this risk class. Specifically:

- 63% consists of positions without rating as of their origination, for a gross amount of € 7,023 thousand;
- 18% consists of forborne positions, for a gross amount of € 1,962 thousand;
- 7% consists of positions that are past due by over 30 days, for a gross amount of € 827 thousand.

  The residual amount (12%, gross value € 1,335 thousand) was attributable to exposures that recorded an increase in their Lifetime PD with respect to origination.

## *Financial assets other than loans (financial assets as securities)*

### *Financial assets carried at amortised cost*

| Items (€/000) | 31/12/2018 | 01/01/2018 | Change in absolute terms | Change in % terms |
|---|---|---|---|---|
| **Debt securities** | **4,245** | **2,833** | **1,412** | **49.8** |
| of which Stage 1 | *4,245* | *2,833* | *1,412* | *49.8* |
| of which Stage 2 | – | – | – | – |
| of which Stage 3 | – | – | – | – |

At 31 December 2018, debt securities measured at amortized cost and classified under item "Financial assets measured at amortized cost" amounted to € 4,245 net of value adjustments recognized to reflect credit risk pursuant to IFRS 9.

With reference to the comparison figure, as detailed in Section A.1 - Part A "Accounting Policies" of these Financial Statements, the amount refers to the portion of debt securities held for trading pursuant to IAS 39 and allocated to a "Hold to Collect (HTC)" business model upon adoption of IFRS 9 (01/01/2018).

All the securities included in the Bank's HTC portfolio are allocated in Stage 1, based on the adopted stage allocation approach. The pertinent provision for bad debts was around € 6 thousand at 31 December 2018.

In terms of breakdown of the portfolio by debtors / issuers, at the reference date 43% of the portfolio consisted of government securities, 35% of securities from issuers in the banking sector, while the remainder consisted of debt securities from other issuers.

*Financial assets carried at fair value through profit or loss*

| Items (€/000) | 31/12/2018 | Incid. in % terms | 01/01/2018 | Incid. in % terms | Change in absolute terms | Change in % terms |
|---|---|---|---|---|---|---|
| **Financial assets held for trading** | **7,384** | | **7,611** | | **(227)** | **(3.0)** |
| a) Public Administrations | **423** | 5.7 | 1,299 | 17.1 | (876) | (67.4) |
| b) Banks | **3,797** | 51.4 | 3,602 | 47.3 | 195 | 5.4 |
| c) Other issuers | **3,164** | 42.9 | 2,710 | 35.6 | 454 | 16.8 |
| **Financial assets mandatorily measured at fair value** | **11** | | **–** | | **11** | **–** |
| **Total financial assets carried at fair value through profit or loss** | **7,395** | | **7,611** | | **(216)** | **(2.8)** |

Financial assets carried at fair value through profit or loss amounted to € 7,395 thousand at 31 December 2018 and mainly consisted of financial instruments held for trading (€ 7,384 thousand).

At 31 December 2018, the bank's trading book comprised 18 bonds for a total nominal amount of € 7,585,000.00, down 34% compared to the nominal amount at 01/01/2018. The securities were almost entirely from Italian issuers (83.76%); the residual yield on maturity at the calculation date was 2.90% with a Modified Duration of 1.34 years. The net result from trading activities of the trading book was a loss of € 222 thousand for the year.

The composition of the portfolio is characterized by a prevalence of bonds of national financial, banking and insurance issuers for around 66.1%, generic corporates for 28.2% and securities of government issuers for 5.7%.

Market risk at 31 December 2018, corresponding to the maximum potential loss with a 99% confidence interval, estimated through the VaR Monte Carlo, was 153,092.46 (2.07%) over one month and 259,067.39 (3.50%) over three months.

The portfolio's resilience under exceptional and sudden stress, evaluated against a positive/negative change in market rates of 100 bps (on the swap curve) would equal € -96,719.71(-1.31%) in the presence of a rise in rates, while a contraction in rates would result in a portfolio capital gain of € 111,169.89 (+1.50%).

The price trend in the year was significantly affected by the deteriorating political and economic climate following the formation of the new government in Italy. In May 2018, the spread between the ten-year benchmark on Italian and German sovereign bonds rose from 120 at the beginning of the month to 241 basis points, with a peak of 287 basis points before the end of the month. In autumn, the situation further deteriorated amid concerns that an infringement procedure may be launched against Italy during the approval of the 2019 budget law. This scenario was exacerbated by fears of a tightening of monetary policies in the United States and in Europe, and the uncertainty arising from the unpredictable outcome of Brexit negotiations. The combined effect of these factors weighed heavily on all asset classes listed on the international financial markets. 2018 can be defined as an “annus orribilis” with general decline in confidence.

With regard to the current and predictable operating performance and with particular reference to the Italian and European situation, following the approval of the 2019 budget law, confidence was restored in the markets, which, also due to a marked repricing with respect to the depressed prices at the end of the previous year, recorded a general recovery in the first quarter.
In anticipation of these developments, purchases were made at the low prices prevailing before the end of the year, which proved fruitful in the first quarter of 2019; during this period, the trading books performed well and, in some cases, completely offset previous year's losses.
There are still credit risks which are linked to developments in the Italian political and economic situation and especially to discussions between the Italian government and the EU Commission, possibly accentuated by uncertainty as to the evolution of Europe-US-China trade relations and the still uncertain outcome of negotiations for Britain's exit from the European Union. Conversely, monetary policy has become more accommodative compared to the gradual tightening expected last year; as a result, interest rate risks have moved to the background in the general scenario, driven by a still flat inflationary trend, exacerbated by expectations of further general slowdown in economic growth.

*Financial assets carried at fair value through other comprehensive income*

| Items (€/000) | 31/12/2018 | 01/01/2018 | Change in absolute terms | Change in % terms |
|---|---|---|---|---|
| **Equity securities** | **913** | **1,000** | **(87)** | **(8.7)** |
| **Debt securities** | **7,503** | **7,327** | **176** | **2.4** |
| of which Stage 1 | **6,543** | 7,327 | (784) | (10.7) |
| of which Stage 2 | **960** | – | 960 | – |
| of which Stage 3 | **–** | – | – | – |
| **Total financial assets carried at fair value through other comprehensive income** | **8,416** | **8,327** | **89** | **1.1** |

At 31 December 2018, securities carried at fair value through other comprehensive income stood at € 8,416 thousand.

With reference to the comparison figure, the amount of € 7,327 thousand refers to the portion of debt securities held for trading (pursuant to IAS 39) which were allocated to a "Hold to Collect (HTC)" business model upon adoption of IFRS 9 (01/01/2018).

In terms of breakdown of debt securities by debtors/issuers, at the reporting date 63% of the portfolio was made up of securities from banking and financial issuers, while the remaining 37% consisted of government securities.

With regard to the impairment of these types of financial assets under IFRS 9, around 87% of debt securities are allocated in Stage 1 based on the adopted stage allocation approach. The pertinent provision for bad debts, classified in “Valuation equity reserves”, was around € 39 thousand.

Equity instruments, € 913 thousand, included the shares of Banca Regionale di Sviluppo S.p.A. subscribed by the Bank in 2016.

In this regard, upon First Time Adoption (FTA) of IFRS 9, the Bank made the irrevocable choice of presenting subsequent changes in the fair value of the mentioned equity investments in other comprehensive income (FVOCI Option), since these equity securities are not held for trading nor are they a contingent consideration recognized by the purchaser in a business combination to which IFRS 3 applies.

The negative change of € 87 thousand compared to the amount at beginning of the year is attributable to the impairment recognized in the specific equity reserve when measuring the related equity securities. For further details, reference should be made to the special section of the Notes.

### *Equity investments*

At 31 December 2018, equity investments recorded in the financial statements amounted to € 33 thousand.

Pursuant to IFRS 10, this item includes the equity investment in the subsidiary Promos Corporate Consulting S.r.l., incorporated in September 2018 following the aforementioned strategic initiatives undertaken by the management and, among others, the reorganization of the pre-existing line Corporate Finance business.

For further details, reference should be made to the special Section of the Notes.

### *Tangible and intangible assets*

Property, plant and equipment, amounting to € 5,640 thousand, recorded a 3% drop due to the accumulated depreciation for the year.

Intangible assets stood at € 340 thousand, versus € 91 thousand at 1 January 2018. The increase recorded is entirely attributable to the recognition, pursuant to IAS 38, of intangible assets based on internally developed technology. They specifically refer to 4 software applications developed by the Research and Development Laboratory of the Bank. Such software, aimed at supporting the various business lines of the Bank, is therefore able to produce future economic benefits.
In compliance with the applicable accounting standard, research costs were recognized as incurred; conversely, the expenses incurred internally for the development of the related software projects were recognized, and therefore capitalized in the balance sheet: these costs mainly refer to the cost of personnel involved in the individual projects concerning the development of individual IT platforms. Recognized intangible assets are amortized on the basis of their expected technological obsolescence.

### *Funding*

Payables to customers, € 34,480 thousand, and outstanding securities, € 4,754 thousand, decreased by 13.5% and 8.6% respectively from the beginning of the FY.
Based on an analysis of evidence received from Management Control, overall funding - accounting for approximately 79% of the total volume of loans and funding managed by the Bank at the reporting date – decreased by around € 16.8 million (-15.5%), from € 109 million at the beginning of 2018 to € 92.4 million at 31 December 2018. The decrease recorded in total funding was mainly attributable to the indirect component.
Indirect funding accounted for around 58% of total funding, the remainder (42%) consisting of direct funding.
**Table 1** shows the yearly data regarding the trend in total funding of the Bank.

*Table 1 Overall funding performance*

| Items (€/000) | 31/12/2018 | Incid. in % terms | 01/01/2018 | Incid. in % terms | Change In absolute terms | Change % terms |
|---|---|---|---|---|---|---|
| SICAV and funds | 5,367 | 10.0 | 2,846 | 4.3 | 2,521 | 88.6 |
| Managed: | 48,192 | 90.0 | 63,153 | 95.7 | (14,961) | (23.7) |
| *- Shares* | *36,064* | *67.3* | *35,610* | *54.0* | *454* | *1.3* |
| *- Bonds* | *12,128* | *22.7* | *27,543* | *41.7* | *(15,415)* | *(56.0)* |
| **Indirect funding** | **53,559** | **57.9** | **65,999** | **60.4** | **(12,440)** | **(18.8)** |
| Current accounts | 26,437 | 68.0 | 28,557 | 65.9 | (2,120) | (7.4) |
| Time deposits | 6,168 | 15.8 | 7,631 | 17.6 | (1,463) | (19.2) |
| Savings accounts | 1,547 | 4.0 | 2,200 | 5.1 | (653) | (29.7) |
| Bonds issued to clients | 4,340 | 11.2 | 4,790 | 11.1 | (450) | (9.4) |
| Funding from foreign customers | 376 | 1.0 | 140 | 0.3 | 236 | - |
| **Direct funding** | **38,868** | **42.1** | **43,318** | **39.6** | **(4,450)** | **(10.3)** |
| **Total funding** | **92,427** | | **109,317** | | **(16,890)** | **(15.5)** |

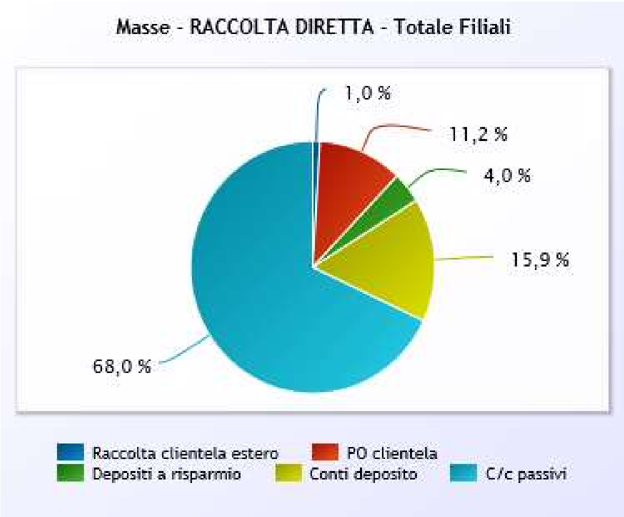
The comparison of data shows similar performances in direct and indirect funding compared to data recorded at the beginning of FY2018.

Specifically, indirect funding recorded a decrease of € 12.4 million (-19%) with respect to the comparative figure. The decrease was essentially influenced by the decrease in assets under administration relating to institutional customers, and more specifically in the bonds segment, which fell by about € 15.4 million. Although to a relatively less significant extent, assets relating to Funds and Sicavs (+ 89%) showed a robust trend, recording an increase of € 2.5 million at the end of 2018, which was the result of the strategic initiatives undertaken by the Bank to expand the placement of third-party products.

Direct funding showed a reduction of approximately € 4.4 million (-10%) compared to the figures at the beginning of the year. The main changes underlying this decline were essentially attributable to the current account segment, which decreased by around 2.1 million, and the deposit accounts down by around 1.4 million.

Concerning the various types of direct funding used by the Bank, management data show (**Table 2**) a significant incidence of customer current accounts (68%) compared to other forms of funding. For a breakdown of direct funding see the tables.

*Table 2 Breakdown of Direct funding*

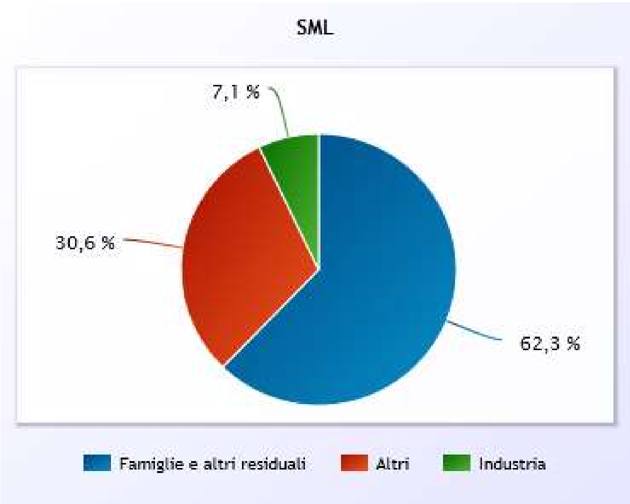



Figures at 31/12/2018

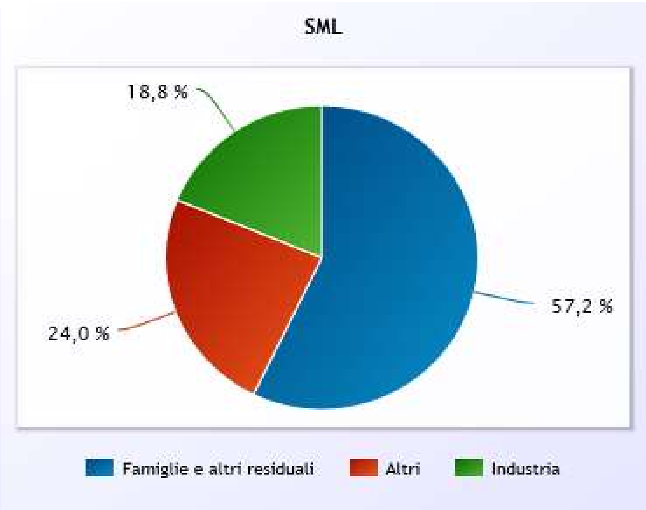

Figures at 01/01/2018

Customer current accounts, which account for the majority of direct funding used by the bank, are especially concentrated in the household segment, as reported in (**Table 3**).

*Table 3 Classification of customer current accounts by economic activity code (ATECO)*




Figures at 31/12/2018




Figures at 01/01/2018

### *Shareholders' Equity*

The share capital was unchanged, consisting of 7,740,000 shares with a nominal value of € 1 each.

The Bank shareholders' equity, including the loss for the year, amounted to € 11.5 million, compared to around € 13 million at 1 January 2018 and € 13.9 million at 31 December 2017. The first-time adoption of IFRS 9 (FTA) had a negative impact of € 884 thousand on profit reserves and a positive impact of € 15 thousand on valuation reserves.

It should be noted that - as in the past year - in keeping with a prudent and constant monitoring and compliance with mandatory capital requirements - as recommended by the Supervisory Bodies, the Bank did not distribute dividends from its reserves, given the loss recorded at year-end 2018.

## *Own Funds and capital ratios*

*Table 1 Own Funds and capital ratios*

| Own Funds and capital ratios (€/000) | 31/12/2018 | | 31/12/2017 |
|---|---|---|---|
| | IFRS 9 Transitional arrangements | IFRS 9 Fully Loaded | |
| **Own Funds** | | | |
| CET1 net of regulatory adjustments | **11,742** | **10,917** | **13,636** |
| AT1 net of regulatory adjustments | – | – | – |
| **TIER 1 CAPITAL (TIER 1)** | **11,742** | **10,917** | **13,636** |
| T2 net of regulatory adjustments | – | – | – |
| **TOTAL OWN FUNDS** | **11,742** | **10,917** | **13,636** |
| Risk-weighted assets | | | |
| Credit and counterparty risk | 30,957 | 30,289 | 24,470 |
| Market risks | 8,234 | 8,234 | 14,680 |
| Operating risks | 7,648 | 7,648 | 8,593 |
| **RISK-WEIGHTED ASSETS** | **46,839** | **46,171** | **47,743** |
| **Capital ratios %** | | | |
| Common Equity Tier 1 Ratio | 25.07% | 23.64% | 28.56% |
| Tier 1 ratio | 25.07% | 23.64% | 28.56% |
| Total capital ratio | 25.07% | 23.64% | 28.56% |

Own Funds, risk-weighted assets and capital ratios at 31 December 2018 were calculated on the basis of the harmonized framework for banks and investment firms contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, which implement in the EU the standards defined by the Basel Committee for Banking Supervision (Basel 2 Framework) and on the basis of the pertinent Banca d'Italia's Circulars.

These regulatory provisions provided for the gradual introduction of the new regulatory framework, through a transitional period. Starting from 1 January 2018, these transitional provisions were phased out, with the exception of the filter on valuation reserves for actuarial gains or losses (IAS 19), for which a specific temporary treatment is still in place, which will end in the current financial year.

Following the mandatory introduction of the international accounting standard IFRS 9 in place of the previous IAS 39, the principle was adopted for the first time (First Time Adoption - FTA), with consequent restatement and, where necessary, recalculation of the values of financial instruments to take into account the new rules. The effects of first time application were recognized in an equity reserve.

The effects on the regulatory capital do not give rise to any critical issues, also considering that any negative impact will be diluted over 5 years according to a non-linear mechanism, following the Bank application of the 'Phase-in' regime, introduced by Regulation (EU) 2017/2395.

Specifically, the 'Phase-in' involves the introduction of a prudential filter that mitigates - in the 2018-2022 period (the transitional period) - the potential negative impact on CET1 arising from greater value adjustments upon application of the new IFRS9 impairment model:

- a static approach: to be applied to the impact of the FTA only, resulting from the comparison between IAS 39 value adjustments at 31 December 2017 and IFRS value adjustments at 1 January 2018 (including adjustments to the *Stage* 3 position);
- a dynamic approach: to be applied to the impact resulting from the comparison between the value adjustments at 1 January 2018 and the subsequent reporting periods up to 31 December 2022, limited however to the increases in value adjustments of exposures classified in stage 1 and 2 (thus excluding adjustments to *stage* 3 positions).

The Bank application of the transitional regime (Phase-in) allows for the re-inclusion in CET1, during the 2018-2022 period, of the impact (both the static and the dynamic components) to the extent shown below, for each of the 5 years comprised in the transitional period:

- 2018: 95%
- 2019: 85%
- 2020: 70%
- 2021: 50%
- 2022: 25%

This adjustment to CET1 requires a symmetrical adjustment to the amounts of the exposures pursuant to Article 111, paragraph 1, of the CRR for the purpose of determining the credit risk capital requirements under the standardized approach.

Regulation (EU) 2017/2395 also governs the disclosure obligations that banks are required to comply with, while specific guidelines on the subject are issued by EBA. As reported in the guidelines issued by the EBA in January 2018, banks that opt for the temporary treatment disclose "Fully Loaded" information to the market (i.e. as if the mentioned temporary treatment had not been applied).

The figures shown in (**tab. 1**) show that the bank's capital is more than adequate to cover the exposure to the risks assumed, as evidenced by the level of the main Basel 3 ratios, which show the ratio between primary capital and the bank's exposure to risk.

Specifically, at 31 December 2018, taking into account the transition regime adopted to mitigate the impact of IFRS 9, Own Funds amounted to € 11,742 thousand, compared to weighted assets of € 46,839 thousand, predominantly reflecting credit and counterparty risks, and to a lesser extent, market and operational risks.

Therefore, capital ratios at 31 December 2018, calculated considering the above-mentioned transitional regime for IFRS 9 impacts ("IFRS 9 – Transition Regime"), were the following: Total Capital Ratio at 25.07%; Tier 1 ratio at 25.07%; Common equity ratio at 25.07%.

Considering the full inclusion of the IFRS9 impact ("Fully Loaded"), at the same reporting date, Own Funds amounted to € 10,917 thousand, against risk-weighted assets of € 46,171 thousand.

It follows that the solvency ratios as at 31 December 2018, calculated according to the "fully loaded" criteria, were as follows: Common Equity ratio 23.64%, Tier 1 ratio 23.64% and Total capital ratio 23.64%.

Please note that, as established by Banca d'Italia pursuant to art. 53-bis, paragraph 1, letter d) of Legislative Decree No. 385/93 (TUB) - for capital adequacy purposes the Bank is required to comply with specific capital requirements (illustrated in **tab. 2**) as defined at the outcome of the SREP, in addition to the minimum capital metrics[1] provided for in the current regulations. The capital ratios quantified taking into account the additional requirements are mandatory ("target ratio").

*Table 2 Additional capital requirements*

| | CET1<br>Common Equity<br>Tier 1 Capital Ratio | T1<br>Tier 1<br>Capital Ratio | Total<br>Capital Ratio |
|---|---|---|---|
| **OCR ratio**<br>(former SREP) | 7.21% | 8.99% | 11.36% |
| **Capital target**<br>(OCR + target element) | 8.71% | 10.49% | 12.86% |
| **Bank's ratios at 31/12/2018 (Transition Regime)** | 25.07% | 25.07% | 25.07% |
| **Bank's surplus vs. Capital target** | 16.36% | 14.58% | 12.21% |

Therefore, the capital requirements based on the Bank's risk profile, pursuant to Banca d'Italia measure of 03/12/2018, consist of mandatory capital requirements (i.e. the sum of the minimum requirements pursuant to Article 92 of the CRR and the additional mandatory requirements determined as a result of the SREP) and of the capital conservation buffer applicable under the current transitional provisions of 1.875% (2.5% when fully in force, in 2019), overall making up the *overall capital requirement ratio - OCR* , as indicated below:

- 7.21% with reference to CET 1 ratio (made up of 5.33% as binding amount and of the capital

[1] For minimum capital requirements, please refer to the mandatory parameters provided for in the regulatory provisions in force (art. 92 of CRR), according to which CET 1 must satisfy at least the 4.5% requirement on total risk-weighted assets (CET1 capital ratio), Tier 1 must represent at least 6% of total risk-weighted assets (Tier 1 capital ratio) and the Bank's overall own funds must be at least 8% of total risk-weighted assets (Total capital ratio).

conservation buffer for the remainder);

- 8.99% with reference to TIER 1 ratio (made up of 7.12% as binding amount and of the capital conservation buffer for the remainder);
- 11.36% with reference to Total Capital Ratio (made up of 9.49% as binding amount and of the capital conservation buffer for the remainder.

In addition, to ensure that the mandatory measures are complied with even when the economic / financial situation deteriorates, the Bank is also subject to the following capital guidance measures as against a greater risk exposure under stress conditions:

- 8.71% with reference to CET 1 ratio (made up of an OCR CET 1 ratio of 7.21% and a Target amount, due to a higher risk exposure in stress conditions, of 1.50%);
- 10.49% with reference to TIER 1 ratio (made up of an OCR CET 1 ratio of 8.99% and a Target amount, due to a higher risk exposure in stress conditions, of 1.50%);
- 12.86% with reference to Total Capital ratio (made up of an OCR CET ratio of 11.36% and a Target amount, due to a higher risk exposure in stress conditions, of 1.50%).

As regards the leverage ratio, which reflects the quantitative assessment of exposure to the risk of excessive leverage, in 2018 the "fully loaded" leverage ratio was 17.76%.

The Bank carefully monitored the Liquidity Coverage Ratio (LCR), which aims to ensure that an adequate level of high-quality, readily marketable and unencumbered liquid assets is maintained during the year; this indicator, standing at 325% at the end of 2018, was steadily higher than the 100% minimum threshold for 2018.

For a complete quantitative information on the Bank's assets, please refer to the information provided in Part F - Information on Equity of the Notes.

## Income statement items

### *Introduction*

To allow for a more straightforward reading of the Bank's income statement a summary income statement has been prepared.

In order for data to be comparable, the figures in the reclassified income statement for the comparison year have been reclassified on a conventional basis into the new items envisaged by the 5th update of Circular 262. Therefore, as permitted by IFRS 1, the comparative figures reflect the valuation under the previous IAS 39.

*Table 1 Reclassified Income Statement (€/000)*

| Items | 31/12/2018 | 31/12/2017 | Change | |
|---|---|---|---|---|
| | | | in absolute terms | in % terms |
| Net interest | 994 | 1,089 | (95) | (8.7) |
| Net commissions | 233 | 162 | 71 | 43.8 |
| Net result of financial assets/liabilities carried at fair value | 1,809 | 2,892 | (1,083) | (37.4) |
| Other operating income (expenses) | 404 | 179 | 225 | – |
| **Net operating income** | **3,440** | **4,322** | **(882)** | **(20.4)** |
| Personnel costs | (2,355) | (2,711) | (356) | (13.1) |
| Administrative expenses | (1,723) | (1,661) | 62 | 3.7 |
| Amortization and depreciation of intangible and tangible fixed assets | (346) | (322) | 24 | 7.5 |
| **Operating costs** | **(4,424)** | **(4,694)** | **(270)** | **(5.6)** |
| **Result from operations** | **(984)** | **(372)** | **612** | **–** |
| Allocations to provisions for liabilities and charges | (91) | – | 91 | – |
| Net impairment losses on loans and receivables | (249) | (115) | 134 | – |
| - Net adjustments to financial assets carried at fair value through other comprehensive income | (33) | (9) | 24 | – |
| **Current result before taxes** | **(1,357)** | **(496)** | **861** | **–** |
| Income taxes on current operations | 73 | 20 | 53 | – |
| **Net result** | **(1,284)** | **(476)** | **808** | **–** |

With respect to the format envisaged by Banca d'Italia Circular no. 262/2005, some items were grouped as follows:

- Net income from trading activities, the net income on other financial assets and liabilities carried at fair value through profit or loss as well as gains and losses on disposal or repurchase of financial assets carried at fair value through other comprehensive income and on disposal or repurchase of financial liabilities, are reallocated to the single item Net income of financial assets and liabilities at fair value;
- Net impairment /reversal of impairment losses for credit risk relating to financial assets measured at amortized cost and the economic effects of contractual changes are included under the single item Net impairment losses on loans;
- Grouping in a single item of depreciation and amortization of tangible and intangible assets.

Comparison of the economic performance on a yearly basis shows a negative operating profit of € 984 thousand compared to -€ 372 thousand in the prior year. The performance at the end of 2018 was especially affected by the contraction in net operating income (-20%, € 882 thousand) attributable to the decline in income from trading activities, which decreased by € 1,083 thousand. The negative trend with respect to the comparative figures reflects the mentioned trends recorded in the international capital markets as well as the regulatory impact of the introduction of the MiFID 2 legislation as of 1 January 2018.

At the same time, operating costs were down (-6%, € 270 thousand) mainly due to the reduction in personnel costs in relation to the capitalization of a share of the costs for personnel involved in the development of internally generated software; as already noted these amounts were recorded as part of the Bank's intangible assets.

### *Net interest*

Net interest, accounting for about 29% of net operating income, amounted to € 994 thousand at 31 December 2018, down 9% compared to the same period in 2017.

In general, the accommodative monetary policy of the European Central Bank, which continued throughout 2018, continued to exert downward pressure on net interest income, which was down € 95 thousand.

*Table 1 Breakdown of net interest (000)*

| Breakdown of Item 10 Income Statement Interest income | 31/12/2018 | 31/12/2017 | Change in absolute terms | Change in % terms |
|---|---|---|---|---|
| **Loans to ordinary customers** | **924** | **958** | **(34)** | **(3.5)** |
| Current accounts | 319 | 276 | 43 | 15.6 |
| Subject to collection | 28 | 24 | 4 | 16.7 |
| Advance on invoices | 53 | 48 | 5 | 10.4 |
| Mortgage loans | 523 | 608 | (85) | (14.0) |
| Foreign loans | 1 | 2 | (1) | (50.0) |
| **Loans to banks** | **6** | **–** | **6** | **–** |
| Bank current accounts | 6 | – | 6 | – |
| Demand deposits with banks | – | – | – | – |
| Loans to foreign banks | – | – | – | – |
| **Securities** | **338** | **368** | **(30)** | **(8.2)** |
| **Total loans** | **1,268** | **1,326** | **(58)** | **(4.4)** |

| Breakdown of Item 20 Income Statement Interest expense | 31/12/2018 | 31/12/2017 | Change in absolute terms | Change in % terms |
|---|---|---|---|---|
| **Funding from ordinary customers** | **190** | **162** | **28** | **17.3** |
| **Funding other than securities** | **110** | **73** | **37** | **50.7** |
| Current accounts | 7 | 4 | 3 | 75.0 |
| Time deposits | 98 | 64 | 34 | 53.1 |
| Savings accounts | 5 | 5 | – | – |
| **Total funding through securities** | **80** | **89** | **(9)** | **(10.1)** |
| Certificates of deposit | – | – | – | – |
| Bonds | 80 | 89 | (9) | (10.1) |
| **Banks** | **84** | **76** | **8** | **10.5** |
| Bank current accounts | 65 | 60 | 5 | 8.3 |
| Central Banks | 5 | 3 | 2 | 66.7 |
| Bonds - banks and other institutions | 14 | 13 | 1 | 7.7 |
| **Total funding** | **274** | **238** | **36** | **15.1** |

| | | | | |
|---|---|---|---|---|
| **Net interest from customers** | **814** | **886** | **(72)** | **(8.1)** |
| **Net interest from banks** | **(64)** | **(63)** | **(1)** | **(1.6)** |
| **Net interest on securities** | **244** | **266** | **(22)** | **(8.3)** |
| **Total Item 30 Income Statement Net interest income** | **994** | **1,089** | **(95)** | **(8.7)** |

The analysis of the net macro-aggregates comprised in the item shows (**Table 1**) a general decline in interest income. Specifically, interest income from customers, which accounted for about 82% of net interest income at the end of 2018, showed a reduction of € 72 thousand with respect to the comparative figure, as the volumes of loans to customers decreased accompanied by a general decline in average rates.

The figure relating to Banks remained substantially unchanged, down by € 1 thousand. Income items deriving from securities were down € 22 thousand compared to the previous figure.

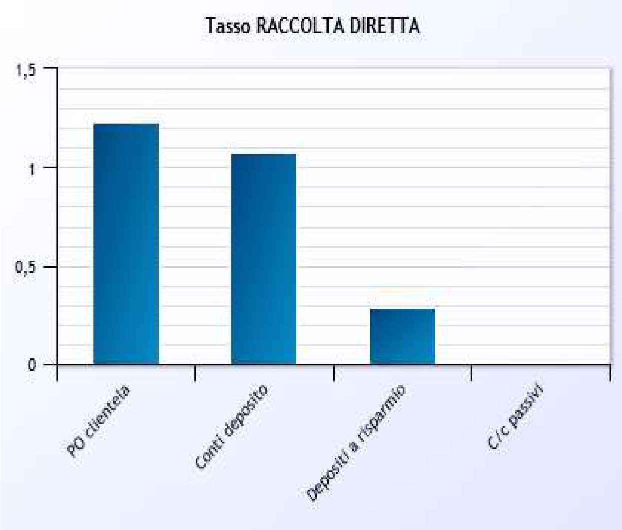
Management data at 31 December 2018, compared to the same period in 2017, showed a decline in average volumes (€ 2,971 thousand) on the loans side, together with a decline in the average lending rate (from 3.073 at 31 December 2017 to 2.856 in December 2018, **Table 2**).

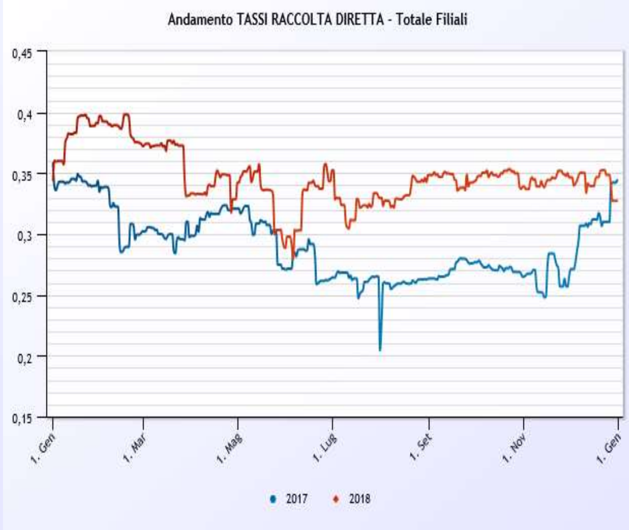
*Table 2 Trend in rates on outstanding loans (average values)*


| Types of loan | Average gross rate at 31 December 2018 |
|---|---|
| Current Accounts | 5.762 |
| Loans to foreign customers | 7.250 |
| Advance on invoices | 4.146 |
| Subject to collection | 2.487 |
| Mortgage loans | 2.693 |

Funding from customers showed a decrease in average volumes of € 4,450 thousand and a decline in the average rate applied (from 0.344 at 31 December 2017 to 0.327 at December 2018, **Table 3**).

*Table 3 Trend in rates on direct funding (average values)*

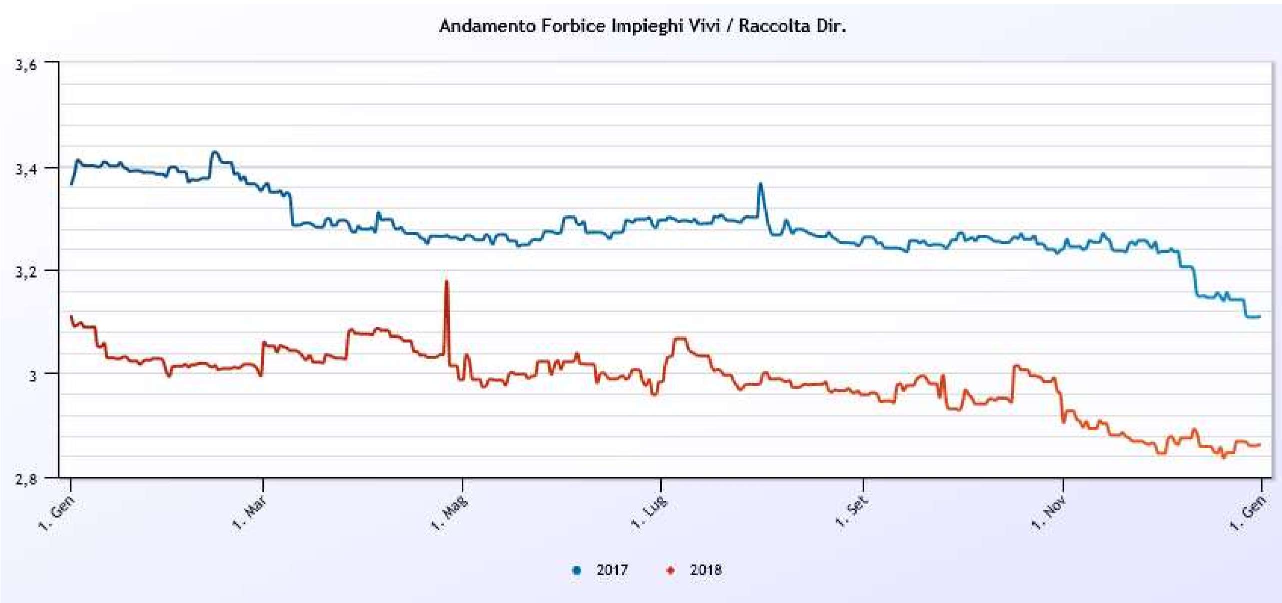



| Type of funding | Average gross rate at 31 December 2018 |
|---|---|
| Bonds issued to customers | 1.227 |
| Time deposits | 1.074 |
| Savings accounts | 0.293 |
| Current accounts | 0.012 |

The total differential between outstanding loans and direct funding decreased by about 25 bps, from 3.110 at the end of 2017 to 2.862 at the end of 2018 (**Table 4**).

*Table 4 Trend in rate differential*




### *Net commissions*

Net commissions at 31 December 2018 showed a positive result of € 233 thousand compared to € 162 thousand recorded in the previous FY.

*Table 1 Breakdown of net commissions (figures/000)*

| Breakdown of Item 40 Income Statement Commission income | 31/12/2018 | 31/12/2017 | Change in absolute terms | Change in % terms |
|---|---|---|---|---|
| Trading of financial instruments and currencies | – | – | – | – |
| Placement | 20 | 81 | (61) | (75.3) |
| Receipt and transmission of orders | 8 | 9 | (1) | (11.1) |
| Distribution of third-party products | 133 | 113 | 20 | 17.7 |
| Collection and payment services | 219 | 230 | (11) | (4.8) |
| Current accounts management | 335 | 348 | (13) | (3.7) |
| Guarantees | 4 | 3 | 1 | 33.3 |
| Financial consultancy services | 31 | 135 | (104) | (77.0) |
| Custody and management of securities | 29 | 19 | 10 | 52.6 |
| Other | 19 | 13 | 6 | 46.2 |
| **Total** | **798** | **951** | **(153)** | **(16.1)** |

| Breakdown of Item 50 Income Statement Commissions expense | 31/12/2018 | 31/12/2017 | Change in absolute terms | % change |
|---|---|---|---|---|
| Trading of financial instruments and currencies | 337 | 584 | (247) | (42.3) |
| Custody and management of securities | 30 | 27 | 3 | 11.1 |
| Collection and payment services | 32 | 31 | 1 | 3.2 |
| Other services | 166 | 147 | 19 | 12.9 |
| **Total** | **565** | **789** | **(224)** | **(28.4)** |

| | | | | |
|---|---|---|---|---|
| **Total Item 60 Income Statement Net commissions** | **233** | **162** | **71** | **43.8** |

The analysis of the items comprised in net commission income, summarized in (**Table 1**), shows an increase in commission income (+44%) mainly attributable to the reduction in commission expenses, which, as at 31 December 2018 were down by approximately € 224 thousand, especially with respect to the component arising from security trading which, as already discussed, was affected by the contraction of the period. In terms of commission income - down 16% - the main decrease was attributable to financial advisory activities associated with the “Corporate Finance” business line, which is being reorganized as part of the strategic changes discussed above.

### *Net result of financial assets/liabilities carried at fair value*

Financial assets and liabilities carried at fair value recorded in 2018 a result of € 1,809 thousand, down (-37%) € 1,083 thousand compared to the figure of 2017.

### *Operating costs*

Operating costs at 31 December 2018 were € 4,424 thousand, down (-6%, € 270 thousand) compared to the previous reference period. As mentioned, the reduction was attributable to personnel costs which amounted to € 2,355 at the end of 2018, down by € 356 thousand with respect to the comparative figure mainly due to the capitalization of part of the costs incurred for personnel dedicated to development activities. In this area, following the initiatives undertaken to contain personnel costs, the Bank incurred extraordinary one-off charges totalling € 110 thousand.

The figure for administrative expenses was substantially unchanged (+4%, € 62 thousand), amounting to € 1,723 thousand at the end of 2018, confirming careful monitoring of costs.
Depreciation and amortisation on tangible and intangible assets stood at € 346 thousand, slightly up versus the reference figure. This increase was affected by higher amortization charges arising from the recognition of internally generated software among the bank's intangible assets as at 31 December 2018.

### *Net allocations to provisions for liabilities and charges*

Net allocations to provisions for liabilities and charges stood at € 91 thousand at 31 December 2018. On the one hand, this item includes the provisions for credit risk allocated to cover financial commitments and guarantees given, which fall within the scope of application of IFRS 9 impairment rules, for a total of € 19 thousand and, for the remaining part (€ 72 thousand) the provisions for liabilities arising from legal disputes.
For details on the individual items see the tables in Part C of the Notes.

### *Net impairment losses on loans and receivables*

At 31 December 2018, net impairment losses on loans and receivables stood at € 249 thousand, up € 134 thousand compared to the figure recorded last year (€ 115 thousand). The item included € 229 thousand for net impairment/reversal of impairment losses for credit risk on financial assets measured at amortized cost (of which € 219 thousand for loans and receivables with customers and € 10 thousand for loans to banks) and € 20 thousand as losses, recognized pursuant to IFRS 9, from contractual changes without derecognition.
The cost component arising from loans to customers, amounting to € 229 thousand, reflects the combined effect of higher write-downs on impaired loans for a total of € 470 thousand and reversal of impairment losses on performing loans totalling € 251 thousand.

### *Profit (loss) for the year*

At 31 December 2018, the pre-tax loss from current operations amounted to € 1,357 thousand. The trend in taxes, which in the year generated an income item of € 73 thousand, brought down the net loss to € 1,284 thousand.

### *Cash Flow Statement*

The Cash Flow statement showed a balance between cash inflows and outflows, reflecting ordinary operations without any special events, which in the year absorbed liquidity totalling € 2,079,280. Cash and cash equivalents were sufficient to meet funding requirements.

## Regulatory changes and organizational activities

In line with recent years, 2018 was marked by an intense legislative and regulatory activity at European, national and secondary level. As a result, your Bank has been engaged throughout the period in an effort to respond to industry changes.

The following is a non-exhaustive list of the main regulatory issues concerning the banking sector, accompanied by a summary of the activities implemented by the bank.

MIFID 2

The MiFID 2 (Directive 2014/65 / EU) which came into force on 3 January 2018, together with MIFIR Regulation (EU No. 600/2014), significantly changed the European rules of markets in financial instruments.

A preliminary analysis of the legislation and expected impacts had already been performed the previous year. The adjustment continued in 2018 through the updating, or putting in place from scratch where necessary, contracts and information for customers, company policies and internal operating procedures. An outline of the revised or newly produced documentation is provided below:

- Contract for the *Provision of investment services and for the custody and administration of securities,* with pertinent pre-contractual disclosure;
- Customer profiling questionnaire defined for retail and corporate customers, meeting the requirements set forth by the MIFID 2 directive, which further underlines the “Know your client" importance as a basis for proper due diligence. The issued by ESMA allowed for more extensive and detailed information to be collected, especially in terms of capacity to withstand losses and risk tolerance;
- Order Execution and Transmission strategy;
- Policy identifying, preventing and managing conflicts of interest and mapping conflicts of interest;
- Policy for the recognition and management of incentives mapping of incentives;
- Terms and conditions for eligible counterparties and professional clients;
- Adequacy assessment process;
- Product Governance policy;
- Operating procedure for customer classification;
- Operating procedure for assessing adequacy and appropriateness.

FOURTH AML DIRECTIVE

Launched the day after the enactment of Legislative Decree no. 90/2017 which marked the implementation in Italy of the IV European Anti-Money Laundering Directive, the adjustment process continued in 2018.

The Bank reviewed the criteria for the identification of Beneficial Owners, which were expanded, and of Peps, i.e. politically exposed persons, who according to the new, more extensive regulatory definition, also include some categories of local politicians and persons occupying positions in companies controlled by public bodies.

Furthermore, the aforementioned Decree has made significant changes to customer due diligence obligations. In this regard, Banca d'Italia, by communication dated 9 February 2018, provided guidelines on compliance procedures, specifying, among other things, that the previous provisions on simplified due diligence have become totally inapplicable, as incompatible with the new rules. Indeed, the entire due diligence process is now required for all customers.

CIT

On 29 January 2018 Banca Promos introduced the new electronic processing of checks, Check Image Truncation (CIT), introduced by Law Decree 70/2011, as drawee's bank and, as of the next 7 May, it will be active as negotiating bank.

Migration to electronic processing took place gradually, on schedule and according to plans, with no repercussions on customers and on the system, thanks to an intense and thorough preparatory activity which lasted over two years.

With the CIT project, launched in 2016, computerized copies of the checks have effectively replaced paper originals for all legal purposes, generating technological, logistic and organizational impacts.

As for the technological aspects, the Bank was supported by an outsourcer for the introduction, in the first place, of the IQA (Image Quality Assurance), i.e. the set of requirements that determine whether the image of a cleared check is of sufficient quality to ensure compliance with the paper document. IQA controls were progressively integrated into the SIB2000 platform and initially used by operators in parallel with the traditional clearance of paper checks.

The technological requirements also included the use of a digital signature to be applied to the images, such as to guarantee the identity of the clearing counterparty. This is an especially important aspect of the new process and a prerequisite for the digital storage of checks in compliance with the law; this latter process was outsourced to CESVE, as part of a broader "Docudigit" service for the storage of electronic documents in compliance with legal requirements.

Finally, the Bank had to join the Notartel platform, managed by the National Association of Notaries, to ensure the correct electronic process to protest checks.

The introduction of CIT obviously required some changes to the contractual models in use and the notification of information documents to periodically update customers on the progress of this crucial transition.

It goes without saying that the impact on the bank's organization, before, and its operations, after, was considerable. The efforts just mentioned were supported by a number of training sessions designed to disseminate knowledge on the new process both among employees at the head office and those at the branches.

PSD2

On 13 January 2018, the PSD2, i.e. the second European Directive on payment services (2015/2366 EU), came into force in Italy, which introduced new rules aimed at ensuring greater protection for customers using payment services.

The adjustment to the new PSD2 Directive involved changes in the way payment services are provided and, consequently, the relevant contractual documents (Current account, Deposit account, Debit Card, Virtual Bank) were amended to incorporate said changes, which included, without limitation, a broadening of the scope of application of the legislation, both in geographical terms and in terms of applicable currencies.

For other specific provisions the legislation comes into effect in 2019, i.e. access to payment services via "third parties" and technical standards for "strong customer authentication" when security protocols are renewed for online transactions.

PRIVACY

On 25 May 2018, the European Regulation 2016/679, i.e. the GDPR - General Data Protection Regulation came into force. The publication of Legislative Decree no. 101 of 10 August 2018 entitled "Provisions for the incorporation into the national legislation of Regulation (EU) 2016/679 of the European Parliament and of the Council, of 27 April 2016, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data,”.

These provisions replaced Legislative Decree No. 196 of 30 June 2003, aligning the relevant legislation for EU member states.

The adjustment process involved the planning and execution of numerous activities in the various areas affected by the new legislation.

The most important changes included the obligation to designate a DPO (Data Protection Officer), a role characterized by specific subjective and objective requirements and involving specific tasks laid down by the Regulation, the identification of which reflects, *inter alia*, the new "accountability" and risk-based approach characterizing the European Regulation. The DPO was appointed by the Board of Directors and carried out its function with the support of an internal team.

We omit here the various formalities and analyses falling within the technical-IT scope of application, while focusing on the assessment activities that have the most impact on our stakeholders. New "information” statements were defined for the various categories of data subjects whose personal data are processed by the Bank, including: employees, consultants, suppliers, directors, visitors and, of course, customers. With regard to the last mentioned category, the structure of consent to the processing of data that is requested when data are collected was also entirely revised with the support of the outsourcer, informing customers of those changes.

In addition, the *privacy policy* and the *cookie policy* regarding the company website were examined and, where necessary, updated to comply with the new legislative requirements.

Finally, great attention was paid to training and to the dissemination among employees of a proper culture on confidential information. The GDPR training plan comprised a series of meetings that focussed on various contents according to the different responsibilities of recipients (head offices, branches, etc.).

BANK TRANSPARENCY

The Decree of the Ministry of Economy and Finance no. 70 of 3 May 2018 has introduced rules for the new “basic account” envisaged by the Consolidated Banking Act (TUB), repealing the pre-existing ABI agreement. The Bank fulfilled the requirements by amending its transparency and contractual documentation. In the same area of banking transparency, Banca d’Italia updated its Practical Guides, relating to mortgage loans and consumer credit, and introduced a new guide on the Central Credit Register.

LOANS AND RECEIVABLES

In compliance with the Guidelines for Italian Less significant banks regarding the management of impaired loans published by Banca d’Italia on 30 January 2018, the bank adopted a specific policy for the management of impaired loans which, in addition to defining criteria for their classification and accounting measurement, outlines a specific strategy aimed at optimizing NPL management as part of the Bank’s credit process.

This strategy comprises a short-term (1 year) and a medium/long term (3 years) operating plan in line with the strategic objectives defined by the Bank.

IFRS

With specific reference to the international accounting standards, the introduction of IFRS9 deserves mention, which was fully applied on 1 January 2018.

In compliance with the aforementioned legislation, the Bank developed a specific Policy on the Business Model for the management of financial assets pursuant to IFRS 9; the policy first recalls the relevant principles and regulations, outlining the general context, and then illustrates the guidelines for the management of financial assets in the business areas that make up the Bank’s operations, namely "Finance" and "Loans", also specifying the applicable classification rules.

Similarly, in order to incorporate the new impairment model established by IFRS 9, the relevant internal documents were also updated.

For a more in-depth analysis, please refer to the extensive comments provided in Section A.1, paragraph 4.6 *"Transition to the international accounting standard IFRS 9"* of Part A "Accounting Policies" of this Report.

### *Research and development*

In the course of 2018, the Bank carried out the aforementioned activity through the Research and Development Laboratory, making use of specific Working Groups that were set up according to the projects listed below:

a) PRISMA - Standard
b) PRISMA - Evolution
c) PROMOSCORE
d) E-TRADING
e) PEX
f) SMART BRANCHES

In summary, the overall objective was to obtain innovative tools designed to improve the internal processes in line with the Bank's organizational and operating structure.

The accounting standard that governs research and development activities is IAS 38 "Intangible Assets", the purpose of these activities being the development of the Bank’s know-how. Pursuant to the aforementioned standard, "research" involves an original and planned investigation undertaken with the prospect of achieving new scientific or technical knowledge and discoveries. Development, on the other hand, involves the application of research results or other knowledge to a plan or project for the production of new or substantially improved materials, devices, processes, systems or services, before the start of commercial production or use.

Taking into account the specificity and peculiarity of the individual projects, Banca Promos has developed an internal organizational framework that comprises the following roles:

- **Project Management** aimed at ensuring cross-functional integration;
- **key experts** who contributed significantly to the conception, testing, validation and creation of new innovative knowledge of products / processes and methods, also co-operating with external consultants involved in experimental development;
- **other team members**, assigned to, and involved in the project, who are engaged in the functional support areas, and also reporting to their respective function managers.

The bank also made use of an external company, accredited by MIUR, which monitored development and operational coordination to verify consistency among values, mission and direction of the decision-making processes and design contents during the implementation of the projects.

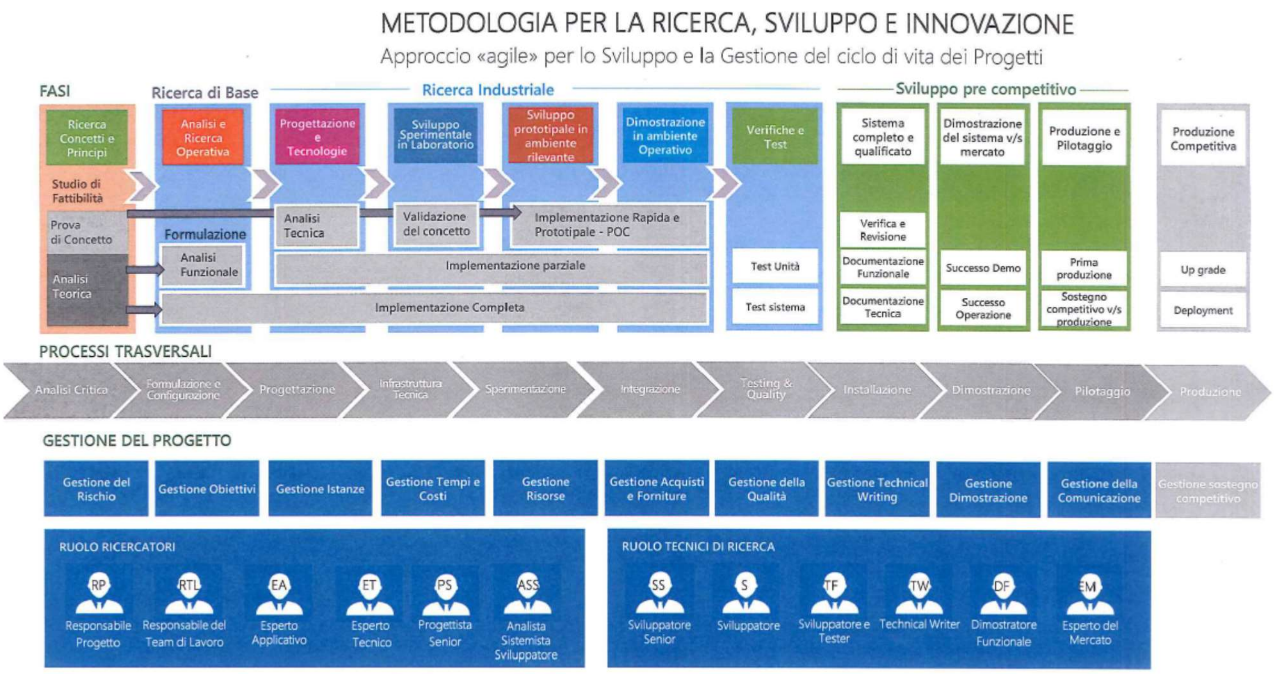
The various stages of the development process pursue the following objectives:

- maximization of performance with respect to the various service requests with personalized and innovative products/services;
- maximization of results or priority in achieving greater service performance volumes with

incremental improvements;

- minimization of costs in terms of standardization and cost/price competition and simplification of data and information management.

The Projects life cycle is summarized below:




The level reached by the Bank at the end of 2018 is presented below:

- Computerization: high level at all stages of the digitalization of its service through investments in widespread information technology with increasingly high levels of accuracy.
- Connectivity: consistent and pervasive, integrating components and elements that enable the connectivity of service systems. The bank business applications are interconnected and reflect its core business.
- Visibility: adequate, as there are functional and technological interconnections in the service workflows that enable data to be acquired from all processes,
- Predictive Capacity: sufficient, since, after an understanding of relationships among elements, it is possible to simulate future scenarios and identify the most likely ones. At this stage the bank will be able to anticipate events and promptly implement suitable measures.

### *Information Systems*

The activities of the Bank IT department, traditionally highly proactive and dynamic, were at the centre of an important improvement initiative during the year, through the establishment of the Research and Development Laboratory, which was commented above. As in prior years, various software application solutions were implemented or optimized in 2018 to support the various business lines of the Bank. Some of the main tools developed are described below:

- *Pex,* an online trading platform for institutional customers, through which customer orders and requests for quotes are sent directly to the Bank's operators.
- *StopLoss monitor*, for the analysis of HTS, HTC and HTC & S securities portfolios and the reporting of stoploss positions according to the assigned profile;
- *TOTVupdater*, daily TOTV ("traded on a trade venue") dates update service for a correct APA report, within the scope of MiFID 2 directive and MiFIR Regulation.
- *Report dispatcher,* module for automatic distribution to market counterparties who request the PromosCore information reports;
- *CalcCedoleMinibond*, for the calculation and reminder on minibond coupons: close to the ex-coupon dates, the new coupons are calculated and a notification sent via email to the securities back-office.

Furthermore, as part of evolutionary improvements the following interventions were carried out:

- *Automatic settlement,* for the management of the Euroclear credit line and the automatic choice of the depositary to be used in the transaction;
- *Updating to IFRS9 tax criteria*, updating of book profiling and control software, with portfolio reclassification in the new categories;

Finally, in terms of hardware management, the bank data centre was updated, with the installation of new HP servers equipped with Windows 2016 Server clusters, and a new SAN (stored area network) with high performance optical fibre.

### *Workforce statistical information*

At the end of FY2018, the Bank's workforce had declined to 39 employees (37 FTEs).
The 11% drop compared to 2017 was due to the reorganization of the commercial area discussed above.
The analysis of other statistical information on the staff, schematically summarized in the tables below, shows a basically balanced breakdown between men and women (44% male, 56% female) and a prevalence of workers included in the 30-50 years age group, who account for around three quarters of the workforce. The overall average age is 42 years.
In terms of breakdown by operational areas, more than half of the employees, 54%, is employed in the Commercial Area (branches and finance area), while 10% are computer technicians of the in-house IT Office. The rest of the staff works at the Head Office (organization, control, accounting and reporting, securities back office).

| Turnover | Workforce at 01/01/2018 | Hiring/ transformation | Resignation/ retirement/ termination/ transformation | Workforce at 31/12/2018 |
|---|---|---|---|---|
| **Permanent contracts** of which: | **41** | 4 | 10 | **35** |
| Managers | 1 | – | 1 | **–** |
| Middle management | 6 | – | 1 | **5** |
| White-collar personnel | 32 | 4 | 8 | **28** |
| Blue-collar personnel | 2 | – | – | **2** |
| **Temporary contracts** of which: | **3** | **3** | 2 | **4** |
| White-collar personnel | 3 | – | – | **3** |
| Blue-collar personnel | **–** | 3 | 2 | **1** |
| **TOTAL** | **44** | **7** | **12** | **39** |

| Breakdown | Managers | Middle management | White-collar personnel | Blue-collar personnel | Total |
|---|---|---|---|---|---|
| **Men** | **–** | **2** | **14** | **1** | **17** |
| **Women** | **–** | **3** | **17** | **2** | **22** |
| Average age | – | 50 | 41 | 39 | 42 |
| Average length of service | – | 12 | 11 | 8 | 11 |
| Permanent contracts | – | 5 | 28 | 2 | 35 |
| Temporary contracts | – | – | 3 | 1 | 4 |
| Apprenticeship contracts | – | – | – | – | – |
| Qualification – University | – | 5 | 22 | – | 27 |
| Qualification – High School | – | – | 8 | – | 8 |
| Qualification – Middle School | – | – | 1 | 3 | 4 |

As far as remuneration policies and practices are concerned, the Bank has prepared and updated the pertinent document, and a special disclosure has been prepared on the implementation of those policies, to be submitted to the Shareholders' Meeting.

### *Related parties*

The bank identifies the parties who are classified as related parties pursuant to IAS 24. Transactions with these parties were regularly performed during the year and all the transactions were carried out on an arm's length basis. In compliance with applicable regulations, Part H of the Notes provides the relevant details, as well as the information required by regulations on relations with the Bank's directors, statutory auditors and subsidiaries.

### *Other information*

This section provides Shareholders with additional information concerning the Bank. In particular, at the end of FY 2018:

- the bank did not, either directly or indirectly, hold treasury shares in the portfolio and no treasury shares were sold or purchased during the year;
- the bank was not and is not a member of any banking group;

- the Supervisory Board established pursuant to Legislative Decree 231 carried out its activity in accordance with the annual plan prepared by the body itself;
- research and development activities were carried out, as already discussed in this report;
- no significant events occurred after the balance sheet date besides those highlighted in this report and in the Notes.

In addition, some information with potential significance for the bank is summarized here.

### *Going concern basis*

The directors have the reasonable expectation that the Bank will continue to operate in the foreseeable future. Accordingly, the financial statements at 31 December 2018 were drafted on a going concern basis.

Despite the loss reported, financial and operating indicators remain good; as such, the Directors confirm that they have not found any elements in the financial structure and operating performance of the bank that may cause uncertainty as to the going concern basis.

### *Financial risks*

Part E of the notes contains qualitative and quantitative information on key risks, including of a financial nature, to which the Bank is normally exposed, i.e. credit risk, market risk and liquidity risk. This report also provides additional information on risks.

### *Impairment tests*

The Directors assessed all the Assets reported in the financial statements in order to identify any impairment.

### *Uncertainties associated with the use of estimates*

The preparation of financial statements requires the use of estimates and assumptions which may significantly affect the amounts stated in the balance sheet and the income statement, as well as the information on contingent assets and liabilities recorded.

Such estimates require the use of available information and the adoption of subjective valuations, also based on the historical experience used to make reasonable assumptions for the recording of management operations.

The estimates and assumptions used may, by their very nature, vary from one financial period to the next. Therefore, the current amounts stated in the financial statements in the subsequent financial years might significantly differ as a result of changes in the subjective valuations used.

The main instances in which subjective valuations are used by the Board of Directors include:

- verification of compliance with requirements for the classification of financial assets in accounting portfolios that provide for the use of the amortized cost criterion (SPPI Test), with specific reference to performance of the benchmark test;
- the quantification of impairment losses on loans and, more in generally, of the other financial assets;
- the determination of fair value of financial instruments to be used for reporting purposes;
- the use of valuation models for determining the fair value of financial instruments not listed in active markets;
- impairment test of goodwill and other intangible assets;
- measuring reserves for personnel and provisions for liabilities and charges;
- the estimates and assumptions on the recoverability of deferred tax assets.

The description of the accounting policies applied to the main financial statement aggregates provides the detailed information necessary for identifying the main assumptions and subjective assessments used in preparing the financial statements.

With specific reference to intangible assets, pursuant to IAS 38 the Bank has recognized intangible assets based on internally generated technology, intended to support the various business lines of the Bank and therefore capable of generating future economic benefits.

In compliance with the applicable accounting standard (IAS 38) research costs were recognized as incurred; conversely, the expenses incurred internally for the development of the related software projects were recognized, and therefore capitalized in the balance sheet.

For further details on the breakdown and the carrying values of items calculated using estimates, please refer to the specific sections of the Notes to the financial statements.

### *Fair value hierarchy*

"Policies and processes for the evaluation of corporate assets", prepared in accordance with IFRS 13, regulate the "fair value hierarchy" for the purpose of identifying the different fair value levels. These fair value measurement and classification methods are described in the Notes - Part A Accounting Policies of this Annual Report.

## Internal Audit System

Controls are performed on overall company processes, as required by Supervisory provisions, which as a whole constitute the internal control system to which the Bank attributes strategic relevance; in this respect, the Bank steadily works to reinforce a culture of active control across the bank's organization and not only in the control functions.

The internal audit system, in line with the supervisory provisions in force, is structured according to principles that ensure sound and prudent management; it consists of rules, procedures and organizational structures that on the one hand aim to ensure compliance with corporate strategies and, on the other, enable us to achieve the following goals:

- containing risk within the limits set in the Risk Appetite Framework –RAF, which is the frame of reference for defining the risk appetite of the bank.
- effectiveness and efficiency of business processes (administration, production, distribution, etc.);
- Safeguarding asset value and protection against losses;
- reliability and integrity of business information and IT procedures;
- compliance of operations with the law and supervisory regulations as well as with company policies and internal regulations and procedures.

In addition, the internal audit system aims to prevent the risk that the bank is involved, albeit involuntarily, in illegal activities, such as those related to money laundering, usury and the financing of terrorism.

Processes are subject to multiple controls, according to coordinated audit plans and based on a three- level approach, namely:

- first level controls, i.e. line controls performed by the individual operating units;
- second-level controls, which include:
  - anti-money laundering controls, carried out by a specific organizational unit that verifies the regulatory and operational compliance of the anti-money laundering process i.e. the system for managing money-laundering risk;
  - compliance checks, performed by the Compliance department and aimed at verifying compliance of the Bank's processes by comparing internal regulations with corresponding external provisions and by comparing the activities actually carried out with respect to those envisaged by the aforementioned internal provisions;
  - controls on the risks to which the Bank is exposed, carried out by Risk Management to ensure such risks are detected, measured and assessed according to supervisory provisions, also verifying compliance with the limits set for each individual risk (Risk appetite framework).
- third-level controls, which include the internal audit activity pertaining to the Internal Audit unit, a separate control unit that verifies the adequacy and effectiveness of first and second

level controls and, therefore, of the internal control system as a whole.

### *Audit activities performed*

During the year the following control activities were carried out by second and third level control functions.

Risk Management carried quarterly checks on the exposure to the following risks in terms of capital requirements:

- Pillar I risks (credit risk, market risk and operational risks), for which the Bank adopted quantitative measurement techniques defined by regulation (standard methodologies);
- Pillar II "measurable" risks (concentration and interest rate risks), for which the Bank adopted simplified quantitative measurement methods as provided for by Supervisory regulations.

In addition, quantitative analyses were also carried out on liquidity risk, albeit no capital requirement is yet associated with this risk.

The aforementioned audit activities were performed both in normal conditions and in stress situations.

In addition, the Risk Management function oversees the preparation of the ICAAP/ILAAP Structured Report ensuring that the methods implemented for measuring, evaluating and managing the Bank's exposure to risks are in accordance with the legislation in force. Details regarding the preparation of the mentioned report as at 31 December 2018 are shown in the relevant paragraph "ICAAP/ILLAAP".

The Compliance function carried out controls on the following areas:

- *Adequacy and effectiveness of business processes and procedures*
- *Consulting, assistance and training*
- *Conflicts of interest*
- *Complaints*

In line with the activities planned for 2018, the Anti-Money Laundering function ensured ongoing controls during the year to prevent and counter money laundering and terrorist financing transactions.

In particular, the activities carried out were divided into competence areas, namely:

- Adequacy and effectiveness of internal systems and procedures
- Consulting, assistance and training
- Checks on the reliability of the information system

On the one hand, the audit was aimed at ascertaining consistency of the Bank’s procedures with the objectives of preventing and combating the infringement of external and internal regulations on the subject; on the other hand, checks were carried out regarding compliance by the bank's personnel with internal procedures and regulatory obligations, with specific regard to "active co-operation" and ongoing monitoring of customer transactions.

More specifically, some checks were carried out in order to verify compliance with the following obligations:

- *Customer due diligence*
- *Recording and storage of information on accounts and transactions*
- *Detection, measurement and reporting of suspicious transactions*
- *Restrictions on the use of cash and bearer securities*

Where possible, processes were further automated, optimizing the functions offered by the information system. In this respect, the following should be mentioned by way of example: activation of controls on substantive evidence automatically generated from "ongoing controls" aimed at assessing, on the merits, potentially atypical events and customer conduct with respect to individual transactions or a set of transactions carried out in the same day. Furthermore, activities for the identification and reporting of any suspicious transactions were intensified with 18 reports sent to the authorities.

Lastly, Internal Audit carried out both audits on processes and monitoring activities provided for by current legislation. In addition, follow-up activities were performed regarding resolution of the criticalities detected during control activities.

Specifically, the audit carried out on the processes concerned both banking and financial activities. More specifically, with reference to the banking sector, in-depth checks were carried out during the year on the subject of anti-money laundering, in relation to specific events occurred during the year which highlighted the need for closer monitoring of customer transactions. Furthermore, a review was launched of the entire AML management process, which is still ongoing.

Furthermore, further checks were carried out on transparency of banking transactions and services, credit, and usury.

With reference to the financial sector, the audits concerned various investment services provided by the Bank (trading on own account, execution of customers' orders, receipt and transmission of orders, placement of financial instruments), for which compliance with MIFID 2 regulations was also verified. In addition, a specific audit was carried out on the subject of post-trade transparency.

In this regard, both the regulatory aspects and the effectiveness and reliability of the information systems supporting the bank's operations were verified for the various analysed processes.

Moreover, during the year, 5 ordinary audits were carried out at the branches, alongside a routine inspection at the Office of financial advisors in Florence and one check at the service company to which the cash management service has been outsourced.

Further audits (connected to the laws in force) were conducted regarding the ICAAP/ILAAP process, the Business Continuity Plan, the liquidity management process, the remuneration policies, the management of related-party transactions, and RAF. Furthermore, an audit was carried out on second level control functions, with specific focus on the activities performed by Risk Management, and an audit on the single customer aggregated position (Single Customer View- SCV ) to verify its compliance with the applicable legislation.

The checks carried out showed, as already mentioned, that there are margins for improvement with respect to the monitoring of the risk of the bank being involved, albeit unknowingly, in anti-money laundering incidents; as a result, corrective managerial and organizational measures were adopted to be incorporated into existing internal regulations on this matter.

## Risk management

Risk management is one of the major areas on which the bank focuses its attention, since it is well aware that the development of adequate control measures in the various identified risk areas is the best guarantee of sound and prudent management.

Section E of the Notes summarises the information on risks and the related hedging policies. We also recall that the "Risk Management Process" is described in a specific document, according to a bank's practice for many years. This process consists of the following phases:

1. Risk mapping
2. Protective measures
3. Risk assessment
4. Stress testing
5. Risk monitoring and reporting

### *Risk mapping*

Through mapping, the Bank has identified the risks to which it is exposed. Based on the knowledge of the Bank's organisation, the market in which it operates, the regulatory framework, as well as the strategic and operational objectives and the related threats and opportunities, all the risks associated with providing both banking and financial services were identified, i.e.:

- Credit risk (counterparty included)
- Market risk (associated with proprietary trading)
    - Position risk
    - Settlement risk
    - Concentration risk
    - Exchange rate risk
- Market risk (associated with trading on behalf of third parties)

  - Settlement risk
  - Concentration risk
  - Counterparty risk
- *Operational risk*
  - Legal risk
  - Organizational risk
  - Risk linked to human resources
  - IT risk
  - Risk related to external events
- *Concentration risk*
- *Interest rate risk*
- *Liquidity risk*
- *Risk of conflict of interest with respect to "Connected Persons"*
- *Risk associated with equity investments*
- *Country risk*
- *Risk of excessive leverage*
- *Residual risk*
- *Strategic risk*
- *Reputational risk*
- *Anti-money laundering risk*

### *Protective measures*

Protective measures refer to the process of selecting and implementing the tools necessary to control, mitigate and, where possible, eliminate and/or transfer risks.
For each significant identified risk, the Bank has put in place related mitigating measures, in order to contain exposure to risk within the limits that meet sound and prudent management criteria.

### *Risk assessment*

The risk assessment step is of crucial importance to preserve the Bank's asset and financial integrity and to implement corporate strategies, in order to establish the relative importance of all mapped risks and identify the most relevant ones.
This process involves the identification of "Typical Events" that are part of operating activities and which may pose a threat to the Bank; this requires a "Probability - Impact Matrix" analysis and the assignment of a significance score to each of them.
Each score assesses a risk exposure through a qualitative scale (low/medium/high), enabling the definition of risk acceptance levels, and consequently, the corrective measures to be taken, if any.

### *Stress testing*

This activity consists in carrying out stress tests designed to better assess the Bank's exposure to risks, the risk mitigating and monitoring systems and, where necessary, the Internal Capital adequacy.

Stress tests consist in quantitative and qualitative techniques by which we evaluate the Bank's vulnerability to exceptional but plausible events; this is made by assessing the effects on the Bank's risk of specific events (sensitivity analysis) or of concurrent changes in a set of economic and financial variables in the event of adverse scenarios (scenario analysis).

### *Risk monitoring and reporting*

Monitoring aims to determine, for each significant risk identified, on the one hand, the effectiveness of the protective measures adopted by the Bank and, on the other, the long-term appropriateness of the limits set.

Thereafter, reporting activities are performed that describe the results of the checks carried out.

A control structure is in place to this end which defines:

- those responsible for conducting the audits (first, second and third level controls);
- object and frequency of controls;
- control methods and tools;
- recipients of information flows.

Audit activities are carried out through integrated controls performed and differently organized according to the various levels within the Bank, in order to prevent multiple audits of operating units. Any detected anomalies must be reported to the relevant Corporate Bodies along with any corrective actions to be undertaken.

## The ICAAP and ILAAP process

As is known, the provisions on the prudential supervision of banks (Circular of Banca d'Italia no. 285 of 17 December 2013 as amended and supplemented), require the Bank to prepare the "ICAAP/ILAAP Report" at 31 December 2018, which was timely drawn up by the Bank.

The document is a documented self-assessment of the fundamental qualitative characteristics and results:

- for the ICAAP (Internal Capital Adequacy Assessment Process) - of the capital planning process, the overall exposure to risks and the consequent capital profile, both current and prospective, under normal and stressed conditions;
- for the ILAAP (Internal Liquidity Adequacy Assessment Process), of the liquidity risk governance and management system, the exposure to liquidity risk in terms of both the ability to raise funds in the market and available cash, the level of liquidity reserves and the financing sources and channels to be used.

Specifically, in the Reporting section dedicated to the ICAAP process, all risks, both "measurable" and "non-measurable", identified as a result of the mapping activity, were taken into account.

In order to determine the "internal capital" in relation to each of the "measurable" risks, the Bank measured its exposure to them. In this sense, as provided for banks belonging to Class 3 and in accordance with the principle of proportionality, the following techniques were deemed most appropriate and, therefore used as a reference:

- For Pillar I risks (credit, market and operating risks), the quantitative measurement techniques as provided for by regulations for capital requirements calculations, using the standardised approach;
- For Pillar II "measurable" risks (concentration and interest rate risks), the simplified quantitative measurement methods as provided for by the Supervisory regulations.

With reference to market risk related to trading on behalf of third parties, although no specific capital requirement is envisaged, the Bank uses special IT tools through which it can evaluate the exposure in question at all times.

With reference to excessive leverage risk, its quantitative assessment is carried out through the "leverage ratio" indicator, which is the ratio between Tier 1 and total unweighted assets, the value of which is disclosed to the the Supervisory Authority as part of the "Base LEVI" disclosure.

In parallel, with reference to the other "non-measurable" risks (strategic, reputational, residual and anti-money Laundering risks), which are difficult to quantify due to their intrinsic characteristics, the estimate of the bank's exposure is based on subjective assessments carried out on the basis of mainly qualitative methods defined in relation to the nature of each risk.

The assessment of the risk of conflict of interest with respect to "Connected Persons", the risk associated with the acquisition of equity investments and country risk is performed by checking the effectiveness of the relevant protective measures put in place by the Bank.

To better assess its capital adequacy, the Bank has carried out stress tests that consist of testing the effects of specific events on the risks to which it is exposed. The Bank therefore performed sensitivity analyses aimed at verifying the impact on the bank's balance sheet of "extreme", yet plausible, changes in the following risks (individually assessed):

- Credit
- Concentration
- Interest rate
- Liquidity
- Regulatory capital
- *Leverage Ratio*

In addition, stress tests were also performed on "own funds".

The approach defined allows for an assessment of both the impact of predefined stress tests, based on standard methodological practices, and of customised tests, based on portfolio characteristics or the economic situation.

Consistent with the Supervisory regulations, we calculated the internal capital against Pillar I risks and Pillar II measurable risks which require capital for regulatory purposes. These values were used as the starting point for defining the "Total Internal Capital", by applying a building blocks approach, consisting of an algebraical sum of the internal capital related to each type of risk.

Finally, the connection was made between the Bank's Regulatory Capital and the different types of "total internal capital" (relating to actual and budgeted data, stressed and non-stressed data), in order to verify its adequacy.

The results of this analysis showed that, under all tested conditions, the Bank's capital is such as to guarantee a significant capital surplus.

In relation to the ILAAP, a liquidity risk measurement and control activity was carried out, both "short term" and "structural", in "normal" and "stressed" conditions, although said risk does not yet involve any capital absorption.

In particular, liquidity risk monitoring was performed by:

1. verifying that the bank has the “very short-term” liquidity (1 to 30 days) and "short-term” liquidity (up to 12 months) necessary to carry out operations, respectively on daily and monthly basis;
2. monitoring compliance with operational limits to the assumption of liquidity risks on a monthly basis, through the observation of early warning short-term and structural indicators;
3. performing “stress tests” on a monthly basis;
4. monitoring "systemic" and "specific" early warning indicators, respectively on a daily and monthly basis.

These monitoring activities showed that the Bank can deal with potential "short-term" or "structural" liquidity tensions through its "liquidity reserves".

Furthermore, an analysis of the Bank's operating liquidity in stressed conditions was carried out through ongoing monitoring of the performance of the short-term "LCR" ("Liquidity Coverage Ratio") indicator, which during the year was constantly higher than the minimum mandatory requirement (100%).

An additional stress test is performed on the regulatory "LCR" indicator that assumes an additional 5%-shock in terms of haircut to "high quality" securities in the Bank's portfolio. This stress test also did not show any infringement of the minimum regulatory requirement.

Therefore, the Bank is able to cope with liquidity needs through its autonomous funding capacity, both in stress situations and in the event of an additional stress scenario compared to that envisaged by the legislation in force.

## Public disclosure

According to supervisory regulations, capital adequacy, risk exposure and the general features of the systems used to identify, measure and manage those risks are to be disclosed by the bank (i.e. Pillar III).

The document provides information about the level of business risk, the methods used by the bank to quantify and manage its risks, in relation to the size of existing and future capital resources.

The public disclosure document required by the third pillar supervisory regulations will be published on the company's website (www.bancapromos.it) together with the financial statements for FY2017.

## Events subsequent to 31 December 2018

On 18 February, an inspection was started by the Supervisory Authority, specifically aimed at verifying the effectiveness of anti-money laundering measures.

The inspection was completed on schedule, on 15 March, and at the time of drafting this report the final results had not yet been received. Adequate information will be disclosed as soon as available.

The inspection was carried out in a climate of open dialogue and full cooperation with the external bodies, especially on the part of the functions and managers of the areas covered by the inspection.

## Business outlook

In the first months of 2019 a general climate of uncertainty continued to prevail.

In Europe, expectations for a gradual normalization of monetary policy (and therefore of a possible resumption of financial activity) and the end of net purchases of government bonds by the ECB at the end of 2018, contrasted, in the early months of the new year, with the extension of the forward guidance regarding the first future increase in reference rates and the announcement of a third round of targeted longer-term refinancing operations (TLTRO).

Bank margins could finally find some support (especially for banks in core EU states) due to the recurrence, in recent discussions of the ECB's Executive Board, of the issue of measures to be implemented to counter the negative effects on banks' profitability of a still extended period of negative rates.

In this scenario, your bank will continue to be committed to pursuing the objectives defined in the new 2018-2021 Business Plan. Special attention will be paid to achieving established financial targets: firstly, the development of revenues, by seizing new business opportunities; the containment of costs and the simplification of the organizational structure.

In keeping with recent developments and strategies that see the digital transformation at the heart of the Bank's development, special attention will be paid to investment in technology and technological progress. The Bank recognizes the essential role of technological improvements applied both to processes, which should be made as efficient as possible, and to relationships with customers, who should be ensured the best possible experience.

As a result of the actions started in 2018, the first signs of recovery in profitability were already visible in the early months of 2019, thus confirming the valid approach of the Action Plan, which is part of the mentioned Business Plan. Contributing to the positive performance of the early months of the year was also income from trading activities, the main business unit of your Bank, which gained momentum during this period.

## Proposal to approve the Financial Statements

Dear Shareholders, given the foregoing, we believe that the financial statements submitted to your examination are clearly drafted and present a true and fair view of the financial, equity and earnings situation of your Bank.

We therefore ask you to approve the Financial Statements at 31 December 2018 as prepared by the Board of Directors, together with the attached reports of the Independent Auditors, Deloitte & Touche SpA, and the Statutory Auditors.

Therefore, the Shareholders' Meeting, after acknowledging the Balance Sheet, Income Statement, Statement of Comprehensive Income, statements of changes in Shareholders' Equity, Cash Flow Statement and the Notes, as well as the Directors' Report, the Board of Statutory Auditors' Report and the Independent Auditors' Report, is called upon to resolve on the carry forward of the resulting loss amounting to € 1,284,207.

## Acknowledgements

At the end of a difficult year, the Board of Directors wishes to express a heartfelt thanks to the Shareholders and to all our Customers for their confidence in us.

We also thank all employees of Banca Promos, for their dedication, their willingness to engage with customers and for their relentless commitment, as well as the Board of Statutory Auditors for their constant support. The Board also thanks the Supervisory Authorities for their authoritative institutional action and the Independent Auditors, whose mandate expires this year, for the work carried out in a highly professional and competent manner.

*The Board of Directors*

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# BANCA PROMOS SOCIETA' PER AZIONI

Registered Office: VIALE GRAMSCI, 19 – NAPLES (NA)
Registered with the Business Registry of: NAPLES
Tax Identification and registration number: 03321720637
Registered with the Economic and Administrative Index [R.E.A.] of NAPLES under no.329424
Subscribed share capital €: 7,740,000.00 fully paid-up
VAT number: 04368171007

# Members of the Audit Body

*Ordinary financial statements as at 31 December 2018*

Shareholders, given that, pursuant to the Company's by-laws currently in force, the control body has been tasked with the administrative supervision of the company only, while the statutory audit of the accounts has been assigned to the independent auditors Deloitte & Touche SpA, appointed by letter of engagement until the approval of these financial statements, this report only concerns the activities carried out in terms of statutory control function.

## Report to the Shareholders' Meeting pursuant to article 2429, paragraph 2, of the Italian Civil Code – Administrative supervision

During the FY closed on 31 December 2018, our activity was based upon law regulations and the Rules of Behaviour of the Board of Statutory Auditors as issued by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Accounting Board), according to which we carried out a self-assessment for each member of the Board of Statutory Auditors, with a positive outcome.

The draft Financial Statements closed at 31/12/2018, submitted to us by the Administrative Body pursuant to article 2429 of the Italian Civil Code in order for it to be reviewed, have been drafted, pursuant to Legislative Decree no.38 of 28 February 2005, in compliance with the *International Accounting Standards* (IAS) and the *International Financial Reporting Standards* (FRS) approved and in force at 31 December 2018.

### Supervisory activity as per articles 2403 et seq. of the Italian Civil Code

The draft Financial Statements closed at 31/12/2018, forwarded to us by the Board of Directors pursuant to article 2429 of the Italian Civil Code in order to be duly examined, is made up of:

- Balance sheet
- Income statemen
- Cash flow statement

- Notes
- Directors' Report
- Report of the Auditing Firm - Deloitte & Touche SpA

The result for the year showed a loss of € 1,284,207, broken down as follows

### Balance Sheet

| Breakdown | FY 2018 | FY 2017 | Difference |
|---|---|---|---|
| TOTAL ASSETS | 61,310,923 | 67,205,562 | 5,894,639- |

| Breakdown | FY 2018 | FY 2017 | Difference |
|---|---|---|---|
| TOTAL LIABILITIES | 61,310,923 | 67,205,562 | 5,894,639- |

### Income Statement

| Breakdown | FY 2018 | FY 2017 | Difference |
|---|---|---|---|
| INTEREST MARGIN | 993,668 | 1,088,595 | 94,927- |
| NET COMMISSIONS | 233,079 | 162,223 | 70,856 |
| BROKERAGE MARGIN | 3,036,198 | 4,134,021 | 1,097,823 |
| Net result of financial operations | 2,754,089 | 4,018,985 | 1,264,896- |
| OPERATING COSTS | (4,110,968) | (4,515,226) | 404,258- |
| PRE-TAX RESULT | (1,356,897) | (496,241) | 860,638- |
| INCOME TAXES FOR THE YEAR | 72,672 | 20,118 | 52,554 |
| PROFIT (LOSS) FOR THE YEAR | (1,284,207) | (476,123) | 808,084- |

During the FY under examination, we supervised compliance with the law and the Corporate By-Laws as well as with the principles of correct administration.

Specifically, the work carried out refers to the following:

- In the criteria used in drafting the financial statements closed at 31/12/2018 we considered the new endorsed IAS/IFRS principles, in force at 31/12/2018.
- During the meetings held, we obtained information from the Directors concerning the company's general performance and its foreseeable business outlook, as well as the most significant economic, financial and equity transactions, in terms of size or characteristics, carried out by the company, and, on the basis of the information acquired we have no specific observation to make.
  We can provide reasonable assurance that the actions resolved upon and adopted are in compliance with the law and the corporate by-laws, and that they are not careless or unwarrantedly risky, that they do not create any potential conflict of interests or are in contrast to the resolutions of the Meeting and are not such as to endanger the share capital of the company.

- Furthermore, as far as we were concerned, we gained information about and monitored the suitability and operation of the administrative-accounting system, as well as the reliability of the latter in terms of correctly reporting the information concerning the operations of the company, by obtaining information from the relevant company officials and examining the company's documents; we do not have any noteworthy observations to submit in this regard.

- neither legal actions based on art. 2408 of the Italian Civil Code nor third-party reports were notified.
    - We have met the entity in charge of audit, and no significant data or information has emerged that need be illustrated in this report.
    - We have met the Supervisory Body and no critical issues have emerged with regard to the proper implementation of the organizational model that need be mentioned in this statement.
    - We monitored compliance with "Data Protection" and "'Money Laundering" regulations.

- during the FY the Audit body expressed an opinion on the “Assessment of the effectiveness of the new internal audit structure”
- We have participated in the Meetings of the Shareholders and in the meetings of the Administrative Body, which were all conducted in compliance with the statutory and legislative rules that govern their procedures, and about which we can provide reasonable assurance that the resolutions issued are in compliance with the law and the Corporate By-Laws, and are not such to endanger the share capital of the company.

- in the performance of our supervisory duties, and on the basis of the information obtained, we did not detect any other omissions, misconduct, irregularities or significant events that need be reported or simply mentioned in this report.

- In view of the above, the Supervisory Body considers that the results for the financial year are largely in line with the forecasts and forward-looking assessments set out by the Governing Body.

## Financial Statements Disclosure

On the basis of an in-depth analysis of the financial statements as at 31/12/2018, we report the following:

- pursuant to article 2426, item 5 of the Italian Civil Code, the control Body certifies that no start-up and expansion costs were recognized as assets in the financial statements.

- pursuant to article 2426 no. 5 of the Italian Civil Code, the Audit body acknowledged that, with the its consent, the development costs for which the multi-annual use requisite had been verified, were posted to the Assets of the Balance sheet.

- pursuant to article 2426, item 6 of the Italian Civil Code, the control Body certifies that no goodwill costs were recognized as assets in the financial statements.

- We oversaw the financial statements’ compliance with the law, as regards both its structure and its substantial content.

- in drafting the financial statements, the governing Body did not make use of the provisions of Art. 2423, paragraph 4 and 5 of the Italian Civil Code with regard to the exceptions granted for the preparation of the financial statements.

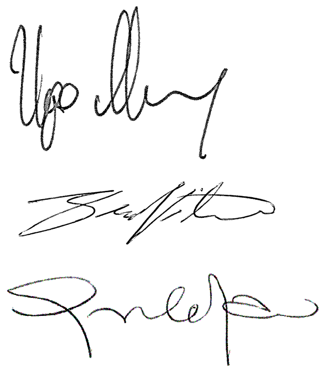
- We also certify that we verified the measurement criteria provided by art. 2426 of the Italian Civil Code and that our supervisory work has constantly been inspired by the aim of preserving the integrity of the company's assets.

- in drafting the financial statements, the governing Body did not make use of the provisions of Art. 2423, paragraph 4 and 5 of the Italian Civil Code with regard to the exceptions granted for the preparation of the financial statements.

## Observations and proposals regarding the approval of the financial statements

Considering the points highlighted and taking account of the information received from the company, the Meeting may approve the financial statements closed at 31/12/2018, as formulated by the Governing Body.

THE BOARD OF STATUTORY AUDITORS



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# Financial Statements

# at 31 December 2018

Translation from the Italian original which remains the definitive version. The Financial Statements are the English translations of the Italian Financial Statements prepared for and used in Italy. The Financial Statements were prepared using International Financial reporting Standards (IAS/IFRS); therefore they are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices other than IAS/IFRS

# Balance Sheet – Assets

*(Amounts in Euros)*

| | Assets | 2018 | 2017 |
|---|---|---|---|
| **10.** | Cash and cash equivalents | 1,159,454 | 3,238,734 |
| **20.** | Financial assets carried at fair value through profit or loss | 7,395,354 | |
| | a) financial assets held for trading | 7,384,106 | |
| | b) financial assets designated at fair value | – | |
| | c) other financial assets to be carried at fair value | 11,248 | |
| **30.** | Financial assets carried at fair value through other comprehensive income | 8,416,147 | |
| **40.** | Financial assets measured at amortised cost | 35,793,763 | |
| | a) receivables from banks | 9,723,256 | |
| | b) loans to customers | 26,070,507 | |
| | *Financial assets held for trading (former Item 20, IAS 39)* | | 17,781,256 |
| | *Financial assets held for sale (former Item 40, IAS 39)* | | 1,000,000 |
| | *Receivables from banks (former Item 60, IAS 39)* | | 9,897,721 |
| | *Loans to customers (former Item 70, IAS 39)* | | 26,987,820 |
| **70.** | Equity investments | 32,500 | – |
| **80.** | Tangible assets | 5,639,621 | 5,822,332 |
| **90.** | Intangible fixed assets | 339,752 | 91,029 |
| | of which:<br>- goodwill | – | – |
| **100.** | Tax assets | 871,032 | 823,613 |
| | a) current | 249,850 | 344,766 |
| | b) prepaid | 621,182 | 478,847 |
| **110.** | Non-current assets and disposal groups | 82,000 | – |
| **120.** | Other assets | 1,581,300 | 1,563,057 |
| | **Total assets** | **61,310,923** | **67,205,562** |

The statements as at 31.12.2018 required by Banca d'Italia Circular 262 of 22 December 2005 (5th update of 22 December 2017) have been appropriately amended by adding items that enable a comparison with the previous period, the latter having been prepared in accordance with IAS 39 and presented in accordance with Banca d'Italia Circular 262 (4th update of 15 December 2015).

# Balance Sheet - Liabilities

*(Amounts in Euros)*

| | Liabilities and shareholders' equity | 2018 | 2017 |
|---|---|---|---|
| **10.** | Financial liabilities carried at amortised cost | 45,795,139 | |
| | a) payables to banks | 6,561,664 | |
| | b) payables to customers | 34,479,791 | |
| | c) outstanding securities | 4,753,684 | |
| | *Payables to banks (former Item 10, IAS 39)* | | 5,063,633 |
| | *Payables to customers (former Item 20, IAS 39)* | | 39,127,115 |
| | *Outstanding securities (former Item 30, IAS 39)* | | 5,160,887 |
| **60.** | Tax liabilities | 841,034 | 877,460 |
| | a) current | – | – |
| | b) deferred | 841,034 | 877,460 |
| **80.** | Other liabilities | 2,151,342 | |
| | *Other liabilities (former Item 100, IAS 39)* | | 2,004,945 |
| **90.** | Employee severance indemnity | 932,167 | 1,094,808 |
| **100.** | Provisions for liabilities and charges: | 125,392 | |
| | a) commitments and guarantees granted | 37,919 | |
| | *Provisions for liabilities and charges (former Item 120, IAS 39)* | | 15,000 |
| | b) retirement and similar obligations | – | – |
| | c) other provisions for liabilities and charges | 87,473 | 15,000 |
| **110.** | Valuation reserves | -377,015 | -148,877 |
| **140.** | Reserves | 4,316,159 | 5,675,802 |
| **150.** | Share premium account | 1,070,912 | 1,070,912 |
| **160.** | Share capital | 7,740,000 | 7,740,000 |
| **180.** | Profit (loss) for the year (+/-) | -1,284,207 | -476,123 |
| | **Total liabilities and shareholders' equity** | **61,310,923** | **67,205,562** |

The statements as at 31.12.2018 required by Banca d'Italia Circular 262 of 22 December 2005 (5th update of 22 December 2017) have been appropriately amended by adding items that enable a comparison with the previous period, the latter having been prepared in accordance with IAS 39 and presented in accordance with Banca d'Italia Circular 262 (4th update of 15 December 2015).

# Income Statement

***(Amounts in Euros)***

| | Items | 2018 | 2017 |
|---|---|---|---|
| **10.** | Interest and similar income | 1,267,697 | |
| | of which: interest income calculated using the effective interest method | 103,701 | |
| | *Interest and similar income (former Item 10, IAS 39)* | | 1,326,399 |
| **20.** | Interest and similar expenses | (274,029) | (237,804) |
| **30.** | **Net interest income** | **993,668** | **1,088,595** |
| **40.** | Commission income | 797,839 | 950,799 |
| **50.** | Commissions expense | (564,760) | (788,576) |
| **60.** | **Net commissions** | **233,079** | **162,223** |
| **70.** | Dividends and similar income | 5 | 3 |
| **80.** | Net income on trading activity | 1,819,301 | |
| **100.** | Profits (losses) on disposal or repurchase of: | (9,372) | |
| | a) Financial assets carried at amortised cost | 317 | |
| | b) financial assets carried at fair value through other comprehensive income | (1,980) | |
| | c) financial liabilities | (7,709) | |
| **110.** | Net income/loss on the other financial assets and liabilities carried at fair value through profit or loss | (483) | |
| | a) financial assets and liabilities designated at fair value | – | |
| | b) other financial assets to be carried at fair value | (483) | |
| | *Net income on trading activity (former Item 80, IAS 39)* | | 2,898,688 |
| | *Profits (losses) on disposal or repurchase of: (former Item100, IAS 39)* | | (15,488) |
| | *a) receivables* | | – |
| | *b) financial assets available for sale* | | (8,926) |
| | *c) financial assets held to maturity* | | – |
| | *d) financial liabilities* | | (6,562) |
| **120.** | **Brokerage margin** | **3,036,198** | **4,134,021** |
| **130.** | Net adjustments/write-backs for credit risk of: | (262,521) | |
| | a) financial assets carried at amortised cost | (229,077) | |
| | b) financial assets carried at fair value through other comprehensive income | (33,444) | |
| | *Net adjustments/write-backs for impairment of: (former Item130, IAS 39)* | | (115,036) |
| | *a) receivables* | | (115,036) |
| | *b) financial assets available for sale* | | – |
| | *c) financial assets held to maturity* | | – |
| | *d) other financial transactions* | | – |
| **140.** | Profits / losses from contractual changes without derecognition | (19,588) | |
| **150.** | **Net result of financial operations** | **2,754,089** | **4,018,985** |
| **160.** | Administrative expenses: | (4,078,358) | (4,372,547) |
| | a) personnel expenses | (2,355,430) | (2,711,674) |
| | b) other administrative expenses | (1,722,928) | (1,660,873) |

| | | | |
|---|---|---|---|
| **170.** | Net allocations to provisions for liabilities and charges | (90,785) | |
| | a) commitments and guarantees granted | (18,312) | |
| | b) other net allocations | (72,473) | – |
| | *Net allocations to provisions for liabilities and charges (former Item 160, IAS 39)* | | – |
| **180.** | Net adjustments to/write-backs on tangible assets | (284,629) | (284,067) |
| **190.** | Net adjustments to/write-backs on intangible assets | (61,207) | (37,967) |
| **200.** | Other operating expenses/income | 404,011 | 179,355 |
| **210.** | **Operating costs** | **(4,110,968)** | **(4,515,226)** |
| **260.** | **Pre-tax profit (loss) of current operations** | **(1,356,879)** | **(496,241)** |
| **270.** | Income taxes for the year on current operations | 72,672 | 20,118 |
| **280.** | **Profit (loss) of current operations, after taxes** | **(1,284,207)** | **(476,123)** |
| **300.** | **Profit (loss) for the year** | **(1,284,207)** | **(476,123)** |

The statements as at 31.12.2018 required by Banca d'Italia Circular 262 of 22 December 2005 (5th update of 22 December 2017) have been appropriately amended by adding items that enable a comparison with the previous period, the latter having been prepared in accordance with IAS 39 and presented in accordance with Banca d'Italia Circular 262 (4th update of 15 December 2015).

# Statement of Comprehensive Income

***(Amounts in Euros)***

| | Items | 2018 | 2017 |
|---|---|---|---|
| 10. | **Profit (loss) for the year** | **(1,284,207)** | **(476,123)** |
| | **Other income items – after taxes – not reversed to income statement** | | |
| 20. | Equity securities carried at fair value through other comprehensive income | (81,753) | |
| 30. | Financial liabilities designated at fair value through profit or loss (changes of own creditworthiness): | – | |
| 40. | Hedging of equity securities designated at fair value through other comprehensive income | – | |
| 50. | Tangible assets | – | – |
| 60. | Intangible fixed assets | – | |
| 70. | Defined-benefit plans | 61,544 | 1,157 |
| 80. | Non-current assets and disposal groups | – | – |
| 90. | Share of valuation reserves for equity investments carried at equity | – | – |
| | **Other income items – after taxes – reversed to income statement** | | – |
| 100. | Foreign investment hedging | – | – |
| 110. | Exchange rate differences | – | – |
| 120. | Cash flow hedging | – | – |
| 130 | Hedging instruments (items non designated) | – | |
| 140. | Financial assets (other than equity securities) carried at fair value through other comprehensive income: | (223,041) | |
| | *Financial assets held for sale (former Item 100, IAS 39)* | | – |
| 150. | Non-current assets and disposal groups | – | 1,466 |
| 160. | Share of valuation reserves for equity investments carried at equity | – | – |
| 170. | **Total of other income items, after taxes** | **(243,250)** | **2,623** |
| 180. | **Comprehensive income (Item 10+170)** | **(1,527,457)** | **(473,500)** |

The statements as at 31.12.2018 required by Banca d'Italia Circular 262 of 22 December 2005 (5th update of 22 December 2017) have been appropriately amended by adding items that enable a comparison with the previous period, the latter having been prepared in accordance with IAS 39 and presented in accordance with Banca d'Italia Circular 262 (4th update of 15 December 2015).

# Statement of Changes in Shareholders' Equity at 31.12.2018

***(Amounts in Euros)***

| | At 31/12/2017 | Change in opening balances | At 1.1.2018 | *Allocation of result from previous FY* | | *Changes for the year* | | | | | | | | Shareholders' equity at 31/12/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Operations on shareholders' equity | | | | | | | |
| | | | | *Reserves* | *Dividends and other allocations* | Changes in reserves | *New shares issued* | Treasury shares purchased | Treasury shares purchased | Change in equity instruments | Derivatives on treasury shares | Stock options | Total profitability FY 2018 | |
| Share capital: | | | | | | | | | | | | | | |
| a) Ordinary Shares | 7,740,000 | | 7,740,000 | - | | | - | - | | | | | | **7,740,000** |
| b) Other Shares | - | | - | - | | | - | - | | | | | | **-** |
| Share premium account | 1,070,912 | | 1,070,912 | - | | - | - | | | | | | | **1,070,912** |
| Reserves: | | | | | | | | | | | | | | |
| a) profits | 5,675,802 | -883,521 | 4,792,281 | -476,123 | | - | - | - | - | | | | | **4,316,158** |
| b) other | - | - | - | - | | - | - | | - | | - | - | | **-** |
| Valuation reserves | -148,877 | 15,112 | -133,765 | | | - | | | | | | | -243,250 | **-377,015** |
| Capital instruments | - | | - | | | | | | | - | | | | **-** |
| Treasury shares | - | | - | | | | - | - | | | | | | **-** |
| Profit (Loss) for the year | -476,123 | - | -476,123 | 476,123 | - | | | | | | | | -1,284,207 | **-1,284,207** |
| Shareholders' Equity | 13,861,714 | -868,409 | 12,993,305 | - | - | - | - | - | - | - | - | - | -1,527,457 | **11,465,848** |

# Statement of Changes in Shareholders' Equity at 31.12.2017

***(Amounts in Euros)***

| | At 31/12/2016 | Change in opening balances | At 1.1.2017 | *Allocation of result from previous FY* | | *Changes for the year* | | | | | | | | Shareholders' equity at 31/12/2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Operations on shareholders' equity | | | | | | | |
| | | | | *Reserves* | *Dividends and other allocations* | Changes in reserves | *New shares issued* | Treasury shares purchased | Treasury shares purchased | Change in equity instruments | Derivatives on treasury shares | Stock options | Total profitability FY 2017 | |
| Share capital: | | | | | | | | | | | | | | |
| a) Ordinary Shares | 7,740,000 | | 7,740,000 | - | | | - | - | | | | | | **7,740,000** |
| b) Other Shares | - | | - | - | | | - | - | | | | | | **-** |
| Share premium account | 1,070,912 | | 1,070,912 | - | | - | - | | | | | | | **1,070,912** |
| Reserves: | | | | | | | | | | | | | | |
| a) profits | 5.904.069 | - | 5.904.069 | -228.267 | | - | - | - | - | | | | | **5,675,802** |
| b) other | - | - | - | - | | - | - | | - | | - | - | | **-** |
| Valuation reserves | -151.500 | - | -151.500 | | | - | | | | | | | 2,623 | **-148,877** |
| Capital instruments | - | - | - | | | | | | | - | | | | **-** |
| Treasury shares | - | - | - | | | | - | - | | | | | | **-** |
| Profit (Loss) for the year | -228.267 | - | -228.267 | 228.267 | - | | | | | | | | - 476,123 | **-476,123** |
| Shareholders' Equity | 14.335.214 | - | 14.335.214 | - | - | - | - | - | - | - | - | - | -473,500 | **13,861,714** |

# Cash Flow Statement

*Indirect method*

*(Amounts in Euros)*

| A. OPERATIONS | Amount | |
|---|---|---|
| | 2018 | 2017 |
| **1. Operations** | **-309,271** | **145,714** |
| - operating result (+/-) | -1,284,207 | -476,123 |
| - gains / losses on financial assets held for trading and on other financial assets / liabilities measured at fair value through profit or loss (- / +) | 222,368 | |
| *- gains / losses on financial assets held for trading and on financial assets / liabilities measured at fair value (pursuant to IAS 39) (- / +)* | | 75,145 |
| - capital gains/losses on hedging activities (-/+) | – | – |
| - Net value adjustments/reversals for credit risk (+/-) | 262,521 | |
| - net value adjustments/reversals for impairment (pursuant to IAS 39) (+/-) | | 115,036 |
| - net value adjustments/reversals on tangible and intangible fixed assets (+/-) | 345,836 | 322,034 |
| - net allocations to provisions for liabilities and charges and other costs/revenue (+/-) | 222,190 | 129,929 |
| - outstanding taxes and tax credits (+/-) | -72,672 | -20,118 |
| - net value adjustments/reversals of discontinued operations, net of tax effect (+/-) | – | |
| - other adjustments (+/-) | -5,307 | -189 |
| **2. Liquidity generated/absorbed by financial assets** | **2,854,695** | **-999,146** |
| - financial assets held for trading | -995,612 | |
| - financial assets designated at fair value | – | |
| - other financial assets mandatorily measured at fair value | -11,248 | |
| - financial assets measured at fair value through other comprehensive income | 1,185,559 | |
| - financial assets measured at amortised cost | 2,822,647 | |
| - financial assets held for trading (IAS 39) | | -3,956,681 |
| - financial assets measured at fair value (IAS 39) | | – |
| - financial assets available for sale (IAS 39) | | 4,536 |
| - loans to banks: on demand (IAS 39) | | 1,074,307 |
| - loans to banks: other loans (IAS 39) | | – |
| - loans to customers (IAS 39) | | 1,881,077 |
| - other assets | -146,651 | -2,385 |
| **3. Liquidity generated/absorbed by financial liabilities** | **-4,180,354** | **3,262,192** |
| - financial liabilities measured at amortised cost | -3,556,496 | |
| - due to banks: on demand (IAS 39) | | -105,920 |
| - due to banks: other payables (IAS 39) | | – |
| - amounts due to customers (IAS 39) | | 3,238,122 |
| - outstanding securities (IAS 39) | | -257,658 |
| - financial liabilities held for trading | – | – |
| - financial liabilities designated at fair value | – | |
| - financial liabilities measured at fair value (IAS 39) | | |

| | | |
|---|---|---|
| - other liabilities | -623,858 | |
| - other liabilities (former IAS 39) | | 387,648 |
| **Net liquidity generated/absorbed by operations** | **-1,634,930** | **2,408,760** |
| **B. INVESTMENT ACTIVITIES** | | |
| **1. Liquidity generated by** | **–** | **–** |
| - disposal of equity investments | – | – |
| - dividends collected on equity investments | – | – |
| - sale/refund of financial assets held to maturity (former IAS 39) | | – |
| - sale of tangible assets | – | – |
| - sale of intangible assets | – | – |
| - sale of business units | – | – |
| **2. Liquidity absorbed by** | **-444,350** | **-41,456** |
| - purchase of equity investments | -32,500 | – |
| - purchases of financial assets held to maturity (former IAS 39) | | – |
| - purchase of tangible assets | -101,919 | -33,587 |
| - purchase of intangible assets | -309,931 | -7,869 |
| - purchase of business units | – | – |
| **Net liquidity generated/absorbed by investments** | **-444,350** | **-41,456** |
| **C. BORROWING ACTIVITIES** | | |
| - issue/purchase of treasury shares | – | – |
| - issue/purchase of equity instruments | – | – |
| - allocation of dividends and other aims | – | – |
| **Net liquidity generated/absorbed by borrowing activities** | **–** | **–** |
| **NET LIQUIDITY GENERATED/ABSORBED IN THE FINANCIAL YEAR** | **-2,079,280** | **2,367,304** |

**KEY:** (+) generated; (-) absorbed

**RECONCILIATION**

| *Items* | *Amount* | |
|---|---|---|
| | **2018** | **2017** |
| Opening cash and cash equivalents | **3,238,734** | **871,430** |
| Net total liquidity generated/absorbed during the financial year | **-2,079,280** | **2,367,304** |
| Cash and cash equivalents: effect of changes in exchange rates | **–** | **–** |
| Closing cash and cash equivalents | **1,159,454** | **3,238,734** |

In line with the amendment to IAS 7, introduced by Regulation 1990 of 6 November 2017, we provide here below the information required by paragraph 44 B in order to measure the movements in liabilities arising from financing activities, relating to both changes deriving from cash flows or non-cash changes.

| **A. A. Operations - 3. Liquidity generated/absorbed by financial liabilities** | **Amount 2018** |
|---|---|
| a) change due to cash flows from financing activities | -3,556,496 |
| b) change due to control lost/acquired in subsidiaries or other companies | **–** |
| c) change in fair value | **–** |
| d) other changes | -623,858 |
| **Liquidity generated/absorbed by financial liabilities** | **-4,180,354** |

***Banca Promos SpA - Financial Statements***

The statements as at 31.12.2018 required by Banca d'Italia Circular 262 of 22 December 2005 (5th update of 22 December 2017) have been appropriately amended by adding items that enable a comparison with the previous period, the latter having been prepared in accordance with IAS 39 and presented in accordance with Banca d'Italia Circular 262 (4th update of 15 December 2015).

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# Notes

# PART A – ACCOUNTING POLICIES

## A.1 - GENERAL SECTION

### Section 1 – Statement of compliance with International Accounting Standards

These financial statements, pursuant to Legislative Decree no. 38 of 28 February 2005, were drafted in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and with the pertinent interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Commission in compliance with the EC Regulation no. 1606 dated 19 July 2002 – and in force at the reporting date.

The financial statements have been prepared by applying the IAS/IFRS standards as approved and in force at 31 December 2018, the detail of which is provided in the attachments to the financial statements.

In applying the IAS / IFRS, reference has been made to the "Framework for the preparation and presentation of financial statements" specifically with regard to the fundamental principle of the prevalence of substance over form, and the concept of relevance and materiality of information.

These financial statements have been prepared on the basis of the instructions contained in Banca d'Italia Circular no. 262 of 22 December 2005 entitled "Banks' financial statements: formats and drafting instructions": 5th update of 22 December 2017[1]. In drafting the financial statements, the documents on the adoption of IAS/IFRS in Italy prepared by the Italian Accounting Standard Body (OIC) and the Italian Banking Association (ABI) were considered in terms of interpretation.

### Section 2 – General drafting principles

The financial statements were drafted by applying the general principles of IAS 1, substantially reviewed in 2007 and endorsed by the European Community Commission in December 2008, and the specific accounting standards endorsed by the European Commission and illustrated in part A.2 of these Notes, as well as in compliance with the general assumptions of the so-called Framework drafted by the IASB for financial statements' drafting and presentation.
There were no exceptions to the application of IAS/IFRS.

In accordance with art. 5 of Legislative Decree No. 38/2005, the financial statements are prepared using the Euro as reporting currency.

In preparing the financial statements, the formats and drafting rules referred to in Banca d'Italia Circular no. 262 of 22 December 2005, 5th Update of 22 December 2017, were used.

Despite holding a controlling interest in Promos Corporate Consulting Srl, the Bank did not prepare consolidated financial statements due to the negligible relevance of the newly established subsidiary both in terms of balance sheet and income statement.

The Financial Statements consist of Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Shareholders' equity, Cash Flow Statement – drafted according to the indirect method – the Notes and the pertinent comparative information. They are also accompanied by the Directors' Report on the Bank's operations and situation.

The Balance Sheet and Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity and the Cash Flow Statement are drawn up in euros, while the figures shown in the Explanatory Notes are expressed in thousands of euros. Unless otherwise specified, the figures shown in the Report on Operations are expressed in thousands of euros.

In the Income Statement and in the relevant section of the Explanatory Notes, revenues are shown without a sign, while costs are shown in brackets. In comprehensive income, negative figures are indicated in brackets.

[1] With the 5th update of Circular 262, issued on 22 December 2017, the novelties introduced by IFRS 9 *"Financial Instruments" and* IFRS 15 *"Revenue from Contracts with Customers" were adopted.* For the sake of clarity, please note that on 30 November 2018, Banca d'Italia issued the sixth update to Circular no. 262. The update, which incorporates the changes introduced by the international accounting standard IFRS 16 *"Leases*", will apply to the financial statements for the year ended on or after 31 December 2019.

Moreover, the Directors' Report and the Notes provide the information required by international accounting standards, the Laws, Banca d'Italia and the National Commission for Companies and the Stock Exchange (Consob) in addition to such supplementary information as is deemed appropriate to provide a complete representation of financial statement data, although not specifically required by law.

These financial statements were drafted on a going concern basis. Specifically, the joint coordination table among Banca d'Italia, Consob and Isvap concerning the application of IAS/IFRS, with document No. 2 of 6 February 2009 "Disclosures in financial reports on the going concern assumption, financial risks, impairment tests on assets and uncertainties in the use of estimates", as well as with subsequent document No. 4 of 4 March 2010, asked the Directors to carefully assess whether the going concern assumption can be confirmed.

To this purpose, according to paragraphs 25-26 of IAS 1: *"In drafting financial statements, management is required to make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.*"

Conditions on financial markets and in the real economy and the still uncertain forecasts for the short / medium term require especially accurate assessments whether the going concern assumption is satisfied. In this regard, having examined the risks and uncertainties associated with the current macroeconomic context, and despite the negative impacts on these financial statements, the expectation that the Bank will continue operating as a going concern in the foreseeable future is considered reasonable; accordingly, the financial statements as at 31 December 2018 have been prepared on a going concern basis.
More detailed information on key market issues and factors is contained in the Directors' Report.

Furthermore, the financial statements are in accordance with the general drafting standards, where applicable:

- Principle of truth, fairness and completeness in the presentation of the financial position and performance ("*true and fair view*");
- Accrual accounting standard;
- Principle of consistency of presentation and classification from one financial year to another (comparability);
- Principle of non-offsetting of items, save as expressly permitted;
- Principle of the prevalence of substance over form;
- Principle of prudence in exercising the necessary judgment when making estimates under uncertain conditions, so that assets or revenues are not overestimated and liabilities or costs are not underestimated, without this leading to the formation of hidden reserves or excessive provisions;
- Principle of information neutrality;
- Principle of relevance/materiality of information.

The accounting standards adopted for the preparation of the financial statements at 31 December 2018, with reference to financial instruments (specifically the classification, recognition, measurement and derecognition of financial assets and liabilities) and the methods of revenue and cost recognition have been changed compared to those adopted for the preparation of the Bank's 2017 financial statements.
These changes essentially arise from the mandatory application, as of 1 January 2018, of the following international accounting standards:

- IFRS 9 "Financial instruments", issued by the IASB in July 2014 and endorsed by the European Commission through Regulation no. 2067/2016, which replaced IAS 39, as far as the classification and measurement of financial instruments are concerned, as well the impairment process related thereto;
- IFRS 15 "Revenue from Contracts with Customers", endorsed by the European Commission through Regulation no.1905/2016, which cancelled and replaced IAS 18 "Revenue" and IAS 11 "Construction contracts" accounting standards.

For more details on the implications arising from the introduction of the aforementioned accounting standards, please refer to the detailed discussion in section 4 - "Other aspects". Furthermore, the specific description of the accounting policies pertaining to the individual financial statement items was made in light of the new accounting standards in force as of 1 January 2018.

With specific reference to the approach for representing the effects of first-time adoption of IFRS 9, the Bank elected to apply the option provided in paragraph 7.2.15 of IFRS 9, according to which - without prejudice to the retrospective application of the new measurement and representation rules required by IFRS 9 - an entity is not required to restate comparative figures on a homogeneous basis, in the financial statements for the year of first time application of the standard.

In consideration of the above, with reference to the financial statements at 31.12. 2018 envisaged by Banca d'Italia Circular no. 262 (5th update), the same have been appropriately modified to include the items required by IAS 39 and disclosed pursuant to the 4th update of Banca d'Italia Circular no. 262, for the aggregates affected by IFRS 9 and valid for 2017 only.

With reference to the tables of the explanatory notes which require the comparison year, the following is specified:

- for the items affected by IFRS 9, the figures for the year 2017 are not shown in the respective tables and a note in their margins is provided which refers to the information reported in the published financial statements as at 31.12.2017;
- conversely, for items not affected by IFRS 9, the tables for the previous year are filled out as usual, as required by the 5th update of Banca d'Italia Circular no. 262.

With reference to the tables in the notes which require showing changes in the balance, the IFRS 9 value was entered as the initial balance as at 1.1.2018, with no change shown in the comparison year, and a note was provided in the margin of the those tables making reference to the information contained in the published financial statements as at 31.12.2017. For the tables relating to items not affected by IFRS 9, these were not amended and therefore the opening balance at 1 January 2018 is equal to the closing balance as at 31 December 2017.

**Section 3 – Events subsequent to the reporting period**

In the period between the reporting date and the date of approval of these financial statements by the Board of Directors, no events occurred requiring changes to the data approved at such nor did any significant event occurred requiring the disclosure of additional information.

**Section 4 – Other aspects**

***4.1 – Consolidated financial statements***

Despite holding a controlling interest in Promos Corporate Consulting Srl, the Bank did not prepare consolidated financial statements due to the negligible relevance of the newly established subsidiary both in terms of balance sheet and income statement.

In this regard, it should be noted that the application of International Accounting Standards must be read with reference to the "Framework for the preparation and presentation of the financial statements" (Framework) which, in paragraphs 26 to 30, refers to the concepts of relevance and materiality of information. In particular, paragraph 26 states that *"Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations."* Paragraph 29 establishes that "*The relevance of information is affected by its nature and materiality.*" Finally, paragraph 30 specifies that materiality *" provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful".* In this sense, it is one of the prerogatives of the directors to set this cut-off point or threshold.

In addition, in accordance with IAS 27, for the investment in the subsidiary Promos Corporate Consulting Srl, the equity method is used as a new measurement criterion to be adopted in the bank's financial statements.

Accordingly, and to ensure consistency with the current regime of exemption from supervisory reports on a consolidated basis, the Bank did not prepare consolidated financial statements, as the alignment (consolidation according to the equity method) between the value of the investment recorded in the financial statements and the value of the shareholders' equity of the subsidiary, which at 31 December 2018 was € 50 thousand, is already ensured in the individual financial statements of the parent company The subsidiary's total balance sheet (€ 81 thousand) is lower than the thresholds set by the supervisory instructions for consolidated reports (balance sheet assets less than € 10 million).

The Company's financial statements are attached to the Bank's financial statements.

**4.2 International accounting standards, amendments and interpretations endorsed at 31.12.2018 and in force since 2018**

The following table shows the new international accounting standards and/or the amendments to the accounting standards already in force and IFRS interpretations, with the relevant endorsement regulations by the European Commission entered into force in FY 2018.

| (EU) Endorsement Regulation | Topic | Effective date |
|---|---|---|
| 1905/2016 | IFRS 15 – Revenue from Contracts with Customers | 01/01/2018<br>First subsequent FY beginning on 01/01/2018 |
| 2067/2016 | IFRS 9 Financial instruments | 01/01/2018<br>First FY beginning on 01/01/2018 |
| 1987/2017 | Amendments to IFRS 15 – Revenue from Contracts with Customers | 01/01/2018<br>First FY beginning on 01/01/2018 |
| 1988/2017 | Amendments to IFRS 4 Insurance Contracts | 01/01/2018<br>First FY beginning on or after 01/01/2018 |
| 182/2018 | Amendments to IAS 28 – Investments in associates and joint ventures | 01/01/2018<br>First FY beginning on or after 01/01/2018 |
| | Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards | 01/01/2018<br>First FY beginning on or after 01/01/2018 |
| | Amendments to IFRS 12 – Disclosure on interest in other entities | 01/01/2018<br>First FY beginning on or after 01/01/2018 |
| 289/2018 | Amendments to IFRS 2 - Share-Based Payment | 01/01/2018<br>First FY beginning on or after 01/01/2018 |
| 400/2018 | Amendments to IAS 40 – Investment Property | 01/01/2018<br>First FY beginning on or after 01/01/2018 |
| 519/2018 | IFRIC 22 Foreign currency transactions and advance consideration | 01/01/2018<br>First FY beginning on or after 01/01/2018 |

As already mentioned in Section 2 - Basis of presentation, the accounting standards adopted for the preparation of these Financial Statements, with reference to the classification, recognition, measurement and derecognition of financial assets and liabilities and the methods of revenue and cost recognition have been changed compared to those adopted for the preparation of the Bank's 2017 financial statements.

These changes essentially arise from the mandatory application, as of 1 January 2018, of the accounting standards IFRS 9 "Financial instruments" and IFRS 15 "Revenues from contracts with customers", which are described below.

- **The coming into force of IFRS 9 "Financial instruments"**

Starting from 1 January 2018, the IFRS 9 'Financial Instruments' (hereinafter also referred to the "Standard" came into force, replacing IAS 39 'Financial Instruments – Recognition and Measurement'.

The Standard was incorporated into EU legislation through publication of EU Commission Regulation 2016/2067 in the Official Journal of the European Union no. 323 of 29 November 2016.

The main changes introduced by IFRS 9, with respect to IAS 39, concern the following three aspects:

- Classification and measurement of financial instruments: the accounting categories for classification of financial assets were changed, and it has been established that debt instruments (debt securities and loans) should be classified according to the business model (hereinafter also "*Business Model*") adopted by the entity and the characteristics of the contractual cash flows generated by the financial asset;
- The impairment model: an impairment model has been introduced which moves beyond the "*incurred loss"* concept of the previous standard (IAS 39) and hinges instead on an expected loss estimation method, similar to that established by the Basel regulations. IFRS 9 also introduced numerous changes in terms of scope, credit *staging* and, in general, with respect to some characteristics of the basic elements of credit risk (EAD, PD and LGD);
- New recognition rules for hedging instruments (*general hedge accounting*): the general *hedge accounting* model provides a series of new approaches to further correlate accounting with risk management.

For financial liabilities, no substantial changes are introduced in terms of classification and measurement compared to the current standard. The only new element is the accounting treatment of own credit risk: for financial liabilities designated at fair value (fair value option liabilities), the standard provides that changes in the fair value attributable to a change in own credit risk should be recognized in equity, unless such treatment determines or amplifies an accounting symmetry in profit for the year, while the residual amount of changes in the fair value of liabilities should be recognized through profit or loss.

Given the relevance of the effects arising from the introduction of this standard, reference is made to the specific and detailed information provided in the following paragraph ***"4.6 Transition to the IFRS 9"*** of this section. The mentioned paragraph also sets out the approaches adopted by the Bank with respect to "Classification and measurement" and "Impairment", considering that, with regard to "Hedge accounting", the Bank does not hold any hedged financial instruments.

- **The coming into force of IFRS 15 "Revenue from Contracts with Customers"**

The IFRS 15 accounting standard – "Revenue from contracts with customers – has been approved with publication of Regulation no.1905/2016 effective from 1 January 2018. Starting from the adoption date of IFRS 15, the standards IAS 18 Revenue and IAS 11 Construction Contracts, and the relevant interpretations will be superseded.

The changes with respect to the rules previously in force can be summarized as follows:

- introduction, – in a single accounting standard, of a "common framework" for revenue recognition with regard to both the sale of goods and the provision of services;
- the adoption of a "step" approach to revenue recognition (see below);
- a mechanism, which can be defined as "unbundling", in the allocation of the total transaction price to each of the obligations (sale of goods and/or provision of services) covered by a transfer contract.

In general, IFRS 15 requires an entity to adopt a "five-steps" based approach to revenue recognition.

- identification of the contract (or contracts) with customers: IFRS 15 applies to every contract that has been finalized with a customer and meets specific criteria. In certain specific cases, IFRS 15 requires an entity to combine/aggregate multiple contracts and to account for them as a single contract;
- identification of the performance obligations: a contract reflects the commitments to transfer goods or services to a customer. If these goods or services are "distinct", these promises qualify as "performance obligations" and are accounted for separately;

- determination of the transaction price: the price of the transaction is the amount of consideration to which the entity deems to be entitled in exchange for transferring the promised goods or services to the customer. The price set in the transaction may be a fixed amount, but may sometimes include variable components or non-cash items. The variable amounts are included in the transaction price using the most likely amount method.
- allocation of transaction price among the contract performance obligations: an entity allocates the price of the transaction among the various "performance obligations" on the basis of the stand-alone selling prices of each distinct contractual good or service. If a stand-alone selling price is not observable, the entity must estimate it. The standard identifies when an entity must allocate a discount or a variable component to one or more, but not all, the "performance obligations" (or to the different goods or services) under the contract;
- revenue recognition when the performance obligation is satisfied: the entity recognizes the revenue when it satisfies a "performance obligation" by transferring an asset or by providing service, as envisaged in the contract, to a customer (that is, when the customer obtains control of that good or service). The amount of revenue to be recognized is the amount that had been allocated to the "performance obligation" the entity has satisfied. A "performance obligation" can be satisfied at a specific time (typically when goods are transferred) or during a period of time (typically when services are provided).

With regard to the introduction of IFRS 15, the analyses carried out showed that, basically, the accounting treatment of the main types of revenues arising from contracts with customers is already in line with the provisions of the new standard; accordingly, no significant accounting impact was found.

• On 12 September 2016 the IASB issued the document "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". For entities whose business is predominantly made up of insurance, the aim of the amendments is to clarify the concerns deriving from the application of the new IFRS 9 (from 1 January 2018) to financial assets, before the current IFRS 4 is replaced with the standard IFRS 17 "Insurance Contracts, based on which financial liabilities are carried.
The amendment has been applied since 1 January 2018. The adoption of these amendments had no effect on the Bank's financial statements.

• On 20 June 2016, the IASB issued the amendment to IFRS 2 - Classification and measurement of share-based payment transactions (issued on 20 June 2016), containing some clarifications concerning the recording of the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments characterised by net settlement and the recording of the amendments to the terms and conditions of a share-based payment, changing its classification from cash-settled to equity-settled.
The amendments have been applied since 1 January 2018. The adoption of these amendments had no effect on the Bank's financial statements.

• On 08 December 2016, the IASB issued the document "Annual Improvements to IFRSs: 2014-2016 Cycle", partially supplementing the pre-existing standards as part of the annual improvement process. The main changes include:
o IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters. The amendment has been applied since 1 January 2018, and regards the deletion of a number of short-term exemptions contemplated in paragraphs E3-E7 of Appendix E of IFRS 1, since it is considered that said exemptions are no longer beneficial.
o IAS 28 Investments in *Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice.* The amendment clarifies that the option for a venture capital organization or other such entity (for example a mutual fund or similar) to measure investments in associates and joint ventures at fair value through profit or loss (rather than the equity method) applies for each individual investment upon initial recognition. The amendment has been applied since 1 January 2018.
o IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard.* The amendment clarifies the scope of application of IFRS 12, specifying that the disclosure required by the standard, with the exception of that provided for in paragraphs B10-B16, applies to all those interests classified as held for sale, held for distribution to shareholders or as discontinued operations in accordance with IFRS 5. The amendment has been applied since 1 January 2018.
The adoption of these amendments had no effect on the Bank's financial statements.

• On 8 December 2016, the IASB issued the amendment to IAS 40 "Transfers of Investment Property". These changes clarify the prerequisites necessary to transfer a property to or from an investment property. Specifically, an

entity must transfer property into, or out of, investment property when there has been an evident change in the use of the property. This change must be attributable to a specific event already occurred, and must not be limited to a change in the intentions of the Management of the entity.
These amendments have been applied since 1 January 2018. The adoption of these amendments had no effect on the Bank's financial statements.

- On 8 December 2016, the IASB issued the interpretation "Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)". The aim of the interpretation is to provide guidelines for transactions conducted in foreign currency where non-monetary advances or deposits (contra entry to the received/paid consideration) have been recognised in the financial statements in advance of the recognition of the related asset, expense or income. This document provides indications on how an entity should determine the date of a transaction, and consequently the spot exchange rate to be used for reporting foreign currency transactions when payment is made or received in advance.

The interpretation clarifies that the transaction date is the earlier between:
a) the date on which the full or partial advance consideration paid is entered in the financial statements of the entity; and
b) the date on which the asset, cost or revenue (or part thereof) is entered in the financial statements (with consequent reversal of the full or partial advance consideration received).
If there are numerous payments or amounts collected in advance, a specific transaction date must be identified for each one. IFRIC 22 has been applied since 1 January 2018. The adoption of these amendments had no effect on the Bank's financial statements.

### 4.3 Accounting standards endorsed at 31.12.2018 and in force after 31.12.2018

The table below shows the new international accounting standards or the amendments to the accounting standards already in place which will become mandatory on (for financial statements coinciding with the calendar year) or after 1 January 2019.

| (EU) Endorsement Regulation | Topic | Effective date |
|---|---|---|
| 1986/2017 | IFRS 16 Leases | 01/01/2019<br>First FY beginning on or after 01/01/2019 |
| 498/2018 | Amendments to IFRS 9 – Financial instruments | 01/01/2019<br>First FY beginning on or after 01/01/2019 |
| 1595/2018 | IFRIC 23 Uncertainty over income tax treatments | 01/01/2019<br>First FY beginning on or after 01/01/2019 |

- **<u>The new IFRS 16 - Leases</u>**

The new IFRS 16, issued by the IASB in January 2016 and endorsed by the European Commission through Regulation no. 1986/2017, replaced, as from 1 January 2019, IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease", regulating the requisites to account for lease contracts.

The new standard requires identifying whether a contract is (or contains) a lease, based on the concept of control on the use of a specified asset for a period of time; it follows that lease, rental or free loan contracts, previously not treated as leases, could now also fall within the scope of application of lease rules. In light of the above, significant changes have been made to the accounting of lease transactions in the financial statements of lessees/users, introducing a single accounting method for leases by lessees, based on the right of use model. In detail, the main change consists in no longer making any distinction between operating and finance leases as previously provided by IAS 17; all leases must therefore be accounted for in the same way with recognition of an asset and a liability. The accounting model provides for recognition in the balance sheet assets of the right to use the leased asset; the outstanding lease payments to the lessor must be recognized as a liability in the balance sheet, departing from the requirement of current standards. The method of recognizing the income statement elements has also changed: while according to IAS 17 lease payments were reported under Administrative Expenses, under IFRS16, an entity recognizes the amortization charge of the "right of use" and the interest expense on outstanding debt.

The minimum disclosures required from lessees include, inter alia:

- a breakdown of the different "classes" of leased assets;
- an analysis by maturity of lease liabilities;
- potentially useful information that can improve an understanding of the company's business with respect to leases (for example early repayment or extension options).

On the other hand, except for some major disclosure requirements, there are no substantial changes in the accounting of leases by lessors, as the distinction between operating and finance leases has been maintained. Please also note that, according to the requisites of IFRS 16 and the clarifications of IFRIC (document "Cloud Computing Arrangements" September 2018), software is excluded from IFRS 16 scope of application, being accounted for according to IAS 38 and the pertinent requisites.

From 1 January 2019, the effects on the financial statements of lessees from application of IFRS 16 - profitability and final cash flow being equal - can be identified in an increase in assets recorded in the financial statements (the leased assets), an increase in liabilities (payables for the leased assets), a reduction in administrative expenses (lease payments) and simultaneous increase in financial costs (remuneration of the recognized liability) and amortization (of the right of use). With regard to the income statement, considering the entire duration of the contracts, the economic impact does not change over the time horizon of the lease whether the previous IAS 17 or the new IFRS 16 is applied, but the impact has a different time distribution over such period.

On the basis of information currently available, the Bank has made an initial estimate of the impact expected upon first application of IFRS 16; this, however, could change following further information that will become available to the Bank in 2019, when the new standard is adopted. The effects are essentially attributable to the need to recognize greater assets against the right of use on company rental cars and buildings leased for use by the Bank and liabilities (payable to lessor) for the same amount. The related costs previously recorded as operating costs on a straight-line basis over the term of the contracts will therefore be replaced by amortization and interest expense.

The Bank will exercise the option provided by IFRS 16 not to restate the comparative amounts on a uniform basis in the year of first-time application of IFRS 16, in accordance with the "modified retrospective approach B" (paragraph C5 b), C7 and C8 b.ii) of Appendix C to IFRS 16) which permits an entity to recognize the right of use asset upon initial application for an amount equal to the lease liability; according to this approach, at the date of first application there are no differences on the opening balance of the Bank's shareholders' equity.

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In addition to the above concerning IFRS 16, the rules endorsed and obligatorily applicable starting from 1 January include the amendments to IFRS 9, introduced through Regulation 498/2018, and the new IFRIC 23, adopted with Regulation 1595/2018.

- Regulation 498/2018, endorsed on 22 March 2018, applied some amendments to IFRS 9 "Prepayment feature with negative compensation" on the classification of financial instruments with prepayment clauses. In particular, the IFRS 9 version currently in force provides that a contractual clause that allows the early repayment of a debt instrument (exercisable by debtor or creditor) can pass the SPPI test if the amount paid in advance is substantially equal to the amount due in terms of principal and interest. A "reasonable additional compensation" may also be provided for the early termination of the contract. Through the above amendment, the word "additional" is eliminated and - in general terms, prepayment clauses may provide for a reasonable compensation for the early repayment which can be paid and received by both parties to the contract.
  No significant effects are expected further to the adoption of these amendments on the Bank's financial statements.

- Following approval of Regulation 1595/2018, which took place on 23 October 2018, IFRIC 23 *Uncertainty over income tax treatments* has been adopted; the interpretation clarifies how to apply the recognition and measurement criteria under IAS 12 "Accounting for uncertainties in income taxes".
Specifically, the interpretation requires an entity to analyse the *uncertain tax treatments* (individually or collectively, depending on the characteristics), assuming that the tax authority examines the tax position in question, having full knowledge of all relevant information. If the entity considers it unlikely that the tax authority will accept the tax treatment it has applied, the entity shall reflect the effect of the uncertainty in the measurement of its current and deferred income taxes. In addition, the document does not contain any new disclosure obligations, but it emphasises that the entity must establish whether it will be necessary to provide information on the considerations made by the management regarding the uncertainty concerning the recording of taxes, in accordance with the provisions of IAS 1.
The new interpretation shall be applicable as from 1 January 2019, though earlier application is permitted. At the moment, the directors are assessing the possible effects of the introduction of this interpretation on the Bank's financial statements.

### 4.4 International accounting standards not yet endorsed at 31.12.2018

The following table shows the new international accounting standards or the amendments to the accounting standards already in force, not yet endorsed by the European Commission, specifying the changes' scope or purpose.

Since, at present, they have not been approved by the European Commission, none of these updates is relevant for the Bank's financial statements.

| **Interpretation/Standard** | **Title** | **Issued on** |
|---|---|---|
| IFRS 17 | Insurance Contracts | 18/05/2017 |
| **Interpretation/Standard** | **Amendments** | **Issued on** |
| IAS 28 | Long-term Interest in Associates and Joint Ventures | 12/10/2017 |
| IFRS 3 | Business Combination | 12/12/2017 |
| IFRS 11 | Joint Arrangement | 12/12/2017 |
| IAS 12 | Income Taxes | 12/12/2017 |
| IAS 23 | Borrowing Costs | 12/12/2017 |
| IAS 19 | Plan Amendment, Curtailment or Settlement | 07/02/2018 |
| (*) | Amendments to References to the Conceptual framework in IFRS Standards | 29/03/2018 |
| IFRS 3 | Definition of a Business | 22/10/2018 |
| IAS 1 | Definition of Material | 31/10/2018 |
| IAS 8 | Definition of Material | 31/10/2018 |
| (*) The document updates the references to the Conceptual Framework present in IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32 | | |

- On 18 May 2017, the IASB issued IFRS 17 – Insurance Contracts, intended to replace IFRS 4 - Insurance Contracts.

The standard applies from 1 January 2021, though earlier application is permitted only for those companies opting for early adoption of IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers. The directors do not expect the adoption of this standard to impact the financial statements.

- On 12 October 2017, the IASB issued the document "Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)". This document clarifies the need to apply IFRS 9, including the requisites linked to impairment, to other long-term interest in associates or joint ventures for which the equity method is not applied. The amendment shall be applicable as from 1 January 2019, though earlier application is permitted.

The directors do not expect the adoption of these changes to impact the Bank's financial statements.

- On 12 December 2017, the IASB issued the document "Annual Improvements to IFRSs 2015-2017 Cycle", which implements the amendments to certain standards as part of the annual improvement process. The main changes include:
    - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: this amendment clarifies that when an entity obtains control of a business that is a joint operation, it must remeasure previously held interests in that business. This process is not provided for when joint control is obtained.
    - IAS 12 Income Taxes: the amendment clarifies that all the tax consequences of dividends (including payments on financial instruments classed as equity) must be recognised consistently with the transactions that generated those profits (profit or loss, OCI or equity).
    - IAS 23 Borrowing costs: the amendment clarifies that borrowings that remain outstanding even after the related qualifying asset is ready for use or sale should be calculated as part of the borrowing costs.

The amendments shall be applicable as from 1 January 2019, though earlier application is permitted. The directors do not expect the adoption of these changes to have a significant impact on the Bank's financial statements.

- On 7 February 2018, the IASB issued the document "Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)". The document clarifies how entities must record an amendment (i.e. a curtailment or a settlement) to a defined benefit plan. The amendments require the entities to update their assumptions and remeasure the liabilities or net assets deriving from the plan. The amendments clarify that after such an event occurs, entities must use updated assumptions to measure the current service cost and interest for the rest of the reference period subsequent to the event. The directors do not expect the adoption of these changes to have a significant impact on the Bank's financial statements.

- On 22 October 2018, the IASB issued the document "Definition of a Business (Amendments to IFRS 3)". The document clarifies a number of points regarding the definition of business for the purpose of applying IFRS 3 correctly. Specifically, the amendment clarifies that while a business usually produces an output, the presence of an output is not strictly necessary to identify a business where an integrated set of activities/processes and assets is present. However, for the definition of a business, an integrated set of activities/processes and assets must include at least an input and a substantial process that together make a significant contribution to the ability to create outputs. To this end, the IASB has replaced the term " ability to create outputs" with "ability to contribute to the creation of outputs", in order to clarify that a business can exist even without the presence of all the inputs and processes necessary to create an output.
The amendment also introduced a "concentration test", optional for the entity, to determine whether a set of activities/processes and assets purchased is not a business. If the result of the test is positive, the set of activities/processes and assets purchased is not a business, and the standard requires no further verification. If the result of the test is negative, the entity must conduct further analyses on the activities/processes and assets purchased to identify the presence of a business. To this end, the amendment has added numerous examples to IFRS 3 in order to illustrate the practical application of the new definition of a business in specific cases. The modifications apply to all the business combinations and acquisitions of assets after 1 January 2020, but early application is permitted.
The directors do not expect the adoption of this amendment to have a significant impact on the Bank's financial statements.

- On 31 October 2018, the IASB issued the document "Definition of Material (Amendments to IFRS 1 and IAS 8)". The document has introduced a change to the definition of "significant" contained in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The aim of this amendment is to offer a more specific definition of "significant" and to introduce the concept of "obscured information" in addition to the concepts of omitted or erroneous information already present in the two amended standards. The amendment clarifies that an information is "obscured" if the effect it has on the primary readers of a set of financial statements is similar to the effect of said information being omitted or erroneous.
The directors do not expect the adoption of this amendment to have a significant impact on the Bank's financial statements.

- On 11 September 2014 the IASB issued the amendment to IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. The document was issued in order to resolve the current conflict between IAS 28 and IFRS 10.
According to the provisions of IAS 28, profits or losses resulting from the transfer or assignment of a non-monetary asset to a joint venture or affiliate in exchange for a share in the capital of the latter is limited to the share held in the joint venture or affiliate by the other investors extraneous to the transaction. On the contrary, IFRS 10 contemplates

the recognition of the entire profit or loss in the event of a loss of control of a subsidiary, even if the entity continues to hold a non-controlling interest therein, also including in such cases the transfer or assignment of a subsidiary to a joint venture or affiliate. The amendments introduced establish that in the event of the transfer/assignment of an asset or of a subsidiary to a joint venture or an affiliate, the extent of the profit or loss to be recognised in the financial statements of the transferor/assignor depends on whether the assets or the subsidiary transferred/assigned may be considered a business or not, according to the definition thereof set out in IFRS 3. In the event the assets or the subsidiary transferred/assigned constitute a business, the entity must recognise the profit/loss on the entire share previously held; otherwise, the share of profit or loss relating to the share still held by the entity must be cancelled. For the moment the IASB has suspended the application of this amendment.

- On 30 January 2014, the IASB published IFRS 14 – Regulatory Deferral Accounts, which allows only those adopting IFRS for the first time to continue to recognise amounts relating to Rate Regulation Activities in accordance with the preceding accounting standards adopted. Since the Company is not a first-time adopter, said standard is not applicable.

### 4.5 Use of estimates and assumptions in preparing the financial statements

The preparation of financial statements requires the use of estimates and assumptions which may significantly affect the amounts stated in the balance sheet and the income statement, as well as the information on contingent assets and liabilities recorded.

Such estimates require the use of available information and the adoption of subjective valuations, also based on the historical experience used to make reasonable assumptions for the recording of management operations.

The estimates and assumptions used may, by their very nature, vary from one financial period to the next. Therefore, the current amounts stated in the financial statements in the subsequent financial years might significantly differ as a result of changes in the subjective valuations used.

The main instances in which subjective valuations are used by the Board of Directors include:

- verification of compliance with requirements for the classification of financial assets in accounting portfolios that provide for the use of the amortized cost criterion (SPPI Test), with specific reference to performance of the benchmark test;
- the quantification of impairment losses on loans and, more in generally, of the other financial assets;
- the determination of fair value of financial instruments to be used for reporting purposes;
- the use of valuation models for determining the fair value of financial instruments not listed in active markets;
- impairment test of goodwill and other intangible assets;
- measuring reserves for personnel and provisions for liabilities and charges;
- the estimates and assumptions on the recoverability of deferred tax assets.

As part of its policies for managing loans to customers, the Bank has adopted processes and methods for monitoring the progress of relationships which have led, among other things, to the classification of exposures into homogeneous risk categories. For the purposes of determining the recoverable value of impaired loans to customers, the Bank, within the scope of its classification and assessment policies, has used valuation methods and processes characterised by subjective elements and estimation processes, subject to risks and uncertainties, of some variables, mainly such as expected cash flows, expected recovery times and the estimated realisable value of the guarantees, if any, the modification of which may entail a change in recoverable value; this calculation is based on the information available as at the valuation date.

These processes confirmed the book values as at the date of preparation of the financial statements. The measurement process was especially complex in view of persistent uncertainties in the macroeconomic environment and the markets, with significant volatility which was reflected in the financial parameters that are decisive for the measurements, and with still high indicators of deterioration in credit quality. These parameters and the information used to verify the aforementioned values are therefore significantly influenced by these factors, which may be subject to swift and unforeseeable changes.

The description of the accounting policies applied to the main financial statement aggregates provides the detailed information necessary for identifying the main assumptions and subjective assessments used in preparing the financial statements.

With specific reference to intangible assets, pursuant to IAS 38 the Bank has recognized intangible assets based on internally generated technology, intended to support the various business lines of the Bank and therefore capable of generating future economic benefits.

In compliance with the applicable accounting standard (IAS 38) research costs were recognized as incurred; conversely, the expenses incurred internally for the development of the related software projects were recognized, and therefore capitalized in the balance sheet.

For further details on the breakdown and the carrying values of items calculated using estimates, please refer to the specific sections of the Notes to the financial statements.

### 4.6 Transition to IFRS 9 international accounting standard

This section provides an analysis of the main areas affected by the new standard as illustrated in the previous paragraph **4.2** ***International accounting standards, amendments and interpretations endorsed as at 31.12.2018 and in force since 2018 - Entry into force of the IFRS 9***, as well as the main choices made by the Bank in this regard. With regard to the new provisions on "Hedge accounting", please note that the Bank does not hold any hedged financial instruments.

Finally, the section describes the effects upon first-time adoption of IFRS 9 (FTA), including the transition from the schedules published in the 2017 Financial Statements (IAS 39) and the same schedules as at 1 January 2018, with indication of the effects attributable to measurement and to impairment respectively.

➢ **Classification and measurement**

With respect to classification and measurement, the most significant new elements introduced by IFRS 9 concern financial assets, for which the Standard provides - instead of the previous four categories ( *Financial assets held for trading*, *Financial assets measured at fair value*, *financial assets availavle for sale*, *financial assets held to maturity*) - the following three accounting categories, implemented by the 5th update of Circular 262/2005:

- Financial assets carried at fair value through profit or loss (FVTPL)
- Financial assets carried at fair value through other comprehensive income (FVOCI) (for debt instruments, the reserve is transferred to the income statement if the instrument is sold - so-called recycling).
- Financial assets carried at amortised cost (AC).

Of special relevance is the accounting model introduced for debt instruments (debt securities and loans) which should be classified in one of the aforementioned three accounting categories on the basis of two elements:

- the business model of financial assets which the Bank has identified at the portfolio/sub-portfolio level. This refers to how the Bank manages its financial assets in order to generate cash flows;
- the characteristics of contractual cash flows of the individual financial instrument, which can be tested, upon adoption of the standard and, when fully implemented, on initial recognition of the instrument, through the *SPPI* Test ('*Solely Payments of Principal and Interest on the principal amount outstanding',* hereinafter also '*SPPI Test*').

With respect to equity securities, the IFRS 9 provides for their mandatory classification in the FVTPL accounting category. However, for certain equity investments that would otherwise be measured at FVTPL, the standard permits an entity, upon initial recognition, to irrevocably opt to present subsequent changes in fair value through other comprehensive income, but with no changes in the reserve if the instrument is sold (FVOCI without "recycling").

In relation to the above and to the activities for adjusting to the new standard, the Bank has defined and formalized its business model for financial assets in a specific document, which was approved by the Bank's Board of Directors.

Specifically, the IFRS 9 requires the following business models:

- *Hold to Collect (HTC)*: financial assets included in this business model are held in order to obtain contractual cash flows through the collection of contractual payments throughout the duration of the instrument;
- *Hold to Collect and Sell (HTC&S)*: financial assets included in this business model are held in order to obtain contractual cash flows through the collection of contractual cash flows and the sale of financial assets;

- *Other/Trading*: this is a residual business model, which includes financial assets that are not included in a Business Model whose objective is to hold assets to collect contractual cash flows (*HTC*) or in a Business Model whose objective is achieved through the collection and sale of financial assets (*HTC&S*).

In this regard, upon first adoption of the standard ('FTA'), the business models were defined based on the facts and circumstances existing at 1 January 2018 and the classification was then applied retroactively regardless of the business model existing in previous years.

Again with respect to classification and measurement, the method for carrying out the "*SPPI Test*" (' *Solely Payments of Principal and Interest on the principal amount outstanding'* ) was defined; the test was applied to financial instruments (debt securities and loans) with a '*Hold to collect'* or '*Hold to collect and sell'* business model. For equity securities, the *SPPI* test is not required.

The purpose of the test is to determine whether the contractual cash flows of the individual financial assets are exclusively payments of principal and interest accrued on the principal amount outstanding and therefore, in substance, whether they are consistent with the key elements of a basic loan agreement.

Only financial assets that meet these requirements can, in fact, be classified, depending on whether the chosen business model is "Hold to collect" or "Hold to collect and sell", respectively under "*Financial assets at amortized cost (AC )"* or under "*Financial assets measured at fair value through other comprehensive income (FVOCI)"*.

Otherwise (*SPPI Test* failed), the financial instrument will be classified in the "*Financial assets at fair value through profit or loss (FVTPL)*" category.

Specifically, on the basis of the method defined for the SPPI test, an analysis of the composition of security and loan portfolios at 31 December 2017 was conducted in order to determine the proper classification upon first time adoption (FTA) of the new Standard.
Specifically, for receivables only marginal cases were detected which, by virtue of specific contractual clauses or the nature of the loan, lead to failure of the SPPI test. On the other hand, we didn't detect any debt securities measured at amortized cost or at fair value through other comprehensive income which did not pass the SPPI test.
Therefore, in this respect, no significant impacts were detected upon FTA for either the credit area or the securities portfolios.

Given the foregoing and considering the specific situation of the Bank, the following can be observed:

a) loan portfolio: as at 1 January 2018 it mainly consists of exposures to banks and customers. From an IFRS 9 perspective, this portfolio was assigned a "Hold to collect" business model, as the Bank manages these financial assets with the aim of continuously collecting contractual cash flows while constantly monitoring the associated credit risk. Furthermore, since the contractual flows of these loans are normally consistent with a basic loan agreement (*SPPI Test* passed), most of these assets will be measured at amortized cost and the impairment will be calculated according to the new IFRS 9 model (see next paragraph). In the residual cases where these loans fail the *SPPI Test*, they will be measured at FVTPL;

b) securities portfolio: the debt securities portfolio of the Bank as at 1 January 2018 was partially made up of the regulatory banking book. This is largely composed of Italian government securities and bank securities which were mostly classified as "*Financial assets held for trading*" as at 31 December 2017. The residual part of this portfolio consists of corporate bonds. At 1 January 2018 the Bank also held debt securities for trading purposes (Regulatory trading book).

➢ Upon first adoption of the IFRS 9 for debt securities in the regulatory trading book, the Bank adopted the following business models:
  - "*Hold to collect"* (HTC): this is the business model attributed to debt securities held for long-term investment and therefore with a view to collecting contractual cash flows while continuously monitoring the associated risks (especially credit risk). Therefore, the strategy underlying this model is oriented to managing financial instruments that are held for stable investments, mainly according to a *"Buy & Hold"* logic, the purpose being to ensure a constant and steady interest margin over time.
    Upon first adoption of the IFRS 9, this business model was attributed to a portion of securities previously classified as financial assets held for trading under IAS 39.
  - 'Hold to collect and sell' (HTC&S): this business model is mainly attributed to securities in the regulatory banking book, which are held for the purpose of active cash management and/or in order to keep certain

risk and/or of performance profiles. This is because these assets are managed with the intention of collecting both the contractual cash flows and the flows arising from the sale of the instruments. Therefore, sales are an integral part of the business model. Upon first adoption of the IFRS 9, this business model was attributed to a portion of securities previously classified as financial assets held for trading under IAS 39.

The aforementioned debt securities of the regulatory banking book, which are held according to an HTC or HTC&S business model, pass the *SPPI Test* and, therefore, upon first time adoption they were included in the "amortized cost" (AC) and "FVOCI with recycling" categories respectively. For these securities, the impairment was calculated according to the new IFRS 9 model.

Following the reclassifications made upon FTA, which, as described above, concerned part of portfolio securities previously classified as financial assets held for trading, there were no significant effects attributable to the change in the classification criteria.

➢ As at 1 January 2018, a Hold for Trading (HFT) business model was assigned to the remaining portion of debt securities included in the regulatory trading book at the end of 2017; this includes positions in financial assets held for the purpose of benefiting of differences between purchase and sale prices when expected short-term market movements materialize and/or arising from arbitrage opportunities.

For the Hold to Collect (HTC) portfolio, the criteria and thresholds that identify sales that are admitted due to their being frequent but not significant, at an individual and aggregate level, or infrequent although of a significant amount were defined; the parameters for identifying sales, regardless of their amount and frequency, consistent with the business model in question due to their being attributable to an increase in counterparty credit risk were also defined. Based on the analyses carried out, the securities portfolios currently classified at amortised cost generally show limited trading activity, in keeping with a Hold to Collect business model.

Finally, with respect to equity securities, the Bank defined the instruments for which it exercised the OCI option (irrevocable option) upon FTA. These are specifically non-controlling interests held for the purpose of stable investment in other banks. For these securities, the applicable accounting category will be FVOCI without recycling; therefore, any profits/losses on disposal will not be recorded through profit or loss, but will remain in an equity reserve.

➢ ***Impairment***

In terms of impairment, the new element introduced by IFRS 9 is the adoption of a new impairment model that estimates value adjustments based on expected losses (*Expected Credit Loss Model - ECL*) replacing the IAS 39 model that estimated value adjustments based on the losses already incurred (*Incurred Loss Model*).

More in detail, the new impairment model introduced by IFRS 9 is characterized by a prospective view that, in certain circumstances, may require the immediate recognition of all expected losses during the life of a loan. In particular, unlike IAS 39, the initial amounts of expected future losses on the entity's financial assets will have to be recorded immediately and independently of any trigger event and said estimate will have to be continually adjusted also considering the counterparty credit risk. For the purpose of this estimate, the impairment model must consider not only past and current data, but also information relating to future events.

This forward looking approach helps reduce the impact upon occurrence of the losses and allows the loan adjustments to be made in proportion to the increase in risk, thereby preventing any excessive burdening of the income statement upon occurrence of the loss events and reducing the pro-cyclic effect.

The new impairment model is applicable to financial assets (loans and debt securities), commitments to disburse funds, guarantees and financial assets not measured at fair value through profit or loss.

For credit exposures falling within the scope of application of the new impairment model, the standard provides for the allocation of each exposure into one of the 3 stages (risk stages) listed below:

- in *stage* 1, loans not showing a significant credit risk at the assessment date or identifiable as *Low Credit Risk*;
- in *stage* 2, loans showing a significant credit risk at the assessment date or not being identifiable as *Low Credit Risk*;

- in stage 3, non-performing loans.

Specifically, the Bank has provided for the allocation of the **individual on- and off-balance sheet exposures** in one of the 3 *stages* listed below based on the following criteria:

- in *stage* 1, exposures with generation date prior than three months as of the measurement date or that do not have any of the characteristics described in the following paragraph;
- in *stage* 2, exposures that have at least one of the characteristics described below at the reference date:
    - a significant increase in credit risk (SICR) has been found since the date of disbursement, such risk being defined in accordance with the operating methods adopted and set forth in specific technical documentation. It should be noted that the significant increase in credit risk, SICR, is determined by comparing the relative change in the lifetime Probability of Default (PD) recorded between the date of first recognition of the loan and that of observation (Delta PD Lifetime) with predetermined thresholds of materiality.
    - presence of the '*Forborne performing*' attribute;
    - presence of exposures that are past due and/or overdrawn for more than 30 days;
    - exposures (with no '*lifetime PD*' on the date of disbursement) that do not have the characteristics to be identified as '*Low Credit Risk*' (as described below) at the measurement date;
- in stage 3, non-performing loans. These are the individual exposures relating to counterparties classified in one of the impaired loan categories envisaged by Banca d'Italia Circular no. 272/2008, as updated. This category includes impaired past due and/or overdrawn exposures, unlikely to pay and non-performing loans.

Performing exposures that had both the following characteristics at the measurement date are considered as '*Low Credit Risk*':

- there is no "*Lifetime* PD" on the date of disbursement;
- *rating* class less than or equal to 4.

Exposures are automatically allocated to the stages envisaged by IFRS 9 according to the criteria defined above.

The estimate of the expected loss through the *Expected Credit Loss* (ECL) approach, for the classes defined above, is made by allocating each exposure in the three reference stages, as detailed below:

- stage 1: the expected loss must be calculated over a 12 months' time horizon;

- *stage* 2: the expected loss must be calculated considering all the losses that are expected to be sustained during the entire life of the financial asset ( *lifetime expected loss*): therefore, compared to IAS 39, there will be a transition from the *incurred loss* estimate over a 12 month time horizon to an estimate that takes into consideration the entire residual life of the loan; furthermore, since the IFRS 9 also requires the calculation of the expected lifetime loss to be made according to *forward-looking* estimates, it will be necessary to consider the scenarios associated with macroeconomic variables (e.g. GDP, unemployment rate, inflation, etc.) that are capable of estimating forecasts for the entire residual term of the loan through a macroeconomic statistical model;

- stage 3: the expected loss must be calculated on a lifetime perspective but, unlike the positions in stage 2, the calculation of the lifetime expected loss will be of an analytical nature.

Risk parameters (PD, LGD and EAD) are calculated based upon the *impairment model*.

The Bank calculates the ECL according to the allocation *stage,* for each exposure, with respect to on-balance sheet and off-balance sheet credit exposures.

For **loans to banks** the Bank has adopted a model for determining the significant increase in credit risk that is different from the model adopted for loans to customers. However, the stage allocation criteria adopted for loans to banks were defined as consistently as possible with respect to those implemented for loans to customers.

Specifically, the Bank has provided for the allocation of the individual exposures consistent with that provided for loans to customers.

However, performing exposures that had both the following characteristics at the measurement date are considered as "*Low Credit Risk*":

- there is no "*Lifetime* PD" on the date of disbursement;
- PD *Point in Time* lower than 0.3%.

Exposures are automatically allocated to the stages envisaged by IFRS 9 according to the criteria defined above. Given the foregoing, for loans to banks, the Bank had adopted an IFRS 9 impairment model specifically developed for the specific type of counterparty and therefore different from the model used for loans to customers.

The estimate of the expected loss through the *Expected Credit Loss* (ECL) approach, for the classes defined above, is made by allocating each exposure in the three reference stages, as detailed below:

- *stage* 1: the expected loss is calculated over a 12 months' time horizon;

- *stage* 2: the expected loss is measured over a time horizon that spans the entire life of the exposure until maturity (LEL, '*Lifetime Expected Loss*');

- stage 3: the expected loss must be calculated on a lifetime perspective but, unlike the positions in stage 2, the calculation of the lifetime expected loss will be of an analytical nature. Furthermore, where appropriate, forward-looking elements will be introduced in the measurement of the aforementioned positions, including in particular different scenarios (for example, disposal) weighted by the associated probability of occurrence. More specifically, when estimating the recovery value of positions (especially those classified as non-performing), the inclusion of a sale scenario, as an alternative to an internal management scenario, normally involves the recognition of greater value adjustments due to the application of disposal prices weighted for the relative probability of occurrence of the sale scenario.

Risk parameters are calculated based upon the *impairment model*.

With respect to **the securities portfolio**, the same approach used for loans is confirmed, i.e. the allocation of the securities in one of the three *stages* envisaged by IFRS 9, which correspond to three different calculation methods for expected losses.

In *stage* 1 the expected loss is measured over a one-year time horizon, therefore with a 12-month probability of default.

The the first *stage* of creditworthiness includes the following securities:

- at the time of purchase, regardless of their level of risk;
- securities with no significant increase in credit risk at the measurement date compared to the time of purchase;
- securities with a significant decrease in credit risk falling back into stage 2.

In *stage 2* the ECL is calculated using the lifetime probability of default. This stage also includes securities that have the following characteristics:

- at the measurement date the instrument shows an increase in credit risk with respect to the purchase date such as to require recognition of an expected loss until maturity;
- instruments that migrate back from stage 3 due to a significant decrease in risk.

The third and final *stage* includes exposures for which the ECL is calculated using a 100% probability of default.

The decision to place the instruments in *stage* 1 or *stage* 2 is linked the quantification of the thresholds that identify a significant increase in the credit risk of the individual tranche being measured. With regard to *stage* 3, the increase in risk is analysed to assess whether it was so high compared to initial recognition that the asset should be considered as impaired. As mentioned above, the Bank will have to recognize an incremental loss from *stage* 1 to *stage* 3.

Specifically:

- the 12-month ECL is the expected value of the estimated loss on an annual basis;
- The lifetime ECL is the estimated expected loss of the instrument until maturity;
- the ECL estimation parameters are the probability of *default*, the '*Loss Given Default*' and *the 'Exposure at Default'* of the individual tranche (PD, LGD, EAD).

For more details about the methods used by the Bank for measuring expected losses, please refer to Section E - Section 1 Credit Risk - paragraph 2.3.

## ➢ ***Accounting and regulatory impact of IFRS 9 first time adoption***

### ❖ **Effects of IFRS 9 first adoption (FTA) - Comparative data**

As mentioned in "Section 2 - General basis preparation", the Bank has chosen to make use of the option provided by IFRS 9 of not restating the comparative figures in the financial statements for the first year of adoption of IFRS 9. In this regard, in the document issuing the 5th update of Banca d'Italia Circular 262/2005 "Banks' financial statements: formats and drafting instructions", the Supervisory Authority specified that banks not providing homogeneous comparison data must include, in the financial statements first drawn up on the basis of the aforementioned update, a reconciliation statement showing the method used and a reconciliation between data of the last financial statements and those of the first financial statements prepared on the basis of the new provisions. The form and content of this required statement are left to the discretion of the relevant corporate bodies.

In order to reclassify the 2017 comparative data within the accounting items required by the new schedules under Circular 262, the necessary adjustments were made, without changing the values, based on the criteria described in the following paragraphs to which reference is made. In addition, a description is provided of the reconciliations of accounting balances as at 1 January 2018 and the effects on capital ratios following application of the new IFRS 9 classification and measurement rules.

### ❖ **Overview of accounting impacts**

The adoption of the new IFRS 9 accounting standard decreases the Bank's shareholders' equity at 1 January 2018 by a total of € 869 thousand.

Specifically, the Bank's shareholders' equity shows an improvement in valuation reserves of € 15 thousand and the recognition of a negative profit reserve (FTA reserve) of € 884 thousand.

The main accounting effects of IFRS 9 first time adoption are mainly attributable to the application of the new *impairment* model and, on a residual basis, to the new classification and measurement of financial assets.

In particular, the new *impairment* model had an overall negative impact on the Bank's shareholders' equity at 1 January 2018 of € 869 thousand, before taxes, mainly attributable to loans to customers.

### ❖ **Reconciliation of accounting statements published in the Financial Statements as at 31.12. 2017 (IAS 39) and IFRS9-compliant accounting statements at 1 January 2018**

The reconciliation statements (table 1.1 and table 1.2) between the accounting schedules as per the 2017 Financial Statements and the accounting schedules introduced by the new Banca d'Italia Circular 262, which incorporates the adoption of the IFRS 9 presentation criteria, are set out below.
In these statements, the carrying amounts as at 31.12.2017 (calculated according to IAS 39) are reclassified into the new accounting items, according to the reclassifications required by the new classification criteria introduced by IFRS 9 and based on the analyses carried out (described above), but without the application of the new measurement criteria and, therefore, with the same value of total assets and total liabilities.

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***Table 1.1(€/000)***

| ASSETS | | Circular 262/2005 5th update ASSETS | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Circular 262/2005 4th update | 31.12.2017 IAS 39 | 10. Cash and cash equivalents | 20. Financial assets carried at fair value through profit or loss | | | 30. Financial assets carried at fair value through other comprehensive income | 40. Financial assets carried at amortised cost | | 50. Hedging derivatives | 60. Adjustment to financial assets subject to macro-hedging (+/-) | 70. Equity investments | 80. Tangible assets | 90. Intangible fixed assets | 100. Tax assets | | 110. Non-current assets and disposal groups | 120. Other assets |
| | | | a) financial assets held for trading | b) financial assets designated at fair value | c) other financial assets to be carried at fair value | | a) receivables from banks | b) loans to customers | | | | | | a) current | b) prepaid | | |
| 10. Cash and cash equivalents | 3,239 | 3,239 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 20. Financial assets held for trading | 17,781 | – | 7,611 | – | – | 7,327 | – | 2,843 | – | – | – | – | – | – | – | – | – |
| 30. Financial assets carried at fair value | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 40. Financial assets available for sale | 1,000 | – | – | – | – | 1,000 | – | – | – | – | – | – | – | – | – | – | – |
| 50. Financial assets held to maturity | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 60. Loans to banks | 9,898 | – | – | – | – | – | 9,898 | – | – | – | – | – | – | – | – | – | – |
| 70. Loans to customers | 26,988 | – | – | – | – | – | – | 26,988 | – | – | – | – | – | – | – | – | – |
| 80. Hedging derivatives | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 90. Adjustment to financial assets subject to macro-hedging (+/-) | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 100. Equity investments | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 110. Tangible assets | 5,822 | – | – | – | – | – | – | – | – | – | – | 5,822 | – | – | – | – | – |
| 120. Intangible fixed assets | 91 | – | – | – | – | – | – | – | – | – | – | – | 91 | – | – | – | – |
| 130. Tax assets | 824 | – | – | – | – | – | – | – | – | – | – | – | – | 345 | 479 | – | – |
| a) current | 345 | – | – | – | – | – | – | – | – | – | – | – | – | 345 | – | – | – |
| b) prepaid | 479 | – | – | – | – | – | – | – | – | – | – | – | – | – | 479 | – | – |
| 140. Non-current assets and disposal groups | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 150. | Other assets | 1,563 | – | – | – | – | – | – | – | – | – | – | – | – | _ | – | – | 1,563 |
| | **Total assets** | **67,206** | **3,239** | **7,611** | **–** | **–** | **8,327** | **9,898** | **29,831** | **–** | **–** | **–** | **5,822** | **91** | **345** | **479** | **–** | **1,563** |

Focusing on the most significant reclassifications for the Bank, the application of the new classification and measurement rules on financial assets had the following results:

a) the reclassification of a portion of debt securities held for trading pursuant to IAS 39, which were allocated to financial assets measured at amortized cost for € 2,843 thousand and to financial assets at fair value through other comprehensive income for € 7,327;
b) the reclassification of equity securities classified as available-for-sale financial instruments pursuant to IAS 39, amounting to € 1m, which were allocated for the same amount to financial assets for which the FVTOCI option has been irrevocably exercised (without recycling).
*c)* in addition to the reclassifications due to the application of IFRS 9, it is appropriate to also mention here those attributable to the new official schedules introduced by the updated Banca d'Italia Circular no. 262 of December 2017. In particular, the new Circular 262 introduced a different reporting method for financial assets which are no longer classified in the previous items Loans to customers, Loans to banks, Financial assets held to maturity, Available-for-sale financial assets, Financial assets at fair value and Financial assets held for trading but are now classified under the following new items: Financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortized cost.

***Table 1.2 (€/000)***

| LIABILITIES | | | Circular 262/2005 5th update LIABILITIES | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Circular 262/2005 4th update | | 31.12.2017 IAS 39 | 10. Financial liabilities carried at amortised cost | | | 20. Financial liabilities held for trading | 30. Financial liabilities designated at fair value | 40. Hedging derivatives | 50. Adjustments to liabilities subject to macro-hedging (+/-) | 60. Tax liabilities | | 70. Liabilities related to discontinuing operations | 80. Other liabilities | 90. Employee severance indemnity . | 100. Provision for liabilities and charges | | | 110. Valuation reserves | 120. Redeemable shares | 130. Equity instruments | 140. Reserves | 150. Share premium account | | 170. Own shares | 180. Profit (loss) for the year (+/-) |
| | | | a) payables to banks | b) payables to customers | c) outstanding securities | | | | | a) current | b) deferred | | | | a) commitments and | b) retirement and similar obligations | c) other provisions for liabilities and | | | | | | | | |
| 10. | Payables to banks | 5,064 | 5,064 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 20. | Trade payables | 39,127 | – | 39,127 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 30. | Outstanding securities | 5,161 | – | – | 5,161 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 40. | Financial liabilities held for trading | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 50. | Financial liabilities carried at fair value | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 60. | Hedging derivatives | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 70. | Adjustment to financial liabilities subject to macro-hedging (+/-) | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 80. | Tax liabilities | 877 | – | – | – | – | – | – | – | – | 877 | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| | a) current | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| | b) deferred | 877 | – | – | – | – | – | – | – | – | 877 | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 90. | Liabilities related to discontinuing operations | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |

| | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 100. Other liabilities | 2,005 | – | – | – | – | – | – | – | – | – | – | 2,005 | – | – | – | – | – | – | – | – | – | – | – | – |
| 110. Employee severance indemnity | 1,095 | – | – | – | – | – | – | – | – | – | – | – | 1,095 | – | – | – | – | – | – | – | – | – | – | – |
| 120. Provisions for liabilities and charges | 15 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 15 | – | – | – | – | – | – | – | – |
| a) retirement and similar obligations | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| b) other provisions | 15 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 15 | – | – | – | – | – | – | – | – |
| 130. Valuation reserves | -149 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | -149 | – | – | – | – | – | – | – |
| 140. Redeemable shares | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 150. Equity instruments | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 160. Reserves | 5,676 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 5,676 | – | – | – | – |
| 170. Share premium account | 1,071 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 1,071 | – | – | – |
| 180. Share capital | 7,740 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 7,740 | – | – |
| 190. Treasury shares (-) | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 200. Profit (loss) for the year (+/-) | -476 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | -476 |
| **Total liabilities and shareholders' equity** | **67,206** | **5,064** | **39,127** | **5,161** | **–** | **–** | **–** | **–** | **–** | **877** | **–** | **2,005** | **1,095** | **–** | **–** | **15** | **-149** | **–** | **–** | **5,676** | **1,071** | **7,740** | **–** | **-476** |

With regard to financial liabilities, there were no significant reclassification impacts arising from the transition to IFRS 9.
Nevertheless, it is considered appropriate to mention the reclassifications resulting from the new schedules introduced by Circular no. 262 also for liabilities and shareholders' equity items. With regard to the new official schedules introduced by Banca d'Italia, in addition to the new required representation of accumulated adjustments on guarantees granted and commitments to disburse funds, it should be noted that payables to banks, payables to customers and outstanding securities were all reclassified under item 10. Financial liabilities carried at amortised cost.

- **Reconciliation between Balance Sheet at 31 December 2017 (which incorporate the new IFRS 9 presentation rules) and Balance Sheet at 1 January 2018 (which incorporate the new IFRS 9 measurement and impairment rules)**

The statements of reconciliation (table 1.3 and table 1.4) between the balance sheet at 31 December 2017 (IAS 39), incorporating the reclassifications according to the new IFRS 9 classification rules discussed above, and the balance sheet as at 1 January 2018 (IFRS 9) are set out below. In those statements, the accounting balances as at 31 December 2017 (under IAS 39) have been modified due to the application of the new measurement and impairment rules to determine IFRS 9-compliant opening balances.

***Table 1.3***

| **ASSETS** | **(€/000)** | | | | |
|---|---|---|---|---|---|
| Circular 262/2005 5th update | **31.12.2017 IAS 39** | **Measurement** | **Impairment** | **FTA tax impacts** | **01.01.2018 IFRS 9** |
| 10. Cash and cash equivalents | 3,239 | – | – | – | 3,239 |
| 20. Financial assets carried at fair value through profit or loss | – | – | – | – | – |
| a) financial assets held for trading | 7,611 | – | – | – | 7,611 |
| b) financial assets designated at fair value | – | – | – | – | – |
| c) other financial assets to be carried at fair value | – | – | – | – | – |
| 30. Financial assets carried at fair value through other comprehensive income | 8,327 | – | – | – | 8,327 |
| 40. Financial assets carried at amortised cost | 39,729 | -5 | -845 | – | 38,879 |
| a) receivables from banks | 9,898 | – | -7 | – | 9,891 |
| b) loans to customers | 29,831 | -5 | -838 | – | 28,988 |
| 50. Hedging derivatives | – | – | – | – | – |
| 60. Adjustment to financial assets subject to macro-hedging (+/-) | – | – | – | – | – |
| 70. Equity investments | – | – | – | – | – |
| 80. Tangible assets | 5,822 | – | – | – | 5,822 |
| 90. Intangible fixed assets | 91 | – | – | – | 91 |
| 100. Tax assets | 824 | – | – | – | 824 |
| a) current | 345 | – | – | – | 345 |
| b) prepaid | 479 | – | – | – | 479 |
| 110. Non-current assets and disposal groups | – | – | – | – | – |
| 120. Other assets | 1,563 | – | – | – | 1,563 |
| **Total assets** | **67,206** | **-5** | **-845** | **–** | **66,356** |

### ➢ Classification and measurement

The different classification of financial assets in the new IFRS 9 categories, resulting from changes in the "Business Model", and the consequent different measurement metrics have determined an impact on the Bank's shareholders' equity attributable to the following factors:

1) reclassification of a portion of financial assets held for trading under IAS 39 to a "Hold to Collect" business model with consequent restatement of the carrying amount (- € 5 thousand, **Table 1.3**);
2) reclassification of a portion of financial assets held for trading under IAS 39 to a "Hold to Collect and Sell" business model with consequent recognition of the changes in fair value that occurred as of the date of initial recognition (- € 10 thousand **, Table 1.4**) into the specific profit reserve (FTA reserve), and simultaneous increase in the valuation reserve with no impact on the Bank's shareholders' equity, as shown in the following table ( **Table 1.4** ).

There were no impacts on the Bank's shareholders' equity attributable to the fair value adjustment of financial assets due to failure to pass the SPPI test.

### ➢ Impairment

The application of the new impairment rules (ECL) on financial assets measured at amortized cost (on-balance-sheet exposures) had a negative impact (before tax) of € 845 thousand on the Bank's shareholders' equity, as detailed below:

- greater net impairment losses on performing loans for a total of € 686 thousand essentially attributable to i) the allocation of part of the performing loan portfolio in Stage 2 - based on stage allocation criteria - with consequent calculation of the expected loss for the entire residual life of financial assets and ii) inclusion of forward looking parameters derived from macroeconomic scenarios. The impact upon first adoption is almost entirely attributable to the increase in net impairment losses on performing positions allocated in stage 2.
- greater net impairment losses for a total of € 154 thousand based on the new impairment logic, on stage 3 loans previously collectively written-down under IAS 39.
- finally, net impairment losses were recorded on debt securities, allocated to stage 1 according to defined stage allocation criteria, for a total of € 5 thousand.

The application of the new impairment rules (ECL) on financial assets at fair value through other comprehensive income resulted in a negative impact (- € 5 thousand, **Table 1.4** ) on the specific profit reserve (FTA reserve), and simultaneous increase in the valuation reserve with no impact on the Bank's shareholders' equity, as shown in the following table (**Table 1.4**).

***Table 1.4***

| LIABILITIES | (€/000) | | | | |
|---|---|---|---|---|---|
| **Circular 262/2005 5th update** | **31.12.2017 IAS 39** | **Measurement** | **Impairment** | **FTA tax impacts** | **1.1.2018 IFRS 9** |
| 10. Financial liabilities carried at amortised cost | 49,352 | – | – | – | 49,352 |
| a) payables to banks | 5,064 | – | – | – | 5,064 |
| b) payables to customers | 39,127 | – | – | – | 39,127 |
| c) outstanding securities | 5,161 | – | – | – | 5,161 |
| 20. Financial liabilities held for trading | – | – | – | – | – |
| 30. Financial liabilities designated at fair value | – | – | – | – | – |
| 40. Hedging derivatives | – | – | – | – | – |
| 50. Adjustment to financial liabilities subject to macro-hedging (+/-) | – | – | – | – | – |
| 60. Tax liabilities | 877 | – | – | – | 877 |
| a) current | – | – | – | – | – |
| b) deferred | 877 | – | – | – | 877 |
| 70. Liabilities related to discontinuing operations | – | – | – | – | – |
| 80. Other liabilities | 2,005 | – | – | – | 2,005 |
| 90. Employee severance indemnity | 1,095 | – | – | – | 1,095 |
| 100. Provisions for liabilities and charges | 15 | – | 19 | – | 34 |
| a) commitments and guarantees granted | – | – | 19 | – | 19 |
| b) retirement and similar obligations | – | – | – | – | – |
| c) other provisions for liabilities and charges | 15 | – | – | – | 15 |
| 110. Valuation reserves | -149 | 10 | 5 | – | -134 |
| 120. Redeemable shares | – | – | – | – | – |
| 130. Equity instruments | – | – | – | – | – |
| 140. Reserves | 5,676 | – | -884 | – | 4,792 |
| 150. Share premium account | 1,071 | – | – | – | 1,071 |
| 160. Share capital | 7,740 | – | – | – | 7,740 |
| 170. Treasury shares (-) | – | – | – | – | – |
| 180. Profit (loss) for the year (+/-) | -476 | – | – | – | -476 |
| **Total liabilities** | **67,206** | **10** | **-860** | **–** | **66,356** |

With regard to liabilities:
- the recognition of net impairment losses with respect to guarantees given and commitments for € 19 thousand recognized in provisions for risks and charges. This recognition arises from application of the new impairment rules established by IFRS 9;
- the change in valuation reserves for € 15 thousand is attributable to the effects of reclassification, measurement and impairment of debt securities described above.

Finally, the Bank's shareholders' equity shows an improvement in valuation reserves of € 15 thousand and the recognition of a negative profit reserve (FTA reserve) of € 884 thousand.

### ❖ Reconciliation between IAS 39 Shareholders' Equity and IFRS 9 Shareholders' Equity

The table below (table 1.5) shows the reconciliation between Shareholders' Equity at 31 December 2017, as reported in the published 2017 Financial Statements, and the opening Shareholders' Equity at 1 January 2018, after transition to IFRS 9, which reflects the effects commented above.

Shareholders' equity at 1 January 2018 amounted to € 12,993 thousand, before the tax effect, a decrease compared to Shareholders' equity at 31 December 2017 (IAS 39) of € 13,862 thousand.

Information is provided - for each balance sheet item affected by the introduction of the new accounting standard - of the related effects (classification and measurement and impairment) commented on above.

**(Table1.5)**

***(€/000)***

| | **Effects of transition to IFRS 9** |
|---|---|
| **Shareholders' equity IAS 39 (31.12.2017)** | **13,862** |
| **Item 20. Financial assets at fair value through other comprehensive income** | **–** |
| Classification and Measurement effect (FTA Reserve) | -10 |
| Impairment effect (FTA reserve) | -5 |
| Classification and Measurement effect (Valuation reserve) | 10 |
| Impairment effect (Valuation reserve) | 5 |
| **Item 40. Financial assets at amortised cost** | **- 850** |
| Classification and Measurement effect (FTA Reserve) | - 5 |
| Impairment effect (FTA reserve) | -845 |
| - Stage 1 and 2 | -691 |
| - Stage 3 | - 154 |
| **Off-balance sheet commitments and guarantees** | **- 19** |
| Impairment effect (FTA reserve) | - 19 |
| Tax effect | – |
| **Total impact on Shareholders' equity - effect of transition to IFRS 9 (01.01.2018)** | **- 869** |
| **IFRS 9 Shareholders' equity (01.01.2018)** | **12,993** |

With respect to debt securities classified as "Financial assets at fair value through other comprehensive income", the application of the new impairment rules and the new measurement metrics adopted following the aforementioned reclassifications, resulted in an increase in the valuation reserve, respectively, of € 5 thousand and € 10 thousand and a corresponding negative effect on profit reserves, with no impact on the Bank's shareholders' equity.

In terms of deferred tax assets associated with the introduction of IFRS 9, the Bank - in compliance with the provisions of IAS 12 - did not make any recognition.

### ❖ Regulatory effect and impact on prudential ratios

The effects upon first time adoption of IFRS 9 were recognized in an equity reserve. Therefore, there were no first-time effects recognized in the income statement. The effects on the regulatory capital do not give rise to any critical issues, also considering that any negative impact will be diluted over 5 years according to a non-linear mechanism, following the Bank application of the 'Phase-in' regime, introduced by Regulation (EU) 2017/2395, which amended Regulation (EU) 575/2013 (CRR) with effect from 1 January 2018. Specifically, the 'Phase-in' involves the introduction of a prudential filter that mitigates - in the 2018-2022 period (the transitional period) - the potential negative impact on CET1 arising from greater value adjustments upon application of the new IFRS9 impairment model:

- a static approach: to be applied to the impact of the FTA only, resulting from the comparison between IAS 39 value adjustments at 31 December 2017 and IFRS value adjustments at 1 January 2018 (including adjustments to the *Stage* 3 position);
- a dynamic approach: to be applied to the impact resulting from the comparison between the value adjustments at 1 January 2018 and the subsequent reporting periods up to 31 December 2022, limited however to the increases in value adjustments of exposures classified in stage 1 and 2 (thus excluding adjustments to *stage* 3 positions).
  The adjustment to CET1 may be made during the 2018-2022 period, re-including in CET1 the impact to the extent shown below, for each of the 5 years comprised in the transitional period:
  - 2018: 95%
  - 2019: 85%
  - 2020: 70%
  - 2021: 50%
  - 2022: 25%

This adjustment to CET1 requires a symmetrical adjustment to the amounts of the exposures pursuant to Article 111, paragraph 1, of the CRR for the purpose of determining the credit risk capital requirements under the standardized approach.

As reported in the guidelines issued by the EBA in January 2018, entities that opt for the transitional treatment disclose information to the market on a "fully loaded basis", details of which are provided in the 'Public disclosure ("Third Pillar"), prepared pursuant to Regulation (EU) no. 575/2013 of 26 June 2013 (CRR).

- **Credit quality: Composition and allocation by Stage of exposures at amortized cost tested for impairment pursuant to IFRS 9**

The following is an analysis of the credit quality of exposures measured at amortized cost, before and after application of the new accounting standard.

| IFRS 9 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance-sheet exposure** | **Gross exposure** | | | | **Overall adjustments** | | | | **Net exposure** | | | |
| **Amortised cost** | **Stage** | | | | **Stage** | | | | **Stage** | | | |
| | **1** | **2** | **3** | **Total** | **1** | **2** | **3** | **Total** | **1** | **2** | **3** | **Total** |
| **Loans to customers** | 10,607 | 13,691 | 4,965 | 29,263 | 181 | 650 | 2,277 | 3,108 | 10,426 | 13,041 | 2,688 | 26,155 |
| **Loans to banks** | 9,898 | – | – | 9,898 | 7 | – | – | 7 | 9,891 | – | – | 9,891 |
| **Debt securities** | 2,838 | – | – | 2,838 | 5 | – | – | 5 | 2,833 | – | – | 2,833 |
| **Total** | **23,343** | **13,691** | **4,965** | **41,999** | **193** | **650** | **2,277** | **3,120** | **23,150** | **13,041** | **2,688** | **38,879** |

| IAS 39 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Gross exposure** | | | **Overall adjustments** | | | **Net exposure** | | |
| | **Performing** | **Non-performing** | **Total** | **Performing** | **Non-performing** | **Total** | **Performing** | **Non-performing** | **Total** |
| **Loans to customers** | 24,298 | 4,965 | 29,263 | 152 | 2,123 | 2,275 | 24,146 | 2,842 | 26,988 |
| **Loans to banks** | 9,898 | – | 9,898 | – | – | – | 9,898 | – | 9,898 |
| **Debt securities** | – | – | – | – | – | – | – | – | – |
| **Total** | **34,196** | **4,965** | **39,161** | **152** | **2,123** | **2,275** | **34,044** | **2,842** | **36,886** |

For most of the cash exposures (79%), classification in stage 2 was not due to the presence of elements of deterioration, but was attributable to automatic classification triggers (mainly positions without rating at origination (65%), forborne positions (10%), past due by more than 30 days (5%). The residual amount (21%) was attributable to an increase in their Lifetime PD with respect to origination.

### 4.7 Statutory audit of the accounts

The financial statements are audited by Deloitte & Touche S.p.A., in application of the Shareholders' Meeting Resolution of 28/04/2010, which appointed the mentioned firm as independent auditors for the years 2010-2018.

## A.2 - MAIN ITEMS OF THE FINANCIAL STATEMENTS

The accounting standards adopted in the preparation of the Financial Statements for the year ended 31 December 2018 are indicated below. The presentation of the standards adopted was carried out referring to the stages of initial recognition, classification, recording, measurement and derecognition of the items of assets and liabilities. The same applies to the recognition method of costs and revenue.

### 1 – Financial assets at fair value through profit or loss (FVTPL)

#### Classification criteria

This category includes all financial assets that are not classified as financial assets at fair value through comprehensive income or as financial assets measured at amortised cost.

Specifically, financial assets at fair value through profit or loss include:

- financial assets which, according to the Bank's *Business Model*, are held for trading purposes, i.e. debt and equity securities (therefore, these assets are not held according to a business model aimed at the collection of contractual cash flows - "Hold to Collect" *Business Model* - or at the collection of contractual cash flows combined with the sale of financial assets - "Hold to Collect and Sell" *Business Model* ) and the positive value of derivative contracts held for trading;
- financial assets designated at *fair value,* i.e. financial assets thus defined upon initial recognition where the conditions are met. In cases of this kind, upon recognition an entity may irrevocably designate a financial asset as at fair value through profit or loss if, and only if, so doing eliminates or significantly reduces a measurement or recognition inconsistency;
- financial assets mandatorily at fair value, consisting of financial assets that do not meet the requirements for valuation at amortized cost or at fair value through other comprehensive income. These are financial assets with contractual terms that do not exclusively provide for principal repayment and payment of interest on outstanding principal ("SPPI test" not passed) or which are not held under a business model aimed at holding assets for the purpose of collecting contractual cash flows ("Hold to Collect" Business Model) or whose objective is achieved both by collecting the contractual cash flows and by selling financial assets ("Hold to Collect and Sell" Business Model).

Therefore, this item includes:

- debt securities and loans included in a Other/Trading *Business Model* (which, therefore cannot be included in a "Hold to Collect" or "Hold to Collect and Sell" *Business Model*) or which did not pass the *SPPI Test*;
- capital instruments, which cannot be qualified as interests in subsidiaries, associates or jointly controlled entities, that are held for trading or for which designation at fair value through other comprehensive income was not opted for upon initial recognition.
- UCIT units;

The item also includes derivative contracts held for trading, reported as assets if their *fair value* is positive and as liabilities if their *fair value* is negative. The offsetting of current positive and negative amounts resulting from existing transactions with the same counterparty is possible only if there is a legal right to offsetting the amounts recognized in the accounts and the positions being netted are to be settled on a net basis. Derivatives also include those embedded in complex financial contracts.

According to the general rules established by IFRS 9 regarding the reclassification of financial assets (with the exception of equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not allowed unless the entity changes 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 of measured at fair value through profit or loss into one of the other two categories required by IFRS 9 (Financial assets measured at amortized cost or Financial assets measured at fair value through other comprehensive income). They are transferred at their fair value at the time of reclassification and the effects of the reclassification apply prospectively starting as of the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and this date is considered as the initial recognition date for the allocation in the various stages of credit risk (stage assignment) for the purposes of impairment.

**Recognition criteria**

Financial assets are initially recognised at the settlement date for debt and equity instruments, at the disbursement date for loans and at the subscription date for derivative financial instruments.

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

**Measurement criteria**

After initial recognition, financial assets carried at fair value through profit or loss are measured at fair value and changes are recognised in profit or loss. If the *fair value* of a financial asset becomes negative, this item is accounted for as a financial liability.

For more information on how *fair value* is calculated, see Section A.4 Information on the Fair Value of this part A.2.

**Derecognition criteria**

Financial assets carried at fair value through profit or loss are derecognised only when the dismissal entailed the transfer of all the risks and benefits associated with the assets. Vice versa, if a relevant share of the risks and benefits related to the financial assets sold is retained, the financial assets continue to be recognised in the financial statements, even though their legal title has actually been transferred.

When it is not possible to ascertain the substantial transfer of the risks and benefits, financial assets are derecognised, provided that the bank has not retained any control over them. Otherwise, when even partial control is retained, assets continue to be recognised in the financial statements to the extent of their residual involvement, which is measured through the bank's exposure to changes in the value of the assets sold and to changes in the related cash flows.

Lastly, transferred financial assets are derecognised when the contractual rights to the related cash flows are retained but at the same time a contractual obligation to pay precisely those cash flows, without a significant delay to third parties is assumed.

**Recognition criteria of Income Statement items**

The positive components of income consisting of interest income on securities and related income, as well as the differentials and margins accrued up to the reporting date, relating to derivative contracts classified in the item, but operationally linked to financial assets or liabilities measured at fair value. (*fair value option*), are recorded on an accrual basis in the interest items of the Income Statement.

The profits and losses on sale or reimbursement and unrealized profits and losses arising from changes in the *fair value* of the trading portfolio are classified in the Income Statement, in the item "Net income from trading activities for instruments held for trading" and in the item "Net income from other financial assets and liabilities at fair value through profit or loss" for instruments mandatorily at *fair value* and for instruments designated at *fair value*.

**2 – Financial assets carried at fair value through other comprehensive income (FVOCI)**

**Classification criteria**

Assets carried at fair value through other comprehensive income include assets jointly satisfying 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 the sale of the asset ("Hold to Collect and Sell" Business Model), and
- the contractual terms of the financial asset envisage cash flows on certain dates consisting solely of payments of principal and of interest on the outstanding principal ("SSPI test" passed).

The item also includes equity instruments, not held for trading, for which the option for designation at fair value through other comprehensive income was exercised upon initial recognition.

Therefore, this item includes:

- debt securities that fall within a "Hold to Collect and Sell" *Business Model* and have passed the *SPPI Test*;
- equity interests, not classified as interests in subsidiaries, associates or jointly controlled entities, which are not held for trading, for which the option for designation at fair value through other comprehensive income has been exercised;
- loans that fall within a "Hold to Collect and Sell" *Business Model* and have passed the *SPPI Test*;

According to the general rules established by IFRS 9 regarding the reclassification of financial assets (with the exception of equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not allowed unless the entity changes 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 of measured at fair value through other comprehensive income into one of the other two categories required by IFRS 9 (Financial assets measured at amortized cost or Financial assets measured at fair value through profit or loss). They are transferred at their fair value at the time of reclassification and the effects of the reclassification apply prospectively starting as of the reclassification date. In the event of reclassification from the category in question to that of amortized cost, the accumulated profit (loss) recognized in the valuation reserve is used to adjust the fair value of the financial asset at the reclassification date. Conversely, in the event of reclassification into the category of fair value through profit or loss, the cumulative profit (loss) previously recognized in the valuation reserve is reclassified from equity to profit (loss) for the year.

**Recognition criteria**

Financial assets are initially recognised at the settling date for debt and equity instruments and at the disbursement date for loans.

Upon initial recognition, assets are stated at fair value, including transaction costs or income directly attributable to the instrument.

**Measurement criteria**

After initial recognition, assets carried at fair value through other comprehensive income other than equity securities, are measured at fair value with recognition in profit or loss of a) the impacts deriving from the amortised cost application, b) the effects of impairment and c) any exchange effect, while the gains or losses due to a change in fair value are recognised in a specific equity reserve until the financial asset is derecognised. At the time of partial or total disposal, the profit or loss accrued in the valuation reserve is reversed, wholly or in part, to the income statement (so-called recycling).

The equity instruments for which the entity opted for classification in this category are measured at fair value and the amounts recognized as contra entry in shareholders' equity (Statement of comprehensive income) must not subsequently be transferred to the income statement, including upon disposal (*no recycling*). Dividends are the only element pertaining to the equity securities in question that is recorded in the income statement.

For equity securities not listed on an active market and included in this category, cost is used as a criterion for estimating *fair value,* only on a residual basis and in limited circumstances.

For more information on how *fair value* is calculated, see Section A.4 Information on the Fair Value of this part A.2.

Debt securities and loans recognized as financial assets at *fair value* through other comprehensive income fall within the scope of application of the new impairment model envisaged by IFRS 9, like assets at amortized cost, which includes the allocation of the individual exposures in one of the 3 stages listed below:

- in stage 1, loans not showing a significant credit risk at the assessment date or identifiable as Low Credit Risk;
- in stage 2, loans showing a significant credit risk at the assessment date or not being identifiable as *Low Credit Risk*;
- in stage 3, non-performing loans.

The estimate of the expected loss through the Expected Credit Loss (ECL) approach, for the classes defined above, is made by allocating each exposure in the three reference stages, as detailed below:

- stage 1: the expected loss must be calculated over a 12 months' time horizon;
- stage 2: the expected loss must be calculated by taking into account all the losses to be expected in the entire lifetime of the financial asset;
- stage 3: the expected loss must be calculated on a lifetime perspective but, unlikely the positions in stage 2, the calculation of the lifetime expected loss will be of an analytical nature.

The impairment is recognised in the income statement.

Equity instruments are not tested for impairment.

For further details, please refer to the paragraph 'Impairment model' in Section 4 - Other aspects paragraph 4.6 "Transition to IFRS 9 international accounting standard" of this document.

**Derecognition criteria**

Financial assets carried at fair value through other comprehensive income are derecognised only when the dismissal entailed the transfer of all the risks and benefits associated with the assets. Vice versa, if a relevant share of the risks and benefits related to the financial assets sold is retained, the financial assets continue to be recognised in the financial statements, even though their legal title has actually been transferred.

When it is not possible to ascertain the substantial transfer of the risks and benefits, financial assets are derecognised, provided that the bank has not retained any control over them. Otherwise, when even partial control is retained, assets continue to be recognised in the financial statements to the extent of their residual involvement, which is measured through the bank's exposure to changes in the value of the assets sold and to changes in the related cash flows.

Lastly, transferred financial assets are derecognised when the contractual rights to the related cash flows are retained but at the same time a contractual obligation to pay precisely those cash flows, without a significant delay to third parties is assumed.

**Recognition of Income Statement items**

Recognition as interest income of the return earned on the instrument is calculated on an accrual basis according to the effective interest method.

The effects from the application of the amortized cost, the effects of the impairment of debt securities and any exchange rate effect on debt securities are recognized in the income statement, while other profits or losses resulting from a change in *fair value* are recognized in a specific equity reserve.

For debt securities only, at the time of partial or total disposal, the profit or loss accrued in the valuation reserve is reversed, wholly or in part, to the income statement.

The equity instruments for which the entity opted for classification in this category are measured at fair value and the amounts recognized as contra entry in shareholders' equity (Statement of comprehensive income) must not subsequently be transferred to the income statement, including upon disposal. Only the item referred to the equity securities in question - recognised in the income statement - is represented by the pertinent dividends, while the gains or losses due to a change in fair value are recognised in a specific equity reserve until the financial asset is derecognised or an impairment loss is recognised.

**3 – Financial assets carried at amortised cost**

**Classification criteria**

Assets carried at amortised cost include financial assets (specifically loans and debt securities) jointly satisfying the following conditions:

- the financial asset is held according to a business model whose objective is achieved through the collection of contractual cash flows ("Hold to Collect" Business Model), and
- the contractual terms of the financial asset envisage cash flows on certain dates consisting solely of payments of principal and payment of interest on the outstanding principal ("SPPI Test" passed).

More specifically, the following elements are recognized in this item:

- loans with banks in the various technical forms included in a "Hold to Collect" *Business Model* and which passed the *SPPI Test*;
- loans with customers in the various technical forms included in a "Hold to Collect" *Business Model* and which passed the *SPPI Test*;
- debt securities included in a "Hold to Collect" *Business Model* and which passed the *SPPI Test*;

Also included in this category are operating loans associated with the provision of financial assets and services as defined by the T.U.B. (consolidated Law on Banking) and the T.U.F. (consolidated Finance Law) (for example for the distribution of financial products and servicing activities).

According to the general rules established by IFRS 9 regarding the reclassification of financial assets, reclassifications to other categories of financial assets are not allowed unless the entity changes 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 at amortised cost into one of the other two categories required by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). They are transferred at their fair value at the time of reclassification and the effects of the reclassification apply prospectively starting as of the reclassification date. Profits or losses resulting from the difference between the amortized cost of the financial asset and the related fair value are recognized in the income statement in the event of reclassification into the category of Financial assets measured at fair value through profit or loss and in shareholders' equity, in the specific valuation reserve, in the event of reclassification into the category of Financial assets measured at fair value through on comprehensive income.

**Recognition criteria**

Financial assets are initially recognised at the settling date for debt instruments and at the disbursement date for loans. Upon initial recognition, assets are stated at fair value, including transaction costs or income directly attributable to the instrument.

Specifically concerning loans, they are initially recorded at the disbursement date according to the fair value of the loan itself. The fair value is equal to the amount disbursed (or subscription price), including costs/income directly attributable to the individual loan and determinable at origin, even where settled at a later date. Costs that - despite having the above characteristics - are repaid by the debtor or can be classified as ordinary administrative expenses are excluded.

**Measurement criteria**

After initial recognition, financial assets are carried at amortised cost using the actual interest rate method. In these terms, the asset is recognised for an amount equal to the initially recognised amount less any principal repayments, less/plus the accrued amount (calculated using the actual interest method) of the difference between initial amount and the amount at maturity (generally corresponding to income/expenses directly attributable to the individual asset) and amended for any loss coverage provision. The actual interest rate is determined by calculating the rate that equates the current value of future cash flows from the asset, for principal and interest, to the amount disbursed, including the costs/income attributable to the financial asset. This accounting method, using a financial logic, allows for the distribution of the economic effect of the costs/income directly attributable to a financial asset along its expected residual life.

The exceptions to the application of the amortised cost method are the following:

- short-term assets, for which the application of discounting to present value is negligible (measured at cost);
- assets without a defined maturity;
- revocable loans.

When closing the annual and interim accounts, the component relating to the impairment of these assets is assessed. This component is closely linked to the inclusion of the assets in question in one of the three stages (credit risk stages) envisaged by IFRS 9:

- in stage 1, performing loans not showing a significant credit risk at the assessment date or identifiable as Low Credit Risk;

- in stage 2, performing loans showing a significant credit risk at the assessment date or not being identifiable as *Low Credit Risk*;
- in stage 3, non-performing loans. Stage 3 includes financial instruments classified as non-performing, unlikely to pay, past due/overdrawn for more than 90 days, as defined by Banca d'Italia's regulations.

The estimate of the expected loss through the Expected Credit Loss (ECL) approach, for the classes defined above, is made by allocating each exposure in the three reference stages, as detailed below:

- stage 1: the expected loss must be calculated over a 12 months' time horizon;

- stage 2: the expected loss must be calculated by taking into account all the losses to be expected in the entire lifetime of the financial asset;

- stage 3: the expected loss must be calculated on a lifetime perspective but, unlikely the positions in stage 2, the calculation of the lifetime expected loss will be of an analytical nature. Furthermore, where appropriate, forward-looking elements will be introduced in the measurement of the aforementioned positions, including in particular different scenarios (for example, disposal) weighted by the associated probability of occurrence.

The risk parameters represented by Probability Default, Loss Given Default and Exposure at Default are calculated based upon the impairment model. The Bank calculates the ECL according to the allocation stage, for each exposure, with respect to on-balance sheet and off-balance sheet credit exposures.

With respect to the securities portfolio, the same approach used for loans is confirmed, i.e. the allocation of the securities in one of the three stages envisaged by IFRS 9, which correspond to three different calculation methods for expected losses.

If the reasons for the impairment no longer apply after the value adjustment has been made, the Bank reverses the impairment loss to the income statement. The write-back may not exceed the amortised cost of the financial instrument had no adjustment been recognised. The reversals related to the passing of time are recognized in interest margin.

It is possible that the original contractual conditions of the assets change during the life of the asset, due to the intention of the parties. In these cases, the IFRS 9 requires the entity to verify whether it should continue to recognize the original asset in the financial statements or whether, on the contrary, if the changes are deemed substantial, the original instrument should be derecognized (*derecognition*) and replaced through recognition of a new financial instrument incorporating the changes.

For further details, please refer to the paragraph 'Impairment model' in Section 4 - Other aspects paragraph 4.6 "Transition to IFRS 9 international accounting standard" of this document.

**Derecognition criteria**

Financial assets carried at amortised cost are derecognised when the contractual rights on cash flows from the assets expire or when a financial asset is disposed of, basically transferring all the pertinent risks/benefits. Vice versa, if a relevant share of the risks and benefits related to the financial assets sold is retained, the financial assets continue to be recognised in the financial statements, even though their legal title has actually been transferred.

When it is not possible to ascertain the substantial transfer of the risks and benefits, financial assets are derecognised, provided that the bank has not retained any control over them. Otherwise, when even partial control is retained, assets continue to be recognised in the financial statements to the extent of their residual involvement, which is measured through the bank's exposure to changes in the value of the assets sold and to changes in the related cash flows.

Lastly, transferred financial assets are derecognised when the contractual rights to the related cash flows are retained but at the same time a contractual obligation to pay precisely those cash flows, without a significant delay to other parties is assumed.

**Recognition of Income Statement items**

Interest generated by loans to banks and customers is recognized under "Interest and similar income" and is recorded on an accrual basis according to the actual interest rate.

Impairment losses and reversals, including reversals related to the passing of time, are recognized at each Income Statement reporting date in the item Net adjustments/reversals for credit risk. Gains and losses resulting from the disposal of loans are recognized in the income statement under the item: Profits/losses on disposal or repurchase.

Interest accruing due to the passing of time, determined as part of the measurement of impaired financial assets based on the original effective interest rate, is shown under interest and similar income.

Revenue items comprising interest and similar income on securities are recognized in the interest items of the income statement on an accrual basis, according to the actual interest rate.

Gains and losses referred to securities are recognized in the income statement under the item: Profits/losses on disposal or repurchase at the time when the assets are sold.

Any impairment of securities is recorded in the income statement under item: Net adjustments to/write-backs for credit risk. Subsequently, if the reasons that led to the recognition of the impairment loss no longer apply, the losses are reversed with entry in the same Income Statement item.

**4 - Hedging transactions**

The bank has no hedging derivative contracts.

**5– Equity investments**

**Classification criteria**

The term equity investments refers to investments in the capital of other companies, generally consisting of shares or quotas, that are classified as interests in subsidiaries (control), associates (significant influence) and jointly controlled entities.

More specifically, the following definitions apply:

- Subsidiary: equity investments in companies as well as investments in entities over which the parent exercises control over the relevant assets in accordance with IFRS 10. More precisely, an investor controls an entity when it is exposed or is entitled to variable results arising from its involvement in the entity and has the ability to influence those results through its power over the entity. The power requires the investor to have existing rights that give them the current ability to direct the activities that significantly affect the results of the investment. Power means being able, without necessarily exercising that ability in practice. Control is verified on an ongoing basis. The investor must review its control on an entity when facts and circumstances indicate that there are changes in one or more elements of control.
  In consideration of the subsidiaries' negligent book value and balance sheet size, the Bank does not prepare consolidated financial statements.
  In this regard, it should be noted that the application of International Accounting Standards must be read with reference to the "Framework for the preparation and presentation of the financial statements" (Framework) which, in paragraphs 26 to 30, refers to the concepts of relevance and materiality of information. In particular, paragraph 26 states that *"Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations."* Paragraph 29 establishes that "*The relevance of information is affected by its nature and materiality*" Finally, paragraph 30 specifies that materiality *" provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful".* In this sense, it is one of the prerogatives of the directors to set this cut-off point or threshold.
- Associate: equity investments in companies for which, although the conditions for control do not exist, the Bank, directly or indirectly, is able to exercise significant influence. This influence is presumed to exist for companies in which the Bank owns at least 20.00% of the voting rights or in which it has the power to participate in the determination of financial and management policies by virtue of particular legal relations.

- Joint ventures: equity investment in companies through a joint control where the parties who hold joint control have rights to the net assets of the arrangement.

**Recognition criteria**

Equity investments are initially recorded at cost, including any directly attributable ancillary charges.

**Measurement criteria**

Equity investments in subsidiaries, associates and jointly controlled entities are shown in the financial statements using the cost method as measurement criterion, net of impairment losses.

If there is objective evidence of an impairment, the recoverable amount of the investment is estimated, taking into account the present value of future cash flows that the investment may generate, including the proceeds from final disposal. Any impairment is recognised in the income statement under item "Profits (loss) on equity investments". If the reasons for impairment cease to exist due to an event occurring after the impairment was recognised, the impairment loss is reversed and the reversal is recognised on the income statement.

**Derecognition criteria**

Equity investments are derecognised when the right to receive the cash flows from the assets has expired or when the investment is sold and all the risks and benefits connected thereto are transferred.

**Recognition of Income Statement items**

Dividends from subsidiaries are accounted for in the item 'Dividends and similar income' in the year in which they are approved by the company that distributes them.

Any impairment loss/reversal related to the valuation of equity investments as well as any gains or losses on disposal are booked to the item 'Profits (Losses) on Investments'.

### 6 – Property, land and equipment

**Classification criteria**

This item mainly includes land, operating and investment properties, plants, vehicles, furniture, fittings and equipment of any type and of a durable nature.

According to IAS 16, 'operating properties' are the assets owned to be used for service provision or for administrative purposes.

As required by IAS 40, investment properties include property held to earn rental income or for capital appreciation, or for the appreciation of the invested capital.

The item also includes tangible assets classified on the basis of IAS 2 - Inventories, which refer to assets obtained through the enforcement of guarantees or the purchase at auction which the company intends to sell in the near future, without any significant restructuring works, and which do not meet the conditions for classification in the above categories.

This item also includes assets held under finance lease, even though the lessor maintains legal title to the assets.

**Recognition criteria**

Tangible assets are initially recorded at acquisition or construction cost, which includes any incidental costs directly attributable to the purchase and incurred to make the asset operative.

Extraordinary maintenance expenses and the cost of improvements that result in an increase in the asset-generated future benefits are attributed to the asset they refer to and depreciated over the remaining useful life of such assets.

Conversely, the costs for repairs, maintenance or other work carried out to ensure the normal operation of the assets are charged to the Income Statement as incurred.

**Measurement criteria**

After initial recognition, property, plant and equipment, including investment properties, except as specified below, are carried at cost net of accumulated depreciation and any accumulated impairment losses, in compliance with the cost model. Buildings held as investments are carried at fair value.

Property, plant and equipment are systematically depreciated in every FY over their useful life using the straight-line method. Buildings are depreciated to the extent deemed suitable to represent their deterioration over time following use, taking account of the extraordinary maintenance expenses that increase the value of the assets.

Vice versa, the following assets are not subject to depreciation:

- land, whether purchased separately or incorporated in the value of the buildings, as it is deemed to have an indefinite useful life. If the value of the land is included in that of the building, only entire buildings can be accounted for separately from the building; the allocation between the value of the land and the value of the building is carried out on the basis of independent expert appraisals;
- works of art, the useful life of which cannot be estimated and whose value usually increases over time.
- properties held for investment which, as required by IAS 40, are measured at fair value through profit or loss and must not be depreciated.

The depreciation process begins when the asset becomes available for use. For assets acquired during the FY, depreciation is calculated on a daily basis starting from the date when the asset became operational.

At each reporting date, the Bank verifies if there are any indications of impairment of the asset. The impairment loss is determined by comparing the carrying value of the tangible asset and the lower recoverable value.

The latter is the higher of the fair value of the asset, net of any selling costs, and the value in use which is the present value of future cash flows generated by the asset. Adjustments are recorded in the income statement under item “Net value adjustments/reversals on tangible assets”.

When the reasons that led to the recognition of the loss no longer exist, the impairment is reversed; the value after write-back cannot exceed the carrying amount, net of depreciation, that would have been determined had no impairment loss been recognised.

With reference to the tangible assets recognized in accordance with IAS 2, these are valued at the lower of cost and net realizable value, it being understood that a comparison is made between the carrying amount of the asset and its recovery value where there is some indication that the asset may have suffered an impairment. Any adjustments are recognised in the Income Statement.

**Derecognition criteria**

Tangible assets are derecognized upon disposal or decomissioning and, consequently, no future economic benefits are expected from their sale or use.

Capital gains and losses on the sale or disposal of tangible assets are calculated as the difference between the net consideration from disposal and the carrying amount of the asset; they are recognized in the income statement on the same date in which the assets are derecognized.

**Recognition of Income Statement items**

The straight-line depreciation is recorded in the income statement under item ‘Net adjustments to/write-backs on tangible assets’..

In the first year, depreciation/amortisation is recognized in proportion to the actual period in which the asset was used.

Assets subject to depreciation are adjusted for impairment each time events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for an amount corresponding to the excess of the book value over recoverable value. The recoverable value of an asset is equal to the higher of the fair value of the asset, net of any selling costs, and the value in use which is the present value of future cash flows generated by the asset. Any adjustments are recognised in the Income Statement.

When the reasons that led to the recognition of the loss no longer exist, the impairment is reversed; the value after write-back cannot exceed the carrying amount, net of depreciation, that would have been determined had no impairment loss been recognised.

The item "Profit (loss) on disposal of investments' contains the net positive or negative balance between gains and losses on the sale of investments.

## 7 – Intangible assets

### Classification criteria

According to IAS 38, intangible assets are those non-monetary assets, without physical substance, which are held in order to be used over a number of years or an indefinite time, which meet the following characteristics:

- they can be identified;
- the company has control over them;
- it is likely that the future economic benefits attributable to the asset will flow to the company;
- the cost of the asset can be measured reliably.

In the absence of any of the above characteristics, the cost to acquire the asset or generate it internally is recognized as an expense when it is incurred.

Intangible assets mainly include the multi-annual application software and the other identifiable intangible assets arising from legal or contractual rights.

Intangible assets also include goodwill, which represents the positive difference between the purchase price and the fair value of assets and liabilities acquired within business combination transactions.

### Recognition criteria

Intangible assets are stated at cost, adjusted by any incidental charges, incurred to render the asset usable, only when the future economic benefits attributable to the assets are likely to be realised and if the cost of the asset can be measured reliably. Otherwise the cost of the tangible asset is recognized in the income statement as incurred.

Specifically, intangible assets include:

- technology-based intangible assets, such as internally generated software, which are amortized based on their expected technological obsolescence and in any case no later than a maximum period of seven years; in particular, the costs incurred internally for the development of software projects are intangible assets and are recorded in assets only if all the following conditions are met: i) the cost attributable to the development activity can be reliably determined, ii) there is an intention, the availability of financial resources and the technical capacity to make the asset available for use or for sale, iii) it can be demonstrated that the asset is able to generate future economic benefits. Capitalized software development costs are amortized systematically over the estimated life of the relevant product / service in order to reflect the ways in which the future economic benefits resulting from the asset are expected to be consumed by the entity from the beginning of production over the estimated life of the product.

### Measurement criteria

After initial recognition, intangible assets with a "finite" life are carried at cost, less accumulated amortization and accumulated impairment losses. Assets with an indefinite useful life are not subject to straight-line amortisation but to a periodic test to verify the adequacy of the relevant book value.

The amortization process begins when the asset is available for use, i.e. when it is in place and in suitable condition to function as specified, and ceases when the asset is derecognised.

Intangible assets are amortised on a straight-line basis, in order to reflect the long-term use of the assets on the basis of their estimated useful life.

In the first year, depreciation/amortisation is recognized in proportion to the actual period in which the asset was used. For assets sold and/or disposed of during the year, amortisation is calculated on a daily basis until the date of sale and/or disposal.

At the end of each annual or interim reporting period, if there is evidence of impairment, the asset's recoverable value is estimated.

The amount of the loss, which is recognised in the income statement, corresponds to the difference between the asset's carrying amount and its recoverable amount.

**Derecognition criteria**

Intangible assets are derecognised from the balance sheet upon disposal or when no future economic benefits are expected. Capital gains and losses on the sale or disposal of intangible assets are calculated as the difference between the net consideration from disposal and the carrying amount of the asset and are recognized in the income statement.

**Recognition of Income Statement items**

In the first year, depreciation/amortisation is recognized in proportion to the actual period in which the asset was used.

The item 'Net value adjustments/reversals on intangible assets' shows the positive or negative balance between impairment losses, amortization and reversals relating to intangible assets. The item "Profit (loss) on disposal of investments' contains the net positive or negative balance between gains and losses on the sale of investments.

## 8– Other assets

The other assets mainly include items pending rectification and items not attributable to other items in the financial statements, including receivables from the supply of non-financial goods and services, tax items other than those recorded in a specific item (for example, those related to our role as withholding agent), accrued income other than income capitalized on the related financial assets.

## 9– Non-current assets and disposal groups

**Classification criteria**

This item includes non-current assets held for sale and groups of assets and associated liabilities held for disposal, in accordance with IFRS 5.

This item includes assets and groups of assets for which the book value will be recovered mainly through a highly probable sale rather than through their continuous use.

In order for a sale to be highly probable, the Management at an adequate level must have engaged in a programme for the disposal of the asset, and activities must have been started to identify a buyer and complete the programme. Furthermore, the asset must be actively traded on the market and offered for sale, at a reasonable price compared to its current fair value. Completion of the sale should be scheduled within one year from the date of classification and the actions required to complete the sale programme should demonstrate that it is unlikely that the programme can be significantly modified or cancelled.

**Recognition criteria**

Non-current assets and groups of assets held for sale are measured, upon initial recognition, at the lower of book value and fair value less costs to sell, with the exception of certain types of assets (for example, financial assets falling within the scope of application of IFRS 9) for which IFRS 5 specifically provides that the measurement criteria of the relevant accounting standard must be applied.

**Measurement criteria**

These assets and non-current disposal groups are carried at the lower of book value and their fair value, net of disposal costs.

Income and charges (net of the tax effect), attributable to disposal groups or recognized as such during the year, are shown in the income statement in a separate item.

**Derecognition criteria**

Non-current assets and disposal groups are derecognized upon disposal.

If an asset (or disposal group) held for sale does not meet the recognition criteria pursuant to IFRS 5, the asset (or disposal group) must no longer be classified as held for the sale.

A non-current asset that is no longer classified as held for sale (or is no longer part of a disposal group classified as held for sale) must be measured at the lower of:

- book value before the asset (or disposal group) was classified as held for sale, adjusted for all depreciation charges, write-downs or reversals that would otherwise have been recognized if the asset (or disposal group) had not been classified as held for sale;
- its recoverable value at the date of subsequent decision not to sell.

**10. Current and deferred taxes**

These items include current and deferred tax assets and liabilities recognised in application of IAS 12.

Income taxes, calculated in compliance with current tax legislation, are recognized in the income statement based on the accrual principle, consistent with the recognition of costs and revenues that generated them, with the exception of those relating to items directly debited or credited to shareholders' equity, for which the related taxation is recognized, for consistency, in equity.

**1. Current taxes**

Current tax assets and liabilities are recognized for the amounts due or recoverable with respect to the taxable income (loss) for the year, by applying the tax rates and the laws in force. Current taxes not yet paid in whole or in part at the reporting date are recognised as tax liabilities in the balance sheet.

If an excess payment has been made, which has given rise to a recoverable amount, this is recorded under the 'Current tax assets' in the Balance Sheet.

**Deferred taxes**

Deferred tax assets and liabilities are recognised using the balance sheet liability method, taking into account the temporary differences between the carrying amount of an asset or liability and its value recognised for tax purposes. They are calculated using the applicable tax rates according to the law in force in the period in which the deferred tax asset is realized or the deferred tax liability is settled.

Tax assets are recognized only if it is considered probable that taxable income will be achieved in the future against which such asset can be used.

In particular, the tax legislation may lead to differences between taxable income and statutory income, which, if temporary, merely result in a time lag that involves the early or deferred imposition of tax with respect to the period in which the tax accrues, determining a difference between the book value of a balance sheet asset or liability and its value recognized for tax purposes. These differences can be broken down into 'deductible temporary differences' and 'taxable temporary differences'.

**Deferred tax assets**

The 'deductible temporary differences' indicate a future reduction in taxable income, against earlier taxation with respect to accrued tax in the statutory balance sheet. They generate deferred tax assets that will result in a lower tax burden in the future, provided that in subsequent years sufficient taxable profits are achieved to cover the realization of taxes paid in advance.

Deferred tax assets are recognised for all deductible temporary differences where it is likely that the entity will earn taxable income against which the temporary deductible difference may be used (so-called Probability test). However, the probability of recovery of deferred tax assets relating to goodwill, other intangible assets and loan adjustments is deemed as automatically confirmed as a result of legal provisions that provide for their conversion into a tax credit in the event of a statutory and/or tax loss for the year.

The conversion shall take effect as of the date of approval by the shareholders' meeting of the individual financial statements in which the loss is reported.

The difference between the greater tax income compared to statutory income is mainly due to costs that are tax deductible in years subsequent to those of recognition in the financial statements.

**Deferred tax liabilities**

'Taxable temporary differences' indicate a future increase in taxable income; consequently, they generate 'Deferred tax liabilities'. These differences give rise to taxable amounts in years subsequent to those in which they are recognized in the statutory income statement, resulting in a deferral of taxation with respect to accrued tax in the statutory financial statements.

'Deferred tax liabilities' are recognized for all taxable temporary differences with the exception of reserves that are taxable upon distribution only, since the bank does not expect to carry out transactions that will lead to their taxation.

The difference between the lower tax income compared to statutory income is due to:

- revenues that are taxable in years subsequent to the recognition years;
- costs that are deductible in years prior to the recognition years according to statutory principles.

Deferred tax assets and liabilities are systematically reviewed to take account of any changes in the applicable laws or tax rates.

Deferred tax assets and liabilities are recognized in the balance sheet without offsetting, and are recognised under “Tax assets a) deferred" and "Tax liabilities b) deferred”.

If the deferred tax assets and liabilities relate to items affecting the income statement, the contra item is represented by income taxes. When deferred tax assets and liabilities regard transactions recognised directly under equity and not through profit or loss (such as the measurement of financial assets carried at fair through other comprehensive income), they are recognised as a contra entry in Shareholders' equity, in the specific reserve when applicable (e.g. valuation reserve).

### 11 – Provisions for liabilities and charges

**Classification criteria**

Pursuant to IAS 37, provisions for liabilities and charges include provisions for current obligations (legal or constructive) arising from a past event, for which the use of economic resources is likely in order to settle the obligation, provided that the related amount can be reliably estimated.

No provision is recognized for liabilities that are merely potential and not likely, for which information is however provided in the notes, except in cases where the probability of using resources is remote or the amount is not significant.

**Recognition criteria**

This item includes:

- “Provisions for credit risk related to commitments and financial guarantees granted”: the Bank recognizes the value of total provisions for credit risk in relation to commitments to disburse funds and financial guarantees granted that fall within the scope of application of IFRS 9 impairment rules, including financial guarantees given and commitments to disburse funds that are measured upon initial recognition net of total revenues recognized in accordance with IFRS 15;

- “Provisions on other commitments and other guarantees granted": the Bank recognizes the value of total provisions in relation to other commitments and other guarantees granted which, owing to their peculiarities, are not subject to the IFRS 9 impairment rules (see IFRS 9, paragraph 2.1, e) and g));
- “Provisions for retirement benefits and similar obligations”: they include provisions for the benefits paid to employees after the end of the employment relationship in the form of defined-contribution or defined-benefit plans;
- “Other provisions for liabilities and charges”: this item includes other provisions for liabilities and charges set aside in accordance with international accounting standards (e.g. personnel costs, tax disputes). In particular, they include provisions for legal obligations or provisions related to employment relationships or disputes, including tax disputes, originating from a past event for which a financial outlay is probable in order to fulfil said obligations, provided that a reliable estimate can be made of the relevant amount.

Therefore, a provision is recognised if and only if:

- there is an obligation (legal or implicit) in course as a consequence of a past event;
- the utilisation of resources for economic benefits is likely to be used to comply with the obligation; and
- a reliable estimate of the obligation amount deriving from the fulfilment can be made.

**Measurement criteria**

The amount recognized as a provision reflects the best possible estimate of the costs to be incurred in order to discharge the existing obligation at the reporting date and reflects risks and uncertainties that inevitably characterize numerous facts and circumstances.

Where the time element is significant, provisions are discounted using current market rates.

Provisions are periodically reviewed and adjusted to reflect the current best estimate. When as a result of the review, the occurrence of the cost becomes improbable, the provision is reversed.

**Derecognition criteria**

The provision must be reversed when it is unlikely that resources that can produce economic benefits are to be used in order to comply with the obligation. A provision should be used only for those expenses for which it was recognised.

**Recognition of Income Statement items**

The allowance is recorded in the income statement under item ‘Net allowances to provisions for liabilities and charges’.

The item shows the balance, positive or negative, between the provisions made and any release to the income statement of provisions considered to be in excess.

Net allocations also include the decrease in provisions due to the discounting effect and the corresponding increases due to the passage of time (accrual of interest inherent in discounting).

**12 – Financial liabilities carried at amortised cost**

**Classification criteria**

Financial liabilities measured at amortized cost fall within the broader category of financial instruments and consist of relationships for which there is an obligation to pay certain amounts to third parties at certain due dates.

Payables to other credit institutions, payables to customers and outstanding securities include the various forms of interbank funding, funding from customers and fundraising made through certificates of deposit and bonds outstanding, net of any repurchased amounts, not classified among “Financial liabilities carried designated at fair value”. They include securities expired but not yet reimbursed as at the reporting date.

**Recognition criteria**

Financial liabilities are initially recognised when the contract is subscribed, usually coinciding with the receipt of the money raised or issue of debt securities. The value at which they are recorded corresponds to their fair value, which is normally the amount collected or the issue price, plus any additional costs/income directly attributable to individual funding or issue transactions and not reimbursed by the creditor. This item does not include internal administrative expenses.

The fair value of any financial liabilities issued at different conditions than those available on the market is specifically estimated and the difference on the amount collected is recognised in the income statement.

Repurchased derecognised securities placed back on the market are considered as a new issue and are recognised at the new issue price, with no effect on the income statement.

**Measurement criteria**

After initial recognition, carried at fair value at the date the contract was entered into, financial liabilities are measured at amortised cost using the actual interest rate method.

Short-term liabilities, for which the time factor is negligible, are excluded from this method and are recognised at the amount collected; any costs and income directly attributable to the transaction are recognised in the income statement under their pertinent items.,.

**Derecognition criteria**

Financial liabilities are derecognised when they are discharged or expired, or when the Bank redeems issued securities with subsequent restatement of the debt recognized for outstanding securities.

**Recognition of Income Statement items**

Cost items consisting of interest expense are recognized in the interest items of the income statement on an accrual basis.

Any difference between the repurchase value of own securities and the corresponding carrying amount of the liability is recognized in the income statement under "Profits/losses on disposal or repurchase".

**13 - Financial liabilities held for trading**

**Classification criteria**

This item includes financial liabilities, regardless of their technical form (debt securities, loans, etc.) classified in the trading portfolio.

The item includes the negative value of trading derivative contracts. This category also includes derivative contracts associated with the fair value option (defined by accounting standard IFRS 9 in paragraph 4.2.2) operationally linked to assets and liabilities measured at fair value, which present a negative *fair value* at the reporting date, except for derivative contracts designated as effective hedging instruments with effect recognized in liability item 40; if the *fair value* of a derivative contract subsequently becomes positive, it is recognized under financial assets measured at fair value through profit or loss.

**Recognition criteria**

These financial instruments are recorded at the issue or subscription date, at a value corresponding to the fair value of the instrument, excluding any transaction costs or income directly attributable to the instruments.

**Measurement criteria**

After initial recognition, financial liabilities are carried at fair value through profit or loss

For details on how *fair value* is calculated, see Section A.4 Information on Fair Value of this part A.2.

**Derecognition criteria**

Financial liabilities held for trading are derecognised when the contractual rights on the pertinent cash flows expire or when a financial liability is disposed of, basically transferring all the risks/benefits due to their ownership.

**Recognition of Income Statement items**

The profits and losses arising from changes in *fair value* and/or from the disposal of derivative instruments related with the fair value option are recorded in the Income Statement under item Net income from trading activities.

### 14 - Financial liabilities carried at fair value

There are no financial liabilities measured at fair value in the financial statements.

### 15 – Transactions in foreign currencies

**Classification criteria**

Assets and liabilities in foreign currency include not only those explicitly denominated in a currency other than the Euro, but also those with financial indexation clauses linked to the Euro exchange rate against a specific currency or against a specific basket of currencies.

For the purposes of translating foreign currency assets and liabilities, they are broken down into monetary items (classified as current items) and non-monetary items (classified as non-current items).

Monetary items include cash on hand and assets and liabilities to be received or paid in a fixed or determinable amount of money. Non-monetary items are characterized by the absence of a right to receive or an obligation to pay a fixed or determinable amount of money.

**Recognition criteria**

Upon initial recognition, foreign currency transactions are recorded in the reporting currency, converting the foreign currency amount using the exchange rate applicable at the transaction date.

**Measurement criteria**

At each reporting or interim date, any element originally denominated in foreign currency is valued as follows:

- monetary items are converted using the reporting rate;
- non-monetary items carried at historical cost are converted using the rate applicable at the transaction date;
- non-monetary items carried at fair value are converted using the spot exchange rate at the reporting date.

**Recognition of Income Statement items**

For monetary items, the exchange differences arising between the transaction date and the date of payment, are recognized in the income statement for the period, like those arising from the translation of monetary items at rates other than those of initial translation or of translation at the previous reporting date.

When a gain or a loss relating to a monetary item is recognised in equity, the exchange difference relating to that element is also recorded in shareholders' equity.

When a gain or a loss is recognised in the income statement, the related exchange difference is recorded in the income statement too.

### 16 – Other information

**16.1 Employee severance indemnity**

The Employee Severance Indemnity (TFR) is similar to a post employment benefit falling under the category of defined benefit plans, the value of which has to be determined using actuarial methods in accordance with IAS 19.

In accordance with Law no. 296 of 27 December 2006 (2007 Budget Act), companies with a minimum of 50 employees are obliged to pay on a monthly basis – and in accordance with the employee's wishes – the Employee Severance Indemnity accrued after 1 January 2007 to the supplementary pension schemes as per Legislative Decree 252/05 or to a special Fund managed by INPS for the payment of employee severance indemnity to private sector employees pursuant to article 2120 of the Italian Civil Code (hereinafter the Treasury Fund).

The following options are therefore available:

a) the severance indemnity being accrued is paid to supplementary pension schemes;
b) the severance indemnity being accrued is kept in the company (for companies with less than 50 employees);
c) the severance indemnity being accrued is transferred to INPS Treasury Fund (for those who, despite having chosen not to allocate the severance indemnity to supplementary pension schemes, work in companies with at least 50 employees).

In the cases referred to in b), which specifically apply to the bank, the total severance indemnity liability shall be assessed pursuant to IAS; the actuarial valuation shall be carried out according to the usual criteria set out in IAS 19, except for the exclusion of the pro rata relating to employees who decided to transfer their entire accrued amount to supplementary pension schemes, in order to preserve methodological consistency as indicated by the Board of Actuaries with regard to other pension schemes.

The Employee severance indemnity (TFR) is recognised on the basis of its actuarial value.

The actuarial estimate of the employee severance indemnity is carried out on the basis of "benefits accrued" pursuant to the Projected Unit Credit criterion, as provided for in paragraphs 67-69 of IAS 19.

The calculation method is summarised below:

- projection of allocated employee severance indemnity for each employee and of future employee severance indemnity payments matured until the time of payment, based on the valuation date, the estimates being based on the employee's salary;
- determination of estimate employee severance indemnity payments, for each employee, which must be made by the Company in the event of the termination of an employee's contract due to dismissal, resignation, incapacity, death and retirement and in the event of advance payment requests;
- discounting, at the valuation date, of each payment estimate;
- recalculation, for each employee, of estimated length of service and discounting based on seniority matured at the valuation date in respect of overall seniority corresponding to the as yet undetermined payment date.

The employee severance indemnity was assessed by an independent actuary in accordance with the method specified above.

The cost for the severance indemnity accrued during the year and recognised in the income statement as staff costs is the sum of the current value of employee benefits accrued during the year, and the annual interest accrued on the current value of existing liabilities at the beginning of the year. Gains or losses resulting from changes in actuarial assumptions compared to previous year estimates are charged to a separate reserve in equity.

### 16.2 Recognition of costs and revenue

Revenues are gross flows of economic benefits arising from the performance of the company's ordinary activities and are recognized when control of the goods or services is transferred to the customer, at an amount that reflects the consideration to which the entity deems to be entitled.

A "performance obligation" is satisfied over a period of time if at least one of the following conditions is met:

- the customer controls the asset under the contract when it is created or improved;
- the customer receives and simultaneously consumes the benefits when the entity performs its services;

- through its activity the company generates a personalized good for the customer and the company has a right to payment for the activity completed at the date the good is transferred.

If none of the criteria is met then the revenue is recognized at a specific point in time. The indicators of a transfer of control are i) obligation to pay ii) legal title of the right to the consideration accrued iii) physical possession of the good iv) transfer of risks and benefits associated with ownership v) acceptance of the good.

With regard to revenues achieved over a period of time, the bank accounts for them on a time basis.

In relation to the above, the main criteria adopted by the Bank are summarized below:

- interest is recognized *pro rata temporis*, based on the contractual interest rate or the effective interest rate if the amortized cost is applied;
- default interest, if contractually provided, is recognized in the income statement only when actually collected;
- dividends are recognized in the income statement in the period in which their distribution is approved, which coincides with collection;
- commissions for service revenues are recognized on the basis of existing contractual agreements in the period in which the services were provided;
- revenues from the sale of non-financial assets are recognized upon completion of the transaction, unless the Bank has retained most of the risks and benefits associated with the asset;
- profits and losses from the trading of financial instruments are recognized in the Income Statement upon completion of the transaction, based on the difference between the amount paid or received and the value of the instrument in question.

Costs are recognized in the income statement according to the accrual principle; the costs incurred for the acquisition and performance of contracts with customers are recognized in the income statement in the same period of recognition as the related revenues.

### 16.3 Accruals and deferrals

Accruals and deferrals that include income and expenses accrued during the period on assets and liabilities are recognised as adjustments to the assets and liabilities to which they relate. Where it is not possible to attribute them to a specific account, they will be reported in "Other assets" or "Other liabilities".

### 16.4 Treasury shares

Any treasury shares are entered as a reduction of shareholders' equity. Likewise, their original cost and the gains or losses resulting from their subsequent sale are recognised as changes in equity.

## A.3 - INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

Following the adoption of IFRS 9, the Bank did not change its business model for the management of financial assets and, consequently, there were no transfers between portfolios of financial assets. With regard to the reclassifications made upon First Time Adoption (FTA) of IFRS 9, please refer to the specific disclosure provided in Section A.1 Paragraph 4.6 "Transition to IFRS 9 international accounting standard".

### A.3.1 Reclassified financial assets: change in the business model, book value and interest income

The information is not provided as there were no reclassified financial assets recognized in the balance sheet assets.

### A.3.2 Reclassified financial assets: change in the business model, fair value and effects on comprehensive income

The information is not provided as in 2018 the Bank did not make any transfers between portfolios of financial assets.

### A.3.3 Reclassified financial assets: change in the business model and actual interest rate

The information is not provided as there were no reclassified financial assets recognized in the balance sheet assets.

## A.4 - FAIR VALUE REPORTING

### Qualitative information

As specified by IFRS 9 with regard to the rules for classification and measurement of financial instruments, an instrument is measured at fair value based on the entity's business model or on whether, given the contractual characteristics of its financial flows, it does not pass the SPPI test.

IFRS 13, which harmonises the relevant measurement rules and the related disclosure, defines fair value as the price that would be received to sell an asset or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or is estimated using a valuation technique.

The determination of the fair value of financial instruments is based on the Bank's going concern assumption, i.e. the assumption that it will be fully operational and it will not liquidate or significantly reduce its operations or enter into transactions at unfavourable conditions.

Therefore, the purpose of fair value is to estimate the price at which the transaction would take place between market participants at current market conditions at the measurement date.

When a price cannot be identified for an identical asset or liability, fair value is measured by applying a valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

The input data should correspond to those that market participants would use in determining the price of the asset and the liability.

In order to maximize the consistency and comparability of fair value measurements and the related disclosure, IFRS 13 states that the inputs of valuation techniques employed to measure fair value are classified according to a hierarchy based on input levels, as defined in the following paragraph.

### A.4.1 Fair Value levels 2 and 3: valuation techniques and inputs used

For assets and liabilities carried at Fair Value on a recurring basis, for which directly observable prices in active markets are not available, Fair Value has to be determined based on the "Comparable Approach" and the "Valuation Model." It should be noted that the only Bank items that are measured at Fair Value on a recurring basis are financial assets, as shown below in more detail.

*Financial assets carried at fair value through profit or loss, financial assets carried at fair value through other comprehensive income*

- *Financial instruments listed on active markets*

The Fair Value measurement process begins by verifying whether an active market exists from which quoted prices can be obtained regularly.

Regulated markets are usually considered as active markets except for any regulated markets that Risk Management were to identify as "not active". With reference to non-regulated markets (OTC markets) the presence of active contributors is assessed.

If, as a result of this process, the existence of an active market for the listed instruments is established, Fair Value of the instrument coincides with the price quoted on the valuation date (Mark to Market).

Given the specific liquidity prevailing on regulated markets, the official price published by the market operator is taken as the reference price.

In general, the application of the Mark to Market process based on price sources is carried out as follows:

a) for prices quoted in regulated markets, in particular in the Italian market, the price is determined on the basis of the price quoted on the Italian Stock Exchange for each financial instrument in the portfolio;
b) in the case of prices quoted in unregulated markets, the price is determined by identifying the prices quoted by other information providers.

Financial instruments recognised using the methods in point sub a) here above, are classified in Level 1 of the fair value hierarchy.

Financial instruments recognised using the methods in sub point b) here above, are classified in Level 2 of the fair value hierarchy.

- *Financial instruments not listed on active markets*

In the absence of an active market for a particular financial instrument, an internal valuation technique is used.

For the purposes of fair value determination, the Bank has chosen to apply the discounted cash flow method, mainly based on observable market parameters, for instruments that can be measured by discounting the related cash flows (including debt securities).

Should we consider financial instruments other than debt securities, alternative valuation techniques, also based on non-observable market parameters, shall be taken into account.

In general, through the DCF method, the fair value of financial instruments can be determined by discounting the future contractual cash flows (or those deemed most likely) at an established interest rate.

First, the interest rate risk must be taken into account; in the usual practice, reference is made to well accepted and recognised rates, such as the Euribor and/or the Swap rates. In this case, the interest rates used reflect an 'interbank' risk, which is limited, albeit usually higher than government risk. There are, however, other components besides interest rate risk that determine market risk. The premium for all these other components can be summarised in a "spread" to be added to the "Risk Free" curve, for each reference maturity, to obtain a curve that can be used to discount the future cash flows generated by the asset being measured. The Bank calculates the aforesaid "Spread" with reference to the "Credit Default Swaps" quoted for the issuer of the security in question, or, if unavailable, for other issuers of similar size and sector or industry averages.

Therefore, the elements useful for the DCF calculation are:

- Timing, maturity and amount (certain or estimated) of the instrument's future cash flows;
- Appropriate discount rate (depending on the credit risk associated with the debtor);
- Currency in which the instrument's cash flows are to be paid.

The pricing models for the fair value calculation are based on market parameters.

The main market parameters used in valuation techniques for measuring financial instruments not listed on active markets are:

- the interest rate curves;
- credit risk.

The main curves used are the Euribor rates and Swap rates curves.

The curves reflecting the issuer's creditworthiness are obtained by adding the zero-coupon yield curve (or risk-free rates) to a "Spread" that shows the issuer's creditworthiness; these curves are generally used to evaluate bonds not listed on active markets.

To this end, the operator should use the following hierarchy of information:

- credit spreads derived from Credit Default Swaps (CDS);
- curves for homogeneous sector/rating classes.

The instruments measured using the Mark to Model technique will be classified in Level 3 of the fair value hierarchy.

Equity instruments held by the Bank that are not listed on active markets and whose fair value cannot be reliably determined, are carried at cost.

*Financial liabilities carried at fair value*

At the date of preparation of these financial statements, the Bank had not issued financial liabilities measured at fair value.

### A.4.2 Processes and sensitivity analyses

The techniques and parameters used for measuring Fair Value and the criteria for assigning the Fair Value hierarchy have been defined and formalised in a specific policy adopted by the bank; the policy governs the determination of financial instruments' Fair Value in accordance with the provisions of applicable international accounting standards IFRS issued by the International Accounting Standards Board (IASB), taking into account the interpretations issued by the Financial Reporting Interpretations Committee (IFRIC) and the provisions of Circular 262 of Banca d'Italia.

The sensitivity analysis of receivables from and payables to bank (level 2 of the Fair Value hierarchy), considering the models used to determine their Fair Value, primarily based on year-end balance-sheet data, is not relevant because it cannot be directly attributed to changes in external parameters.

The Fair Value of the portfolio of loans to customers (level 3 of the Fair Value hierarchy) is only affected by the market parameters necessary to discount the future cash flows appropriately adjusted to take account of counterparty risk.

In relation to the Fair Value of the securities portfolio (level 2 and 3), no quantitative analysis was performed on the sensitivity of the Fair Value to changes in unobservable inputs, as the Fair Value was either derived from third party sources without making any adjustment, or is the result of a model with specific inputs and it is not reasonable to expect alternative values.

On the other hand, the Bank did not carry out this sensitivity analysis for its investments in equity instruments not listed on active markets; these instruments, as mentioned above, are stated at cost and written down to reflect any impairment losses, with contra entry to the income statement, which is considered the best estimate of fair value.

### A.4.3 Hierarchy of fair value

The Fair Value hierarchy, based on IFRS 13, must be applied to all financial instruments that are measured at Fair Value and to assets and liabilities not measured at Fair Value or measured at Fair Value on a non-recurring basis.

In this regard, for these instruments the highest priority is given to official quoted prices in active markets and the lowest priority to the use of unobservable inputs, as they are more discretionary. As a result, Fair Value is determined by using prices obtained from financial markets, in the case of instruments quoted on active markets, or, for the other financial instruments, by using valuation techniques whose objective is to estimate Fair Value (exit price). The levels used for the classifications shown in the following notes are as follows:

- "Level 1": the Fair Value of financial instruments is determined on the basis of quoted prices observable in active markets (unadjusted) and accessible at the measurement date;
- "Level 2": the Fair Value of financial instruments is determined on the basis of quoted inputs, directly or indirectly observable for that asset or liability, also using valuation techniques;
- "Level 3": the Fair Value of financial instruments is determined on the basis of unobservable inputs for that asset or liability, including the use of valuation techniques.

A quoted price in an active market provides the most reliable evidence of Fair Value and, when available, should be used with no adjustments to measure Fair Value.

Where quoted prices in active markets are not available, financial instruments must be classified in Levels 2 or 3.

The classification in Level 2 or Level 3 is determined on the basis of the market observability of the relevant inputs used to measure Fair Value.

Level 2 inputs include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads);
- market-corroborated inputs.

All other variables used in valuation techniques that cannot be substantiated on the basis of observable market data are considered unobservable.
If the Fair Value of a financial instrument is not determined by the price recorded in an active market ("Level 1"), the total Fair Value may consist of different levels due to the impact generated by observable or unobservable inputs used in the measurements (impact is intended as the contribution, in terms of

significance, that each input used in the evaluation makes to the total Fair Value of the instrument). However, the level attributed must be unique and referred to the total Fair Value of the instrument as a whole; thus, the single level assigned reflects the lowest level of input with a significant impact on the instrument's Fair Value measurement.
In order for unobservable market data to have a significant impact on the instrument's overall Fair Value measurement, their overall impact is assessed in such a way as to make the overall assessment uncertain (i.e. it cannot be ascertained through market data); in cases where the weight of unobservable data is prevalent with respect to the overall evaluation, the level assigned is "3".

Therefore, the bank classified its financial assets and liabilities in the different Fair Value levels on the basis of the following principles:

- Level 1: instrument measured at market price obtained from prices listed on active markets;
- Level 2: measurement based on prices quoted by reliable infoproviders;
- Level 3: measurement based on internal evaluation techniques.

Finally, with regard to receivables from and payables to banks, as these are entirely short-term and/or variable rate loans, Fair Value was assumed to be equal to their nominal value.

### A.4.4 Other Information

There is no information to provide.

### Quantitative information

### A.4.5 Hierarchy of fair value

### A.4.5.1 Assets and liabilities measured at Fair Value on a recurring basis: breakdown by Fair Value levels

**(€/000)**

| | 2018 | | |
|---|---|---|---|
| **Financial assets/liabilities carried at fair value** | **Level 1** | **Level 2** | **Level 3** |
| 1. Financial assets carried at fair value through profit or loss | 6,396 | 988 | 11 |
| a) financial assets held for trading | 6,396 | 988 | – |
| b) financial assets designated at fair value | – | – | – |
| c) other financial assets to be carried at fair value | – | – | 11 |
| 2. Financial assets carried at fair value through other comprehensive income | 5,191 | 2,312 | 913 |
| 3. Hedging derivatives | – | – | – |
| 4. Tangible assets | – | – | – |
| 5. Intangible fixed assets | – | – | – |
| **Total** | **11,587** | **3,300** | **924** |
| 1. Financial liabilities held for trading | – | – | – |
| 2. Financial liabilities designated at fair value | – | – | – |
| 3. Hedging derivatives | – | – | – |
| **Total** | **–** | **–** | **–** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

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

**(€/000)**

| | Financial assets carried at fair value through profit or loss | | | | Financial assets carried at fair value through other comprehensive income | Hedging derivatives | Tangible assets | Intangible fixed 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 carried at fair value | | | | |
| **1. Opening balance** | **–** | **–** | **–** | **–** | **1,000** | **–** | **–** | **–** |
| **2. Increases** | **–** | **–** | **–** | **11** | **–** | **–** | **–** | **–** |
| 2.1 Purchases | – | – | – | 11 | – | – | – | – |
| 2.2 Profits entered to: | – | – | – | – | – | – | – | – |
| 2.2.1 Income statement | – | – | – | – | – | – | – | – |
| - of which capital gains | – | – | – | – | – | – | – | – |
| 2.2.2 Shareholders' equity | – | X | X | X | – | – | – | – |
| 2.3 Transfers from other levels | – | – | – | – | – | – | – | – |
| 2.4 Other increases | – | – | – | – | – | – | – | – |
| **3. Decreases** | **–** | **–** | **–** | **–** | **87** | **–** | **–** | **–** |
| 3.1 Sales | – | – | – | – | – | – | – | – |
| 3.2 Refunds | – | – | – | – | – | – | – | – |
| 3.3 Losses entered to: | – | – | – | – | – | – | – | – |
| 3.3.1 Income statement | – | – | – | – | – | – | – | – |
| - of which capital losses | – | – | – | – | – | – | – | – |
| 3.3.2 Shareholders' equity | – | X | X | X | 87 | – | – | – |
| 3.4 Transfers to other levels | – | – | – | – | – | – | – | – |
| 3.5 Other decreases | – | – | – | – | – | – | – | – |
| **4. Final inventories** | **–** | **–** | **–** | **11** | **913** | **–** | **–** | **–** |

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

At the reporting date, the bank had no liabilities carried at fair value on a recurring basis (level 3).

### A.4.5.4 Assets and liabilities not carried at fair value or carried at fair value on a non-recurring basis: breakdown by fair value levels

**(€/000)**

| **Assets/liabilities not carried at fair value or carried at fair value on a non-recurring basis** | **2018** | | | |
|---|---|---|---|---|
| | Book value | Level 1 | Level 2 | Level 3 |
| 1. Financial assets carried at amortised cost | 35,794 | 3,224 | 9,121 | 24,835 |
| 2. Tangible assets held as investment | – | – | – | – |
| 3. Non-current assets and disposal groups | 82 | – | – | 82 |
| **Total** | **35,876** | **3,224** | **9,121** | **24,917** |
| 1. Financial liabilities carried at amortised cost | 45,795 | – | 11,341 | 34,454 |
| 2. Liabilities related to discontinuing operations | – | – | – | – |
| **Total** | **45,795** | **–** | **11,341** | **34,454** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

## A.5 – REPORTING ON DAY ONE PROFIT/LOSS

This disclosure refers to the differences between the transaction price and the value obtained through the use of valuation techniques, which may arise upon initial recognition of a financial instrument and which are not immediately recognized in the income statement, in accordance with paragraph B5.1.2 A of IFRS 9.

Please note that during the FY the Bank did not enter into any transactions for which, at the time of initial recognition of a financial instrument, a difference had arisen between purchase price and the value of the instrument obtained through internal evaluation techniques.

Accordingly, the information required by IFRS 7, para. 28 is not provided.

## PART B – INFORMATION ON THE BALANCE SHEET

### Assets

### Section 1 – Cash and cash equivalents – Item 10

#### 1.1 Cash and cash equivalents: breakdown

***(€/000)***

| | TOTAL 2018 | TOTAL 2017 |
|---|---|---|
| a) Cash | 235 | 700 |
| b) Sight deposits with Central Banks | 924 | 2,539 |
| **Total** | **1,159** | **3,239** |

The sub-item “a) Cash” consists of holdings of coins and banknotes at the branches, ATMs and centralized vaults.

Sub-item "Sight deposits with central banks" refers to deposits held with Banca d’Italia, excluding the Mandatory Reserve which is recognized in item 40 of the Assets - Financial assets measured at amortised cost - a) Receivables from banks".

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

### 2.1 Financial assets held for trading: commodity breakdown

**(€/000)**

| Items/Values | TOTAL 2018 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| **A On-balance sheet assets** | | | |
| 1. Debt securities | 6,396 | 988 | – |
| 1.1 Structured securities | – | – | – |
| 1.2 Other debt securities | 6,396 | 988 | – |
| 2. Equity securities | – | – | – |
| 3. UCIT units | – | – | – |
| 4. Loans | – | – | – |
| 4.1 Repurchase agreements | – | – | – |
| 4.2 Other | – | – | – |
| **Total (A)** | **6,396** | **988** | **–** |
| **B Derivative instruments** | | | |
| 1. Financial derivatives | – | – | – |
| 1.1 trading derivatives | – | – | – |
| 1.2 connected with fair value option | – | – | – |
| 1.3 other | – | – | – |
| 2. Credit derivatives | – | – | – |
| 2.1 trading derivatives | – | – | – |
| 2.2 connected with fair value option | – | – | – |
| 2.3 other | – | – | – |
| **Total (B)** | **–** | **–** | **–** |
| **Total (A+B)** | **6,396** | **988** | **–** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

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

**(€/000)**

| Items/Values | TOTAL 2018 |
|---|---|
| **A. On-balance sheet assets** | |
| 1. Debt securities | 7,384 |
| a) Central Banks | – |
| b) Public Administrations | 423 |
| c) Banks | 3,797 |
| d) Other financial companies | 1,451 |
| of which insurance companies | – |
| e) Non-financial companies | 1,713 |
| 2. Equity securities | **–** |
| a) Banks | – |
| d) Other financial companies | – |
| of which: insurance companies | – |
| c) Non-financial companies | – |
| d) Other issuers | – |
| 3. UCIT units | **–** |
| 4. Loans | **–** |
| a) Central Banks | – |
| b) Public Administrations | – |
| c) Banks | – |
| d) Other financial companies | – |
| of which insurance companies | – |
| e) Non-financial companies | – |
| f) Families | – |
| **Total (A)** | **7,384** |
| B. Derivative instruments | |
| a) Central counterparties | – |
| b) Other | – |
| **Total (B)** | **–** |
| **Total (A + B)** | **7,384** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

**2.3 Financial assets designated at fair value: commodity breakdown**

**2.4 Financial assets designated at fair value: breakdown by debtor/issuer**

At 31 December 2018 there were no financial assets designated at fair value.

### 2.5 Other financial assets mandatorily measured at fair value: commodity breakdown

**(€/000)**

| Items/Values | TOTAL 2018 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| **1. Debt securities** | **–** | **–** | **11** |
| 1.1 Structured securities | – | – | – |
| 1.2 Other debt securities | – | – | 11 |
| **2. Equity securities** | – | – | – |
| **3. UCIT units** | – | – | – |
| **4. Loans** | **–** | **–** | **–** |
| 4.1 Repurchase agreements | – | – | – |
| 4.2 Other | – | – | – |
| **Total** | **–** | **–** | **11** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

Item 1.2 “Other debt securities” includes the subordinated bonds issued by Banca Carige Spa, subscribed by the Voluntary Scheme of the Interbank Deposit Protection Fund, in relation to a support initiative in favour of the aforementioned bank.
Failure to pass the test on the contractual characteristics of cash flows (SPPI Test), pursuant to IFRS 9, has led to the classification of these securities as financial assets mandatorily measured at fair value.

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

**(€/000)**

| | **TOTAL 2018** |
|---|---|
| **1. Equity securities** | **–** |
| of which: banks | – |
| of which: other financial companies | – |
| of which: non-financial companies | – |
| **2. Debt securities** | **11** |
| a) Central Banks | – |
| b) Public Administrations | – |
| c) Banks | 11 |
| d) Other financial companies | – |
| of which: insurance companies | – |
| e) Non-financial companies | – |
| **3. UCIT units** | **–** |
| **4. Loans** | **–** |
| a) Central Banks | – |
| b) Public Administrations | – |
| c) Banks | – |
| d) Other financial companies | – |
| of which: insurance companies | – |
| e) Non-financial companies | – |
| f) Families | – |
| **Total** | **11** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

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

### 3.1 Financial assets carried at fair value through other comprehensive income: commodity breakdown

**(€/000)**

| Items/Values | TOTAL 2018 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| **1. Debt securities** | **5,191** | **2,312** | **–** |
| 1.1 Structured securities | – | – | – |
| 1.2 Other debt securities | 5,191 | 2,312 | – |
| **2. Equity securities** | **–** | **–** | **913** |
| **3. Loans** | **–** | **–** | **–** |
| **Total** | **5,191** | **2,312** | **913** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

The component relating to item 2 "Equity Securities" includes the shares of Banca Regionale di Sviluppo S.p.A. subscribed in FY 2016.
In this regard, upon First Time Adoption (FTA), according to paragraph 5.7.5 of IFRS 9, the Bank made the irrevocable choice of presenting subsequent changes in the fair value of the mentioned equity investments in other comprehensive income (FVOCI Option), since these equity securities are not held for trading nor are they a contingent consideration recognized by the purchaser in a business combination to which IFRS 3 applies.
At 31/12/2018, based on the latest available data, the Bank detected an impairment, with consequent recognition in the equity reserve, using the equity method, for a total of € 87 thousand.

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

**(€/000)**

| Items/Values | TOTAL 2018 |
|---|---|
| **1. Debt securities** | **7,503** |
| a) Central Banks | – |
| b) Public Administrations | 2,803 |
| c) Banks | 3,747 |
| d) Other financial companies | 953 |
| of which: insurance companies | – |
| e) Non-financial companies | – |
| **2. Equity securities** | **913** |
| a) Banks | 913 |
| b) Other issuers: | – |
| - other financial companies | – |
| of which: insurance companies | – |
| - non-financial companies | – |
| - other | – |
| **3. Loans** | **–** |
| a) Central Banks | – |
| b) Public Administrations | – |
| c) Banks | – |
| d) Other financial companies | – |
| of which: insurance companies | – |
| e) Non-financial companies | – |
| f) Families | – |
| **Total** | **8,416** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

**3.3 Financial assets carried at fair value through other comprehensive income: gross value and total adjustments**

**(€/000)**

| | **Gross value** | | | | **Overall adjustments** | | | **Overall partial write-offs(*)** |
|---|---|---|---|---|---|---|---|---|
| | **First stage** | **of which: low credit risk instruments** | **Second stage** | **Third stage** | **First stage** | **Second stage** | **Third stage** | |
| Debt securities | 6,559 | – | 983 | – | 16 | 23 | – | – |
| Loans | – | – | – | – | – | – | – | – |
| **TOTAL 2018** | **6,559** | **–** | **983** | **–** | **16** | **23** | **–** | **–** |
| of which: impaired financial assets acquired or originated | X | X | – | – | X | – | – | – |

** Value to be displayed for information purposes*

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

The breakdown by risk stage of financial assets measured at fair value through other comprehensive income is applied in accordance with the new impairment model as introduced upon application of the new IFRS 9 accounting standard. For further details, please refer to Part A - Accounting policies.

On the basis of the *staging allocation* criteria adopted, there were no instruments with low credit risk at the reporting date.

## Section 4 – Financial assets carried at amortised cost – Item 40

### 4.1 Financial assets carried at amortised cost: breakdown by commodity of receivables from banks

(€/000)

| | TOTAL 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Book value | | | Fair value | | |
| Transaction type/Values | First and second stage | Third stage | of which: impaired acquired or originated | Level 1 | Level 2 | Level 3 |
| **A. Receivables from Central Banks** | **–** | **–** | **–** | **–** | **–** | **–** |
| 1. Term deposits | – | – | – | X | X | X |
| 2. Mandatory reserve | – | – | – | X | X | X |
| 3. Repurchase agreements | – | – | – | X | X | X |
| 4. Other | – | – | – | X | X | X |
| **B. Receivables from banks** | **9,723** | **–** | **–** | **1,506** | **8,218** | **–** |
| 1. Loans | 8,218 | – | – | – | 8,218 | – |
| 1.1 Current accounts and sight deposits | 7,992 | – | – | X | X | X |
| 1.2. Term deposits | 226 | – | – | X | X | X |
| 1.3. Other loans | – | – | – | X | X | X |
| - Reverse repurchase agreements | – | – | – | X | X | X |
| - Finance lease | – | – | – | X | X | X |
| - Other | – | – | – | X | X | X |
| 2. Debt securities | 1,505 | – | – | 1,506 | – | – |
| 2.1 Structured securities | – | – | – | – | – | – |
| 2.2 Other debt securities | 1,505 | – | – | 1,506 | – | – |
| **Total** | **9,723** | **–** | **–** | **1,506** | **8,218** | **–** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

This item includes loans to banks, in particular loans and debt securities.
Item "1.2 Term deposits" includes the amounts used to fulfil the mandatory reserve requirement, which is met via the Istituto Centrale delle Banche Popolari Italiane.
As specified in the fair value determination criteria illustrated in Part A – Accounting Policies, with reference to sub-item B.1 Loans, as these are entirely short-term and/or variable rate loans, fair value is assumed to be equal to the nominal value.

### 4.2 Financial Assets carried at amortised cost: breakdown by commodity of loans to customers

**(€/000)**

| | TOTAL 2018 | | | | | |
|---|---|---|---|---|---|---|
| **Transaction type/Values** | **Book value** | | | **Fair value** | | |
| | **First and second stage** | **Third stage** | **Of which: impaired acquired or originated** | **Level 1** | **Level 2** | **Level 3** |
| **1. Loans** | **19,950** | **3,381** | **–** | **–** | **–** | **24,835** |
| 1.1. Current accounts | 2,992 | 472 | – | X | X | X |
| 1.2. Reverse repurchase agreements | – | – | – | X | X | X |
| 1.3. Mortgage loans | 13,807 | 2,830 | – | X | X | X |
| 1.4. Credit cards, personal loans and CQ loans | 273 | 40 | – | X | X | X |
| 1.5. Finance lease | – | – | – | X | X | X |
| 1.6. Factoring | – | – | – | X | X | X |
| 1.7. Other loans | 2,878 | 39 | – | X | X | X |
| **2. Debt securities** | **2,740** | **–** | **–** | **1,718** | **903** | **–** |
| 1.1. Structured securities | – | – | – | – | – | – |
| 1.2. Other debt securities | 2,740 | – | – | 1,718 | 903 | – |
| **Total** | **22,690** | **3,381** | **–** | **1,718** | **903** | **24,385** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

Sub-item 1.7 "Other loans" is broken down as follows:

- Advances on invoices subject to collection: € 2,157 thousand;

- Deposits at Organismi di compensazione e garanzia (Clearing Bodies): € 734 thousand;
- Security deposits: € 26 thousand.

With reference to Credit Quality, please see Part E 1– Information on Risks and Hedging Policies, Section 1 - Credit risk.

### 4.3 Finance lease

At the reporting date, the Bank had no finance lease agreements outstanding with any customers.

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

**(€/000)**

| Transaction type/Values | TOTAL 2018 | | |
|---|---|---|---|
| | First and second stage | Third stage | Of which: impaired assets acquired or originated |
| **1. Debt securities** | **2,740** | **–** | **–** |
| a) Public Administrations | 1,839 | – | – |
| d) Other financial companies | – | – | – |
| of which: insurance companies | – | – | – |
| c) Non-financial companies | 901 | – | – |
| **2. Loans to:** | **19,950** | **3,381** | **–** |
| a) Public Administrations | – | – | – |
| d) Other financial companies | 905 | – | – |
| of which: insurance companies | – | – | – |
| c) Non-financial companies | 10,063 | 2,235 | – |
| d) Families | 8,982 | 1,146 | – |
| **Total** | **22,690** | **3,381** | **–** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

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

***(€/000)***

| | Gross value | | | | Overall adjustments | | | Overall partial write-offs(*) |
|---|---|---|---|---|---|---|---|---|
| | First stage | Of which: low credit risk instruments | Second stage | Third stage | First stage | Second stage | Third stage | |
| Debt securities | 4,251 | 1,505 | – | – | 6 | – | – | – |
| Loans | 17,698 | 19 | 11,137 | 5,483 | 88 | 578 | 2,102 | – |
| **Total 2018** | **21,949** | **1,524** | **11,137** | **5,483** | **94** | **578** | **2,102** | **–** |
| of which: impaired financial assets acquired or originated | X | X | – | – | X | – | – | – |

** Value to be displayed for information purposes*

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

The breakdown by risk stage of financial assets measured at amortised cost is applied in accordance with the new impairment model as introduced upon application of the new IFRS 9 accounting standard. For further details, please refer to Part A - Accounting policies.

**Section 5 – Hedging derivatives – Item 50**

At the reporting date, there were no items to be reported in the tables of “Section 5 - Hedging Derivatives - Item 50” envisaged by Banca d’Italia Circular no. 262, 5th update of 22 December 2017.

**Section 6 – Adjustment to financial assets subject to macro-hedging – Item 60**

At the reporting date, there were no items to be reported in the tables of “Section 6 - Adjustment to financial assets subject to macro-hedging - Item 60” envisaged by Banca d’Italia Circular no. 262, 5th update of 22 December 2017.

## Section 7 – Equity investments – Item 70

This item includes the equity investment in the subsidiary Promos Corporate Consulting S.r.L., pursuant to IFRS 10, established in September 2018.

### 7.1 Equity investments: information on shareholding interest

**(€/000)**

| Names | Registered Office | Operational office: | Percent ownership | % availability of votes |
|---|---|---|---|---|
| **A. 100%-owned subsidiaries** | | | | |
| 1. Promos Corporate Consulting S.r.L. | Viale Gramsci-19-Naples | Naples | 65% | – |
| **B. Joint ventures** | | | | |
| **C. Companies subject to significant influence** | | | | |

### 7.2 Significant equity investments: carrying amount, fair value and dividends received

**(€/000)**

| Names | Book value | Fair value | Dividends received |
|---|---|---|---|
| **A. 100%-owned subsidiaries** | **33** | **–** | **–** |
| 1. Promos Corporate Consulting S.r.L. | 33 | – | – |
| **B. Joint ventures** | **–** | **–** | **–** |
| **C. Companies subject to significant influence** | **–** | **–** | **–** |
| **Total** | **33** | **–** | **–** |

Promos Corporate Consulting Srl, 65% controlled by the Bank, offers consulting and support services to companies, assisting them in conceiving and structuring extraordinary corporate transactions and in the process of issuing and placing financial instruments and/or in risk capital transactions.
This investment is recognized at cost for an amount of € 33 thousand.

### 7.3 Significant equity investments: accounting information

**(€/000)**

| Names | Cash and cash equivalents | Financial assets | Non-financial assets | Financial liabilities | Non-financial liabilities | Total revenue | Net interest income | Adjustments to and write-backs of tangible and intangible assets | Pre-tax profit (loss) of current operations | Profit (loss) of current operations, after taxes | Profit (Loss) of disposal groups, after taxes | Profit (loss) for the year (1) | Other income items, after taxes (2) | Comprehensive income (3)=(1)+(2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **A. 100%-owned subsidiaries** | | | | | | | | | | | | | | |
| 1. Promos Corporate Consulting S.r.L. | 37 | – | 43 | – | 31 | 38 | – | – | 1 | – | – | – | – | – |
| **B. Joint ventures** | | | | | | | | | | | | | | |
| **C. Companies subject to significant influence** | | | | | | | | | | | | | | |

The figures shown in the table in question relate to the financial statements as at 31 December 2018 approved by the company's Board of Directors, held in April 2018.

Below is a reconciliation between the accounting information shown in the table and the book value of the investment.
In particular, the amounts shown in the table refer to the most recently closed financial statements, as does the shareholders' equity taken as reference for the valuation of the investment, as shown below:
- total assets 80,528 consisting of cash and cash equivalents, financial assets and non-financial assets;
- total liabilities 30,910 consisting of financial and non-financial liabilities;
- resulting shareholders' equity 49,618
- shareholders' equity for valuation as per last approved financial statements 49,618.

### 7.4 Non-significant equity investments: accounting information

The were no non-significant investments at the reporting date.

### 7.5 Equity investments: year-on-year changes

**(€/000)**

| | TOTAL 2018 | TOTAL 2017 |
|---|---|---|
| **A. Opening balances** | **–** | **–** |
| **B. Increases** | **33** | **–** |
| B.1 Purchases | 33 | – |
| B.2 Write-backs | – | – |
| B.3 Write-ups | – | – |
| B.4 Other changes | – | – |
| **C. Decreases** | **–** | **–** |
| C.1 Sales | – | – |
| C.2 Adjustments | – | – |
| 30. Write-downs | – | – |
| C.4 Other changes | – | – |
| **D. Closing balances** | **33** | **–** |
| **E. Total write-ups** | **–** | **–** |
| **F. Total adjustments** | **–** | **–** |

### 7.6 Commitments for investments in jointly controlled entities

The were no investments in jointly controlled entities at the reporting date.

### 7.7 Commitments for investments in entities subject to significant influence

There were no commitments for investments in entities subject to significant influence at the reporting date.

### 7.8 Significant restrictions

The were no significant restrictions at the reporting date.

### 7.9 Other information

There was no additional information to provide at the reporting date.

## Section 8 – Tangible assets – Item 80

### *8.1 Breakdown of operating tangible assets measured at cost*

**(€/000)**

| Assets/values | TOTAL 2018 | TOTAL 2017 |
|---|---|---|
| **1 Owned assets** | **5,640** | **5,822** |
| a) land | – | – |
| b) buildings | 5,430 | 5,655 |
| c) furniture | 69 | 99 |
| d) electronic systems | 117 | 32 |
| e) other | 24 | 36 |
| **2 Assets acquired on finance lease** | **–** | **–** |
| a) land | – | – |
| b) buildings | – | – |
| c) furniture | – | – |
| d) electronic systems | – | – |
| e) other | – | – |
| **Total** | **5,640** | **5,822** |
| of which: obtained through the enforcement of guarantees received | – | – |

### 8.2 Investment property: breakdown of assets measured at cost

There were no tangible assets held for investment purposes; therefore, the relevant table is omitted.

### 8.3 Operating tangible assets: breakdown of revalued assets

There were no revalued operating tangible assets; therefore, the relevant table is omitted.

### 8.4 Investment property: breakdown of assets measured at fair value

There were no tangible assets held for investment purposes; therefore, the relevant table is omitted.

### 8.5 Inventories of tangible assets governed by IAS 2: breakdown

There were no assets governed by IAS 2; therefore, the relevant table is omitted.

**8.6 Operating assets: year-on-year changes**

**(€/000)**

| | Land | Buildings | Fixtures | Electronic systems | Other | Total |
|---|---|---|---|---|---|---|
| **A. Gross opening balances** | **–** | **8,318** | **586** | **409** | **318** | **9,631** |
| A.1 Net total impairments | – | 2,663 | 487 | 377 | 282 | 3,809 |
| **A.2 Net opening balance** | **–** | **5,655** | **99** | **32** | **36** | **5,822** |
| **B. Increases:** | **–** | **–** | **–** | **102** | **–** | **102** |
| B.1 Purchases | – | – | – | 102 | – | 102 |
| B.2 Capitalised improvement expenses | – | – | – | – | – | – |
| B.3 Write-backs | – | – | – | – | – | – |
| B.4 Positive changes in fair value charged to: | – | – | – | – | – | – |
| a) shareholders' equity | – | – | – | – | – | – |
| b) income statement | – | – | – | – | – | – |
| B.5 Exchange profits | – | – | – | – | – | – |
| B.6 Transfers from buildings held as investment | – | – | | | | – |
| B.7 Other changes | – | – | – | – | – | – |
| **C. Decreases:** | **–** | **225** | **30** | **17** | **13** | **285** |
| C.1 Sales | – | – | – | – | – | – |
| C.2 Depreciation | – | 225 | 30 | 17 | 13 | 285 |
| C.3 Adjustments due to impairment charged to | – | – | – | – | – | – |
| a) shareholders' equity | – | – | – | – | – | – |
| b) income statement | – | – | – | – | – | – |

| | | | | | | |
|---|---|---|---|---|---|---|
| C.4 Negative changes in fair value charged to | – | – | – | – | – | – |
| a) shareholders' equity | – | – | – | – | – | – |
| b) income statement | – | – | – | – | – | – |
| C.5 Exchange losses | – | – | – | – | – | – |
| C.6 Transfers to: | – | – | – | – | – | – |
| a) tangible assets held as investment | – | – | | | | – |
| b) non-current assets and disposal groups | – | – | – | – | – | – |
| C.7 Other changes | – | – | – | – | – | – |
| **D. Net closing balances** | **–** | **5,430** | **69** | **117** | **23** | **5,639** |
| D.1 Net total impairments | – | 2,888 | 517 | 393 | 293 | 4,091 |
| **D.2 Gross closing balance** | **–** | **8,318** | **586** | **510** | **317** | **9,730** |
| E. Measurement at cost | – | – | – | – | – | – |

For all tangible assets, the cost method is applied by the Bank.

Items A.1 and D.1 "Total net reductions" include the amount of depreciation on property, plant and equipment recognized in the accounts.

As indicated by Banca d'Italia, no amounts are reported in Sub-item "E. Measurement at cost" – as this item is intended only for tangible assets carried at fair value, which the Bank did not own at 31 December 2018.

**8.7 Investment property: yearly changes**

The were no investment properties at the reporting date.

**8.8 Inventories of tangible assets governed by IAS 2: yearly changes**

There were no changes at the reporting date.

**8.9 Commitments to purchase tangible assets**

The Bank has no commitments to purchase tangible assets.

**Section 9 – Intangible assets – Item 90**

**9.1 Intangible fixed assets: breakdown by type of asset**

**(€/000)**

| Assets/values | TOTAL 2018 | | TOTAL 2017 | |
|---|---|---|---|---|
| | Definite life | Indefinite life | Definite life | Indefinite life |
| **A.1 Goodwill** | X | **–** | X | **–** |
| **A.2 Other intangible assets** | **340** | **–** | **91** | **–** |
| A.2.1 Assets carried at cost: | 340 | – | 91 | – |
| a) Internally generated intangible assets | 284 | – | – | – |
| b) Other assets | 56 | – | 91 | – |
| A.2.2 Assets carried at fair value: | – | – | – | – |
| a) Internally generated intangible assets | – | – | – | – |
| b) Other assets | – | – | – | – |
| **Total** | **340** | **–** | **91** | **–** |

At the reporting date, the Bank recognized 4 internally generated software as intangible assets for a value of 284 thousand, which were developed through a Research and Development Laboratory set up within the Bank. Such software, aimed at supporting the various business lines of the Bank, is therefore able to produce future economic benefits. Pursuant to IAS 38, research costs were recognized as incurred; conversely, the expenses incurred internally for the development of the related software projects were recognized, and therefore capitalized in the balance sheet: these costs mainly refer to the cost of personnel involved in the individual projects concerning the development of individual IT platforms.

Recognized intangible assets are amortized on the basis of their expected technological obsolescence.

All the intangible assets of the Bank are measured at cost.

**9.2 Intangible assets: year-on-year changes**

***(€/000)***

| | Goodwill . | Other intangible assets: internally generated assets | | Other intangible assets: other | | Total |
|---|---|---|---|---|---|---|
| | | FIN. | INDEF. | FIN. | INDEF. | |
| **A. Opening balances** | **–** | **–** | **–** | **651** | **–** | **651** |
| A.1 Net total impairments | – | – | – | 560 | – | 560 |
| **A.2 Net opening balance** | **–** | **–** | **–** | **91** | **–** | **91** |
| **B. Increases** | **–** | **310** | **–** | **–** | **–** | **310** |
| B.1 Purchases | – | – | – | – | – | – |
| B.2 Increases in internal intangible assets | X | 310 | – | – | – | 310 |
| B.3 Write-backs | X | – | – | – | – | – |
| B.4 Positive changes in fair value | – | – | – | – | – | – |
| - to shareholders' equity | X | – | – | – | – | – |
| - to income statement | X | – | – | – | – | – |
| B.5 Exchange profits | – | – | – | – | – | – |
| B.6 Other changes | – | – | – | – | – | – |
| **C. Decreases** | **–** | **26** | **–** | **35** | **–** | **61** |
| C.1 Sales | – | – | – | – | – | – |
| C.2 Adjustments | – | 26 | – | 35 | – | 61 |
| - Amortisation and depreciation | X | 26 | – | 35 | – | 61 |
| - Write-downs | – | – | – | – | – | – |
| + shareholders' equity | X | – | – | – | – | – |
| + Income statement | – | – | – | – | – | – |
| C.3 Negative changes in fair value: | | – | – | – | – | – |

| | | | | | | |
|---|---|---|---|---|---|---|
| - to shareholders' equity | X | – | – | – | – | – |
| - to income statement | X | – | – | – | – | – |
| C.4 Transfers to non-current disposal assets | – | – | – | – | – | – |
| C.5 Exchange losses | – | – | – | – | – | – |
| C.6 Other changes | – | – | – | – | – | – |
| **D. Net closing balances** | **–** | **284** | **–** | **56** | **–** | **340** |
| D.1 Net total adjustments | – | – | – | – | – | – |
| **E Gross final balances** | **–** | **284** | **–** | **56** | **–** | **340** |
| F. Measurement at cost | – | – | – | – | – | – |

No amounts were reported in Sub-item F - "Measurement at cost" - as this item is intended only for intangible assets measured at fair value, which the Bank does not own.

### 9.3 Intangible assets: other information

In accordance with the requirements of IAS 38, paragraphs 122 and 124, please note that the Bank has not:

- placed its intangible assets as collateral for its liabilities;
- taken commitments to purchase intangible assets, as at the date of the financial statements;
- acquired intangible assets through finance or operating leases;
- acquired intangible assets licensed by the government;
- ++acquired++ financial assets carried at fair value.

At 31 December 2018, no goodwill was accounted for in the Bank's financial statements.

**Section 10 – Tax assets and liabilities – Item 100 of assets and Item 60 of liabilities**

This item includes tax assets (current and deferred) and liabilities (current and deferred) recorded, respectively, in item 100 of the Assets and item 60 of the Liabilities.
Deferred tax assets and liabilities are accounted for in accordance with the accrual principle, in order to match costs and revenues that determine the result for the period.
According to IAS 12 the recognition of deferred taxes in the financial statements should be based on the following criteria:
- deferred tax liabilities must be recognised on all the temporary taxable differences,
- deferred tax assets can be recognised for all deductible temporary differences where it is likely that the entity will earn taxable income against which it may set off the temporary deductible difference.

In compliance with IAS 12 - as at 31 December 2018, the Bank did not recognize deferred tax assets in relation to tax losses for the year and, similarly, in relation to the IFRS transition reserves recognized upon first time adoption of the standard.
Deferred tax assets and liabilities were recognized in accordance with the current tax legislation, providing for the application of a 27.5% rate for IRES and a 5.72% rate for IRAP.

**10.1 Deferred tax assets: breakdown**

**contra entry to income statement**
***(€/000)***

| | IRES | IRAP | TOTAL |
|---|---|---|---|
| Adjustments to receivables and losses | 187 | 23 | 210 |
| Tangible fixed assets | 55 | – | 55 |
| Provisions for liabilities and charges | 34 | – | 34 |
| Tax losses | 145 | – | 145 |
| Administrative costs | 1 | – | 1 |
| Other items | 48 | – | 48 |
| **TOTAL** | **470** | **23** | **493** |

**Contra entry to shareholders' equity**

| | IRES | IRAP | TOTAL |
|---|---|---|---|
| Negative reserves on financial assets carried at fair value through other comprehensive income | 102 | 26 | 128 |
| Severance indemnity | – | – | – |
| Other items | – | – | – |
| **TOTAL** | **102** | **26** | **128** |

### 10.2 Deferred tax liabilities: breakdown

**contra entry to income statement**
***(€/000)***

| | IRES | IRAP | TOTAL |
|---|---|---|---|
| Capital gains taxed according to equal instalments | 696 | 145 | 841 |
| Tangible fixed assets | – | – | – |
| Other items | – | – | – |
| **TOTAL** | **696** | **145** | **841** |

### 10.3 Changes in deferred tax assets (contra entry to income statement)

**(€/000)**

| | TOTAL 2018 | TOTAL 2017 |
|---|---|---|
| **1. Opening balance** | **479** | **482** |
| **2. Increases** | **493** | **258** |
| 2.1 Prepaid taxes recorded for the year | 493 | 258 |
| a) related to previous FYs | – | – |
| b) due to changes in accounting criteria | – | – |
| c) write-backs | – | – |
| d) other | 493 | 258 |
| 2.2 New taxes or increase in tax rates | – | – |
| 2.3 Other increases | – | – |
| **3. Decreases** | **479** | **260** |
| 3.1 Prepaid taxes derecognised for the year | 457 | 256 |
| a) reversals | 457 | 256 |
| b) write-downs due to impossibility of recovery | – | – |
| c) change in accounting criteria | – | – |
| d) other | – | – |
| 3.2 Reductions in tax rates | – | – |
| 3.3 Other decreases: | 22 | 4 |
| a) amounts reclassified as tax credits pursuant to Law no. 214/2011 | 22 | 4 |
| b) other | – | – |
| **4. Closing balance** | **493** | **479** |

**10.3bis Change in prepaid taxes as per Law no. 214/2011**

**(€/000)**

| | TOTAL 2018 | TOTAL 2017 |
|---|---|---|
| **1. Opening balance** | **217** | **237** |
| **2. Increases** | **–** | **–** |
| **3. Decreases** | **7** | **20** |
| 3.1 Reversals | – | 16 |
| 3.2 Amounts reclassified as tax credits | 7 | 4 |
| a) resulting from losses for the period | 7 | 4 |
| b) resulting from tax losses | – | – |
| 3.3 Other decreases | – | – |
| **4. Closing balance** | **210** | **217** |

The transformation referred to in point 3.2.a) was made by virtue of the provisions of Legislative Decree no. 225/2010, converted with amendments by Law no. 10/2011. In particular, art. 2 paragraphs 55-56 provides that where an entity reports a loss for the year, the deferred tax assets recognized in the financial statements in relation to loan value adjustments and those relating to the value of goodwill and other intangible assets (DTA) are converted into a tax credit. The conversion becomes effective from the date of approval of the financial statements and applies for an amount equal to the loss for the year multiplied by the ratio of the DTA to shareholders' equity before the loss for the year. With effect from the tax period in which the conversion is effected, the negative components corresponding to the DTA converted into a tax credit are not deductible.
Furthermore, Law no. 214/2011 introduced the conversion into tax credits of DTA recorded in the financial statements for the part of the IRES tax losses arising from the deduction of temporary differences relating to loan adjustments and goodwill.
Subsequently Law No. 214/2013 (2014 Stability Law) extended the conversion of IRAP DTAs relating to loan value adjustments and to the value of goodwill and other intangible assets also to cases of "negative net production value".

### 10.4 Change in deferred taxes (contra entry to income statement)

***(€/000)***

| | TOTAL 2018 | TOTAL 2017 |
|---|---|---|
| **1. Opening balance** | **877** | **914** |
| **2. Increases** | **–** | **–** |
| 2.1 Deferred taxes recorded for the year | – | – |
| a) related to previous FYs | – | – |
| b) due to changes in accounting criteria | – | – |
| c) other | – | – |
| 2.2 New taxes or increase in tax rates | – | – |
| 2.3 Other increases | – | – |
| **3. Decreases** | **36** | **37** |
| 3.1 Deferred taxes derecognised for the year | 36 | 37 |
| a) reversals | 36 | 37 |
| b) due to changes in accounting criteria | – | – |
| c) other | – | – |
| 3.2 Reductions in tax rates | – | – |
| 3.3 Other decreases | – | – |
| **4. Closing balance** | **841** | **877** |

The decrease recorded during the year 2018 refers to taxes calculated on the depreciation charge for the period relating to the capital gain on the property recognized in the financial statements.

### 10.5 Change in prepaid taxes (contra entry to shareholders' equity)

**(€/000)**

| | TOTAL 2018 | TOTAL 2017 |
|---|---|---|
| **1. Opening balance** | **–** | **1** |
| **2. Increases** | **128** | **–** |
| 2.1 Prepaid taxes recorded for the year | 128 | – |
| a) related to previous FYs | – | – |
| b) due to changes in accounting criteria | – | – |
| c) other | 128 | – |
| 2.2 New taxes or increase in tax rates | – | – |
| 2.3 Other increases | – | – |
| **3. Decreases** | **–** | **1** |
| 3.1 Prepaid taxes derecognised for the year | – | 1 |
| a) reversals | – | 1 |
| b) write-downs due to impossibility of recovery | – | – |
| c) due to changes in accounting criteria | – | – |
| d) other | – | – |
| 3.2 Reductions in tax rates | – | – |
| 3.3 Other decreases | – | – |
| **4. Closing balance** | **128** | **–** |

The increase item shown above refers to the tax effect calculated in the current year on the negative valuation reserve for securities classified in the financial statements as financial assets measured at fair value through other comprehensive income.

### 10.6 Change in deferred taxes (offsetting entry to equity)

At 31 December 2018, no deferred taxes were recognised directly in equity.

### 10.7 Other information

**(€/000)**

| Breakdown of current taxes | IRES / IRPEG | IRAP | OTHER | TOTAL |
|---|---|---|---|---|
| Current tax liabilities (-) | – | – | – | – |
| Advances paid (+) | – | 21 | – | 21 |
| Withholding taxes paid (+) | 19 | – | – | 19 |
| Other tax credits (+) | 127 | – | – | 127 |
| Tax credits as per Law no. 214/2011 (+) | 37 | – | – | 37 |
| **Debit balance of item 60 a) of liabilities** | **–** | **–** | **–** | **–** |
| **Credit balance of item 100 a) of assets** | **183** | **21** | **–** | **204** |
| Tax credits that cannot be offset: principal | 43 | 3 | – | 45 |
| Tax credits that cannot be offset: interest | – | – | – | – |
| **Balance of tax credits that cannot be offset** | **43** | **3** | **–** | **45** |
| **Credit balance of item 100 a) of assets** | **226** | **24** | **–** | **250** |

## Section 11 – Non-current assets and disposal groups and related liabilities – Item 110 of assets and item 70 of liabilities

### 11.1 Non-current assets and disposal groups: breakdown by type of asset

**(€/000)**

| | 2018 | 2017 |
|---|---|---|
| **A. Assets held for sale** | | |
| A.1 Financial assets | – | – |
| A.2 Shareholdings | – | – |
| A.3 Tangible assets | 82 | – |
| Of which: obtained through the enforcement of guarantees received | 82 | – |
| A.4 Intangible assets | – | – |
| A.5 Other non-current assets | – | – |
| **Total (A)** | **82** | **–** |
| of which carried at cost | – | – |
| of which carried at fair value level 1 | – | – |
| of which carried at fair value level 2 | – | – |
| of which carried at fair value level 3 | 82 | – |
| **B. Discontinued operations** | | |
| B.1 Financial assets carried at fair value through profit or loss | – | – |
| - financial assets held for trading | – | – |
| - financial assets designated at fair value | – | – |
| - other financial assets mandatorily measured at fair value | – | – |
| B.2 Financial assets carried at fair value through other comprehensive income | – | – |
| B.3 Financial assets carried at amortised cost | – | – |
| B.4 Equity investments | – | – |
| B.5 Tangible assets | – | – |

| | | |
|---|---|---|
| Of which: obtained through the enforcement of guarantees received | – | – |
| B.6 Intangible assets | – | – |
| B.7 Other assets | – | – |
| **Total (B)** | **–** | **–** |
| of which carried at cost | – | – |
| of which carried at fair value level 1 | – | – |
| of which carried at fair value level 2 | – | – |
| of which carried at fair value level 3 | – | – |
| **C. Liabilities associated with assets held for sale** | | |
| C.1 Payables | – | – |
| C.2 Securities | – | – |
| C.3 Other liabilities | – | – |
| **Total (C)** | **–** | **–** |
| of which carried at cost | – | – |
| of which carried at fair value level 1 | – | – |
| of which carried at fair value level 2 | – | – |
| of which carried at fair value level 3 | – | – |
| **D. Liabilities related to discontinued operations** | | |
| D.1 Financial liabilities carried at amortised cost | – | – |
| D.2 Financial liabilities held for trading | – | – |
| D.3 Financial liabilities designated at fair value | – | – |
| D.4 Provisions | – | – |
| D.5 Other liabilities | – | – |
| **Total D** | **–** | **–** |

| | | |
|---|---|---|
| of which carried at cost | – | – |
| of which carried at fair value level 1 | – | – |
| of which carried at fair value level 2 | – | – |
| of which carried at fair value level 3 | – | – |

The item "Tangible assets" refers to the enforcement of a mortgage on residential property securing a loan. The seized property, which qualifies as a residential building, was transferred to the Bank for € 82 thousand. At the reporting date, negotiations were under way for its subsequent disposal.

### 11.2 Other information

The Banks did not perform transactions covered by IFRS 5 para. 42.

## Section 12 – Other assets – Item 120

### 12.1 Other assets: breakdown

**(€/000)**

| | 2018 | 2017 |
|---|---|---|
| Items in progress | 147 | 257 |
| Credit transfers being charged | 476 | 475 |
| Miscellaneous tax items | 671 | 476 |
| Deferrals | 7 | 26 |
| Other minor items | 280 | 329 |
| **Total** | **1,581** | **1,563** |

The "Items in progress" mainly reflect temporary transactions, which primarily refer to items processed in the last days of the year 2018, with contra entry in the first days of the subsequent year.
The item “Prepayments” indicates prepayments other than those that must be capitalized on the related financial assets.
The item "Other tax items" mainly includes the tax credit for Research and Development activities, pursuant to art. 1 paragraph 35 of Law 190 of 12/23/2014 (2015 Stability Law), for € 234 thousand. With regard to the tax relief in question, additional information is provided in the specific section of the Report on Operations of this annual report.
In addition, this item consists of Advances for the stamp duty for the subsequent year amounting to € 301 thousand and advances for withholdings on interest expense of € 38 thousand.

## Liabilities

### Section 1 – Financial liabilities carried at amortised cost – Item 10

### 1.1 Financial liabilities carried at amortised cost: breakdown by commodity of payables to banks

(€/000)

| Transaction type/Values | TOTAL 2018 | | | |
|---|---|---|---|---|
| | Book value | Fair value | | |
| | | Level 1 | Level 2 | Level 3 |
| **1. Payables to central banks** | **5,000** | X | X | X |
| **2. Payables to banks** | **1,562** | X | X | X |
| 2.1 Current accounts and sight deposits | 61 | X | X | X |
| Term deposits | 1,501 | 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 Payables for repurchase commitments of equity instruments | – | X | X | X |
| 2.5 Other payables | – | X | X | X |
| **Total** | **6,562** | – | **6,562** | – |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

Item “1. Payables to central banks” includes the amount payable to the European Central Bank for loans outstanding at 31 December 2018 in relation to a loan granted by the ECB against securities given as collateral by the Bank.

With regard to the criteria for determining the fair value of this item, reference is made to the comments in Part A - Accounting Policies.

**1.2 Financial liabilities carried at amortised cost: breakdown by commodity of payables to customers**

***(€/000)***

| Transaction type/Values | TOTAL 2018 | | | |
|---|---|---|---|---|
| | Book value | Fair value | | |
| | | Level 1 | Level 2 | Level 3 |
| 1. Current accounts and sight deposits | 28,287 | X | X | X |
| 2. Term deposits | 6,193 | X | X | X |
| 3. Loans | – | X | X | X |
| 3.1 Repurchase agreements | – | X | X | X |
| 3.2 Other | – | X | X | X |
| 4. Payables for commitments to repurchase own equity instruments | – | X | X | X |
| 5. Other payables | – | X | X | X |
| **Total** | **34,480** | **–** | **–** | **34,480** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

As this item includes only sight deposits (current accounts and demand deposits) and term deposits maturing within 12 months, fair value is assumed to be equal to the amortised cost.

**1.3 Financial liabilities carried at amortised cost: breakdown by commodity of outstanding securities**

**(€/000)**

| Type of securities/Values | TOTAL 2018 | | | |
|---|---|---|---|---|
| | Book value | Fair value | | |
| | | Level 1 | Level 2 | Level 3 |
| **A. Securities** | | | | |
| 1. bonds | 4,754 | – | 4,779 | – |
| 1.1 structured | – | – | – | – |
| 1.2 other | 4,754 | – | 4,779 | – |
| 2. Other securities | – | – | – | – |
| 2.1 structured | – | – | – | – |
| 2.2 other | – | – | – | – |
| **Total** | **4,754** | **–** | **4,779** | **–** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

This item includes securities issued by the Bank and measured at amortized cost. The Fair Value of the two bonds issued by the Bank, considered in chronological order of issue, amounted to € 518 thousand and € 4,261 thousand respectively at 31 December 2018.

The value of the bonds issued is net of those repurchased.

In order to carry at fair value financial liabilities carried at amortised cost (outstanding securities), filed only for disclosure requirements purposes, the Bank discounted the future cash flows of the financial instruments held, referring to the linearly interpolated swap rate curve at 31 December 2018, and the expected credit spreads for banks rated BBB (Senior).

For further details, please refer to Part A - Accounting policies.

### 1.4 Breakdown of subordinated payables/securities

No subordinated payables/securities existed at the reporting date.

### 1.5 Breakdown of structured payables

No structured payables existed at the reporting date.

### 1.6 Finance lease payables

At the reporting date, the Bank had no similar transaction in place, both referring to banks and to customers.

## Section 2 – Financial liabilities held for trading – Item 20

At the reporting date, there were no items to be reported in the tables of Section 2 - Financial liabilities held for trading – Item 20 envisaged by Banca d'Italia Circular 262, 5th update of 22 December 2017.

## Section 3 – Financial liabilities designated at fair value – Item 30

At the reporting date, there were no items to be reported in the tables of Section 3 - Financial liabilities designated at fair value – Item 30 envisaged by Banca d'Italia Circular 262, 5th update of 22 December 2017.

## Section 4 – Hedging derivatives – Item 40

At the reporting date, there were no items to be reported in the tables of Section 4 - Hedging Derivatives – Item 40 envisaged by Banca d'Italia Circular 262, 5th update of 22 December 2017.

## Section 5 – Adjustment to financial liabilities subject to macro-hedging – Item 50

At the reporting date, there were no items to be reported in the tables of Section 5 - Adjustment to financial liabilities subject to macro-hedging – Item 50 envisaged by Banca d'Italia Circular 262, 5th update of 22 December 2017.

### Section 6 – Tax liabilities – Item 60

For information on tax liabilities, see Section 10 of the Assets.

### Section 7 – Liabilities related to discontinuing operations – Item 70

For information on liabilities connected with discontinuing operations, see Section 11 of the Assets.

### Section 8 – Other Liabilities – Item 80

#### 8.1 Other liabilities: breakdown

***(€/000)***

| | **Total 2018** |
|---|---|
| Sums payable to the Inland Revenue on behalf of clients/staff | 393 |
| Credit transfers settled through clearing house | 856 |
| Trade payables | 226 |
| Collections on behalf of third parties and other amounts available to customers or third parties | 172 |
| Personnel costs | 277 |
| Payables to other entities | 108 |
| Accrued liabilities and deferred income | 2 |
| Portfolio credited subject to collection and after collection | 111 |
| Other payables to third parties | 6 |
| **Total** | **2,151** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

### Section 9 – Staff severance indemnity - Item 90

#### 9.1 Staff severance indemnity: year-on-year changes

**(€/000)**

| | Total 2018 | Total 2017 |
|---|---|---|
| **A. Opening balances** | **1,095** | **1,010** |
| **B. Increases** | **131** | **131** |
| B.1 Allocation for the year | 131 | 130 |
| B.2 Other changes | – | 1 |
| **C. Decreases** | **294** | **46** |
| C.1 Indemnities disbursed | 232 | 44 |
| C.2 Other changes | 62 | 2 |
| **D. Closing balances** | **932** | **1,095** |
| **Total** | **932** | **1,095** |

At the reporting date, the Bank recognized the employee severance indemnity in accordance with IAS 19; therefore Item D. "Closing balance" of the recorded provision corresponds to its Actuarial Value (Defined Benefit Obligation - DBO).
The B.1 sub-item "Allocation for the year” is broken down as follows:
1) Service Cost for € 118,684;
2) Net Interest Cost for € 12,721.

"Other changes" as per sub-item C.2 include actuarial profits (€ 61,543) arising from the actuarial valuation, with contra entry to an equity reserve.
The sub-item C.1 refers to uses of the provision.

#### 9.2 Other information

#### 9.2.1 Other Information: Severance indemnity calculated according to article 2120 of the Italian Civil Code

**(€/000)**

| **Staff severance indemnity calculated according to article 2120 of the Italian Civil Code** | | |
|---|---|---|
| | **2018** | **2017** |
| **Opening provision** | **983** | **899** |
| Increases | 125 | 128 |
| Decreases | 233 | 44 |
| **Closing provision** | **875** | **983** |

The provision for the staff severance indemnity governed by art. 2120 of the Italian Civil Code, accrued as at 31 December 2018, amounted to € 875 thousand. The Staff Severance Indemnity accruing continues to be kept in the company, as the Bank did not exceed the minimum threshold of 50 employees, as provided for by Law no. 296 of 27 December 2006.

Please note that as at 31 December 2018 no employee of the Bank had opted to request the monthly direct payment of their accruing severance indemnity - salary supplement (QU.IR) - as an integral part of the remuneration, as permitted and governed by Prime Minister's Decree no. 29 of 20 February 2016

### 9.2.2 Other Information: Break down of actuarial assumptions

The actuarial model for the valuation of the staff severance indemnity is based on demographic and economic assumptions.

Within the framework of the technical-economic bases used, it should be noted that the annual discount rate (1.57%) used to calculate the present value of the liability was determined in accordance with paragraph 83 of IAS 19, with the IBoxx Corporate AA index with a duration of over 10 years as quoted on 31 December 2018.

The additional information required by IAS 19 for post-employment defined benefit plans is provided below:

***Sensitivity analysis on the main valuation parameters***

| Rate breakdown | DBO at 31/12/2018 |
|---|---:|
| Turnover rate +1% | 927,136.20 |
| Turnover rate -1% | 937,811.95 |
| Inflation rate +0,25% | 949,483.53 |
| Inflation rate -0,25% | 915,336.40 |
| Discounting rate +0,25% | 910,310.51 |
| Discounting rate -0,25% | 954,924.08 |

***Service Cost and Duration***

| | |
|---|---:|
| Service Cost 2018 | 93,887.57 |
| Plan duration | 13.0 |

***Estimated future disbursements***

| Years | Expected disbursements |
|---|---:|
| 1 | 86,739.43 |
| 2 | 77,999.82 |
| 3 | 79,720.21 |
| 4 | 80,924.13 |
| 5 | 81,677.79 |

## Section 10 – Provisions for liabilities and charges – Item 100

### 10.1 Provisions for liabilities and charges: breakdown

**(€/000)**

| Items/Values | Total 2018 |
|---|---|
| 1. Provisions for credit risk related to commitments and financial guarantees granted | 38 |
| 2. Provisions on other commitments and other guarantees granted | – |
| 3. Company retirement funds | – |
| 4. Other provisions for liabilities and charges | 87 |
| 4.1 legal and tax disputes | 72 |
| 4.2 staff expenses | – |
| 4.3 other | 15 |
| **Total** | **125** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

Item "1. Provisions for credit risk on financial commitments and guarantees given" includes, for € 38 thousand, the provisions for credit risk in respect of commitments to disburse funds and financial guarantees given that fall within the scope of application of the IFRS 9 impairment rules.

For more details on the breakdown of the item "Other provisions for risks and charges", please refer to comments in paragraph 10.6 below.

### 10.2 Provisions for liabilities and charges: year-on-year changes

**(€/000)**

| | Provisions on other commitments and other guarantees granted | Retirement funds | Other provisions for liabilities and charges | Total |
|---|---|---|---|---|
| **A. Opening balances** | **19** | **–** | **15** | **34** |
| **B. Increases** | **19** | **–** | **72** | **91** |
| B.1 Allocation for the year | 19 | – | 72 | **91** |
| B.2 Changes due to the passage of time | – | – | – | **–** |
| B.3 Changes due to discount rate adjustments | – | – | – | **–** |
| B.4 Other changes | – | – | – | **–** |
| **C. Decreases** | **–** | **–** | **–** | **–** |
| C.1 Use for the year | – | – | – | **–** |
| C.2 Changes due to discount rate adjustments | – | – | – | **–** |
| C.3 Other changes | – | – | – | **–** |
| **D. Closing balances** | **38** | **–** | **87** | **125** |

**10.3 Provisions for credit risk related to commitments and financial guarantees granted (€/000)**

| | Provisions for credit risk related to commitments and financial guarantees granted | | | |
|---|---|---|---|---|
| | First stage | Second stage | Third stage | Total |
| Commitments to grant finance | 34 | 3 | – | **37** |
| Financial guarantees granted | 1 | – | 1 | **1** |
| **Total** | **34** | **3** | **1** | **38** |

The breakdown by risk stage of the provisions in question is applied in accordance with the new impairment model as introduced upon application of the new IFRS 9 accounting standard.
For further details, please refer to the Part A - Accounting policies.

**10.4 Provisions on other commitments and other guarantees granted**

At 31 December, there were no provisions on other commitments and other guarantees granted.

**10.5 Defined-benefit company retirement funds**

At 31 December 2017 there were no defined-benefit company retirement funds.

**10.6 Provisions for liabilities and charges - other provisions**

**(€/000)**

| | 2018 | 2017 |
|---|---|---|
| **Other provisions for liabilities and charges** | | |
| 1. Provisions for risks on revocatory actions | – | – |
| 2. Provision for charity and solidarity purposes | – | – |
| 3. Personnel liabilities and charges | – | – |
| 4. Legal and tax disputes | 72 | – |
| 5. Other provisions for liabilities and charges | 15 | 15 |
| **Total** | **87** | **15** |

Item " 4. Legal and tax disputes" includes a provision of € 22 thousand for the dispute with a former employee concerning the appeal she brought against her dismissal for just cause in July 2017. The proceedings are currently at the stage where the order issued pursuant to article 1 of law 92/2012 has been challenged, since, on 03.05.2018 the Court of Naples upheld the employee's request, ordering her reinstatement in the job and the payment of compensation for an amount equivalent to 12 months' pay. The judge of the opposition proceedings, after carrying out a preliminary investigation, postponed the hearing for the decision to 20.03.2019 In the aforementioned hearing, the judge rejected the objection and confirmed the order of 03.05.2018.
An additional provision was made for € 50 thousand with reference to the appeal of a former employee dismissed for just cause on 30.04.2018 who brought an action against the Bank to have the alleged unlawfulness of the dismissal ascertained and to be reinstated in his job. In February 2019, the aforementioned dispute was closed by a settlement agreement between the parties.

Allocations to the Provision for liabilities and charges attributable to item 5 “Other provisions for liabilities and charges” at 31 December 2018, refer to the deductible under the insurance coverage following a € 50 thousand cash shortage caused by the company Ipervigile Srl, which provided cash transport and custody services to the Bank. At the reporting date there were no updates with regard to the pending lawsuit.

Contingent liabilities, for which a financial outlay is unlikely according to the opinion of legal advisors, refer to the following disputes:

- With reference to the writ of summons received upon application by a customer claiming the invalidity and unlawfulness of some financial transactions entered into with the Bank over the 2010-2013 three year period, the Judge dismissed the reserve imposed at the hearing of 18 May 2018; not having understood the facts under examination, he requested a technical advice by a appointing a court expert (CTU) and setting for 19 February 2019 the hearing for the oath. The Bank has appointed 2 Technical Consultants to receive support in the appraisal stage. It should be noted that, on the basis of the views expressed by our legal advisor, as at the reporting date the Bank had not recognized any provision in the financial statements for this contingent liability, since the financial outlay is unlikely and the amount cannot be reliably estimated.

- with reference to the writ of summons upon a customer’s application, notified on 21 December 2016, seeking reimbursement of a cloned check and the related damages, the Judge of the Court of Naples, ruling on the matters reserved at the hearing of 04.12.2018, did not render a judgment on all the objections and requests made by the parties, but merely issues an "interlocutory" measure admitting the testimonial evidence requested by the Bank and postponing the case for witness hearing to 18.06.2019. It should be noted that, on the basis of the views expressed by our legal advisor, as at the reporting date the Bank had not recognized any provision in the financial statements for this contingent liability, since the financial outlay is unlikely and the amount cannot be reliably estimated.

- With respect to the writ of summons served to the Bank by a customer who brought an action seeking to have the Bank’s liability ascertained for the financial brokerage activity carried out on behalf of the plaintiff. Following the exchange of briefs pursuant to art.183 paragraph 6 of the Italian Code of Civil Procedure, after having reserved the decision at the hearing on 16/10/2014, the judge partially rejected the plaintiff’s requests for admission of evidence while upholding in full those of the Bank, with examination of witnesses to be thus completed at the hearing on 21.05.2019. It should be noted that, on the basis of the views expressed by our legal advisor, as at the reporting date the Bank had not recognized any provision in the financial statements for this contingent liability, since the financial outlay is unlikely and the amount cannot be reliably estimated.

## Section 11 – Redeemable shares – Item 120

### 11.1 Redeemable shares: breakdown

At the reporting date, there were no items to be reported in the tables of Section 11 - Redeemable shares – Item 120 envisaged by Banca d’Italia Circular 262, 5th update of 22 December 2017.

**Section 12 – Corporate equity – Items 110, 130, 140, 150, 160, 170 and 180**

**12.1 "Share capital" and "Treasury shares": breakdown**

For further details on this section, please refer to point 12.3 here below.

**12.2 Share capital - Number of shares: year-on-year changes**

| Items/Types | Ordinary | Other |
|---|---|---|
| **A. Shares at the beginning of the FY** | **7,740,000** | **–** |
| - fully paid-up | 7,740,000 | – |
| - not fully paid-up | – | – |
| A.1 Treasury shares (-) | – | – |
| **A.2 Outstanding shares: opening balances** | **7,740,000** | **–** |
| **B. Increases** | **–** | **–** |
| B.1 New issues | – | – |
| - for consideration: | – | – |
| - business combinations transactions | – | – |
| - bond conversion | – | – |
| - warrants exercised | – | – |
| - other | – | – |
| - scrip issue: | – | – |
| - in favour of employees | – | – |
| - in favour of directors | – | – |
| - other | – | – |
| B.2 Disposal of treasury shares | – | – |
| B.3 Other changes | – | – |
| **C. Decreases** | **–** | **–** |
| C.1 Write-off | – | – |
| C.2 Purchase of treasury shares | – | – |
| C.3 Company disposal transactions | – | – |
| C.4 Other changes | – | – |
| **D. Outstanding shares: closing balances** | **7,740,000** | **–** |
| D.1 Treasury shares (+) | – | – |
| D.2 Existing shares at the end of the FY | 7,740,000 | – |
| - fully paid-up | 7,740,000 | – |
| - not fully paid-up | – | – |

### 12.3 Share Capital: other information

At 31 December 2018 the share capital consisted solely of no. 7,740,000 shares, with a par value of € 1.00 each. There are no rights, privileges or restrictions on the shares.
The Bank holds no treasury shares.

### 12.4. Profit reserves: other information

In line with the requirements of IAS 1 paragraph 79 (b) and in compliance with article 2427, (4) and 7-bis, of the Italian Civil Code, the composition of the Bank's equity is detailed below, excluding the result for the year, with indication of the origin and degree of availability and eligibility for distribution of the various items.

**(€/000)**

| Shareholders' equity | Amount 31.12.2018 | Principal | Profits | Potential use | Use of the last 3 FYs |
|---|---|---|---|---|---|
| Share capital | 7,740 | 7,740 | | | – |
| Share premium account | 1,071 | 1,071 | | A,B,C | – |
| Legal reserve | 802 | 802 | | B | – |
| Business combinations reserve | 621 | 621 | | A,C | – |
| Valuation reserve | -377 | | -377 | A,C | – |
| FTA provision | 115 | 115 | | A,C | – |
| FTA provision IFRS9 | -884 | -884 | | A,C | |
| Use of previous FYs | 3,662 | | 3,662 | A,B,C | -1,235 |
| **Total reserves excluding the result for the period** | **12,750** | **9,465** | **3,285** | | **-1,235** |

A = for share capital increase
B = for coverage of losses
C = for payment to shareholders

With reference to valuation reserves, the following is specified:
- the reserves from valuation of financial instruments measured at fair value through other comprehensive income represent the profits or losses arising from a change in the fair value of said financial assets;
- IAS 19 actuarial gains / losses refer to the valuation of employee severance indemnities and defined-benefit pension funds.

### 12.5 Equity instruments: breakdown and year-on-year changes

There were no equity instruments other than capital and reserves.

### 12.6 Other information

| | Males | Females | Other than natural persons | Total |
|---|---|---|---|---|
| **Number of shareholders at 1 Jan** | **42** | **23** | **4** | **69** |
| Number of shareholders: in | – | – | – | **–** |
| Number of shareholders: out | 1 | – | – | **1** |
| **Number of shareholders at 31 December -2018** | **41** | **23** | **4** | **68** |

**Breakdown of the allocation of the loss for the year (pursuant to article 2427, para. 22-septies of the Italian Civil Code)**

The proposed allocation of the loss pursuant to Article 2427 paragraph 22-septies of the Italian Civil Code is presented below.

**Proposal to allocate the loss for the year**

| | |
|---|---|
| Reserve of retained earnings | 1,284,207 |

**Other information**

**1. Financial commitments and guarantees given (other than those designated at fair value)**

**(€/000)**

| | **Nominal amount of financial commitments and guarantees given** | | | **TOTAL 2018** | **TOTAL 2017** |
|---|---|---|---|---|---|
| | **First stage** | **Second stage** | **Third stage** | | |
| **1. Commitments to grant finance** | **4,477** | **–** | **–** | **4,477** | **744** |
| a) Central Banks | – | – | – | – | – |
| b) Public Administrations | – | – | – | – | – |
| c) Banks | – | – | – | – | – |
| d) Other financial companies | – | – | – | – | – |
| e) Non-financial companies | 3,917 | – | – | 3,917 | – |
| f) Families | 560 | – | – | 560 | – |
| **2. Financial guarantees granted** | **90** | **–** | **6** | **96** | **93** |
| a) Central Banks | – | – | – | – | – |
| b) Public Administrations | – | – | – | – | – |
| c) Banks | 90 | – | – | 90 | – |
| d) Other financial companies | – | – | – | – | – |
| e) Non-financial companies | – | – | – | – | – |
| f) Families | – | – | 6 | 6 | – |

The "Commitments to disburse funds" are commitments that may give rise to credit risks which are subject to the IFRS 9 impairment rules.

The comparative data column shows the values published in the 2017 financial statements which, according to the instructions of Circular 262 - 4th update - were attributable to "Irrevocable commitments to disburse funds" only.

The financial guarantees given include personal guarantees that secure the regular fulfilment of debt service obligations by the borrower.

### 2. Other commitments and other guarantees granted

***(€/000)***

| | Face value | |
|---|---|---|
| | **Amount 2018** | **Amount 2017** |
| **Other guarantees granted** | **159** | **88** |
| of which: impaired | – | – |
| a) Central Banks | – | – |
| b) Public Administrations | – | – |
| c) Banks | – | – |
| d) Other financial companies | – | – |
| e) Non-financial companies | 120 | – |
| f) Families | 39 | – |
| **Other commitments** | **–** | **–** |
| of which: impaired | – | – |
| a) Central Banks | – | – |
| b) Public Administrations | – | – |
| c) Banks | – | – |
| d) Other financial companies | – | – |
| e) Non-financial companies | – | – |
| f) Families | – | – |

### 3. Assets pledged as collateral for own liabilities and commitments

**(€/000)**

| Portfolios | Amount 2018 |
|---|---|
| 1. Financial assets carried at fair value through profit or loss | – |
| 2. Financial assets carried at fair value through other comprehensive income | 7,503 |
| 3. Financial assets carried at amortised cost | 709 |
| 4. Tangible assets | – |
| of which: inventories | – |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

Sub-item 2 "Financial assets carried at fair value through other comprehensive income" includes the securities used as collateral against the loans received from the European Central Bank.
The item "Financial assets carried at amortised cost" shows the margins vis-à-vis Cassa di Compensazione e Garanzia (Clearing House).

### 4. Information on operating lease

At the reporting date, the Bank had no operating leases in place.

**5. Third-party management and brokerage**

***(€/000)***

| Type of service | Amount |
|---|---|
| **1. Execution of orders on behalf of clients** | |
| a) purchases | – |
| 1. settled | – |
| 2. unsettled | – |
| b) sales | – |
| 1. settled | – |
| 2. unsettled | – |
| **2. Individual portfolio management** | |
| **3. Custody and management of securities** | |
| a) third-party securities in custody: in the capacity of custodian bank (excluding asset management) | – |
| 1. securities issued by the bank drafting the financial statements | – |
| 2. other securities | – |
| b) third-party securities in custody (excluding asset management): other | 18,450 |
| 1. securities issued by the bank drafting the financial statements | 4,340 |
| 2. other securities | 14,110 |
| c) third-party securities in custody with third parties | 21,529 |
| c) own securities in custody with third parties | 27,775 |
| **4.Other transactions** | |

**6. Financial assets that were offset in the balance sheet, or subject to master netting agreements or similar arrangements**

At 31 December 2018 the Bank had no financial assets that were offset in the balance sheet, or subject to master netting agreements or similar arrangements.

**7. Financial liabilities that were offset in the balance sheet, or subject to master netting agreements or similar arrangements**

At 31 December 2018 the Bank had no financial liabilities that were offset in the balance sheet, or subject to master netting agreements or similar arrangements.

**8. Securities lending transactions**

At the reporting date the Bank had no outstanding securities lending transactions.

**9. Disclosure of joint operations**

At the reporting date, the Bank had no joint operations in force

## PART C – INFORMATION ON THE INCOME STATEMENT

### Section 1 – Interest – Items 10 and 20

#### 1.1 Interest and similar income: breakdown

**(€/000)**

| Items/Technical forms | Debt securities | Loans | Other transactions | TOTAL 2018 |
|---|---|---|---|---|
| **1. -Financial assets carried at fair value through profit or loss:** | **197** | **–** | **–** | **197** |
| 1.1 Financial assets held for trading | 197 | – | – | 197 |
| 1.2 Financial assets designated at fair value | – | – | – | – |
| 1.3 Other financial assets mandatorily measured at fair value | – | – | – | – |
| **2. Financial assets carried at fair value through other comprehensive income** | **76** | **–** | **X** | **76** |
| **3. Financial assets carried at amortised cost:** | 65 | 930 | X | 995 |
| 3.1 Loans to banks | 3 | 6 | X | 9 |
| 3.2 Loans to customers | 62 | 924 | X | 986 |
| **4. Hedging derivatives** | **X** | **X** | **–** | **–** |
| **5. Other assets** | **X** | **X** | **–** | **–** |
| **6. Financial liabilities** | **X** | **X** | **X** | **–** |
| **Total** | **338** | **930** | **–** | **1,268** |
| Of which: interest income on impaired financial assets | – | 104 | – | 104 |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

#### 1.2 Interest and similar income: other information

#### 1.2.1 Interest income on financial assets in foreign currency

**(€/000)**

| Items/Values | TOTAL 2018 | TOTAL 2017 |
|---|---|---|
| Interest income on financial assets in foreign currency | – | 14 |

#### 1.2.2 Interest income on finance lease transactions

At 31 December 2018 there was no interest income on finance lease transactions.

**1.3 Interest expense and similar charges: breakdown**

**(€/000)**

| Items/Technical forms | **Payables** | **Securities** | **Other transactions** | **TOTAL 2018** |
|---|---|---|---|---|
| 1. Financial liabilities carried at amortised cost | (180) | (94) | – | (274) |
| 1.1 Payables to central banks | (5) | X | X | (5) |
| 1.2 Payables to banks | (65) | X | X | (65) |
| 1.3 Payables to customers | (110) | X | X | (110) |
| 1.4 Outstanding securities | X | (94) | X | (94) |
| 2. Financial liabilities held for trading | – | – | – | – |
| 3. Financial liabilities designated at fair value | – | – | – | – |
| 4. Other liabilities and provisions | X | X | – | – |
| 5. Hedging derivatives | X | X | – | – |
| 6. Financial assets | X | X | X | – |
| **Total** | **(180)** | **(94)** | **–** | **(274)** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

**1.4 Interest and similar expenses: other information**

**1.4.1 Interest expense on financial liabilities in other currencies**

At 31 December 2018 there were no interest expense and similar charges on liabilities in foreign currency.

**1.4.2 Interest expense on finance lease transactions**

At 31 December 2018 there was no interest expense on finance lease transactions.

**1.5 Hedging differentials**

During the year the Bank did not enter into hedging derivatives; therefore, the relevant table is not filled out.

**Section 2 – Fees and Commissions - Items 40 and 50**

**2.1 Fees and commissions receivable: breakdown**
***(€/000)***

| Type of service/Values | TOTAL 2018 | TOTAL 2017 |
|---|---|---|
| a) guarantees granted | 4 | 3 |
| b) credit derivatives | – | – |
| c) management, brokerage and consultancy services: | 221 | 357 |
| 1. trading of financial instruments | – | – |
| 2. trading of foreign currencies | – | – |
| 3. Individual portfolio management | – | – |
| 4. custody and management of securities | 29 | 19 |
| 5. custodian bank | – | – |
| 6. placement of securities | 20 | 81 |
| 7. receipt and transmission of orders | 8 | 9 |
| 8. consultancy services | 31 | 135 |
| 8.1 in investments | – | – |
| 8.2. in financial structure | 31 | 135 |
| 9. distribution of third-party services | 133 | 113 |
| 9.1. portfolio management | – | – |
| 9.1.1. individual | – | – |
| 9.1.2. collective | – | – |
| 9.2. Insurance products | – | – |
| 9.3. other products | 133 | 113 |
| d) collection and payment services | 219 | 230 |
| e) servicing for securitisation | – | – |
| f) services for factoring | – | – |
| g) tax collection and treasury services | – | – |
| h) management of multilateral trading systems | – | – |
| i) operation and management of current accounts | 335 | 348 |
| j) other services | 19 | 13 |
| **Total** | **798** | **951** |

### 2.2 Fees and commissions receivable: distribution channels of products and services

**(€/000)**

| Channels/Values | TOTAL 2018 | TOTAL 2017 |
|---|---|---|
| **a) at own branches:** | **–** | **1** |
| 1. portfolio management | – | – |
| 2. placement of securities | – | 1 |
| 3. third-party products and services | – | – |
| **b) offer of products and services off-premises:** | **153** | **193** |
| 1. portfolio management | – | – |
| 2. placement of securities | 20 | 80 |
| 3. third-party products and services | 133 | 113 |
| **c) other distribution channels:** | **–** | **–** |
| 1. portfolio management | – | – |
| 2. placement of securities | – | – |
| 3. third-party products and services | – | – |

### 2.3 Commissions payable: breakdown

***(€/000)***

| Services/Values | TOTAL 2018 | TOTAL 2017 |
|---|---|---|
| a) guarantees received | – | – |
| b) credit derivatives | – | – |
| c) management and brokerage services: | (367) | (611) |
| 1. trading of financial instruments | (337) | (584) |
| 2. trading of foreign currencies | – | – |
| 3. portfolio management: | – | – |
| 3.1 own | – | – |
| 3.2 assigned to third parties | – | – |
| 4. custody and management of securities | (30) | (27) |
| 5. placement of financial instruments | – | – |
| 6. external placement of financial instruments, products and services | – | – |
| d) collection and payment services | (32) | (31) |
| e) other services | (166) | (147) |
| **Total** | **(565)** | **(789)** |

**Section 3 – Dividends and similar income - Item 70**

**3.1 Dividends and similar income: breakdown**

At the reporting date, there were no items to be reported in the tables of "Section 3 - Dividends and similar income – Item 70" envisaged by Banca d'Italia Circular no. 262, 5th update of 22 December 2017.

**Section 4 – Net income on trading activity – Item 80**

**4.1 Net profit/(loss) from trading activities: breakdown**

***(€/000)***

| Transactions/Income items | Capital gains (A) | Trading profits (B) | Capital losses (C) | Trading losses (D) | Net result [(A+B) - (C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | **1** | **2,744** | **(223)** | **(700)** | **1,821** |
| 1.1 Debt securities | 1 | 2,744 | (223) | (700) | 1,821 |
| 1.2 Equity securities | – | – | – | – | – |
| 1.3 UCIT units | – | – | – | – | – |
| 1.4 Loans | – | – | – | – | – |
| 1.5 Other | – | – | – | – | – |
| **2. Financial liabilities held for trading** | **–** | **–** | **–** | **–** | **–** |
| 2.1 Debt securities | – | – | – | – | – |
| 2.2 Payables | – | – | – | – | – |
| 2.3 Other | – | – | – | – | – |
| **3. Financial assets and liabilities: exchange rate differences** | X | X | X | X | (2) |
| **4. Derivative instruments** | **–** | **–** | **–** | **–** | **–** |
| 4.1 Financial derivatives: | – | – | – | – | – |
| - On debt securities and interest rates | – | – | – | – | – |
| - On equity securities and stock indexes | – | – | – | – | – |
| - On foreign currencies and gold | X | X | X | X | – |
| - Other | – | – | – | – | – |
| 4.2 Credit derivatives | – | – | – | – | – |
| *of which: natural hedging connected with fair value option* | X | X | X | X | – |
| **Total** | **1** | **2,744** | **(223)** | **(700)** | **1,819** |

The item includes:
a) the net profit (loss) on transactions classified as "financial assets held for trading" and "financial liabilities held for trading", including the results on the valuation of such transactions;
b) the "net result" of "financial assets and liabilities: exchange differences" includes the positive or negative balance of changes in the value of financial assets and liabilities denominated in foreign currencies; this includes profits and losses arising from currency trading.

### Section 5 – Net income/loss on hedging activity – Item 90

At the reporting date, there were no items to be reported in the tables of "Section 5 - Net income/loss on hedging activity – Item 90" envisaged by Banca d'Italia Circular no. 262, 5th update of 22 December 2017.

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

#### 6.1 Profits (losses) on disposal/repurchase: breakdown

***(€/000)***

| Income items/breakdown | TOTAL 2018 | | |
|---|---|---|---|
| | Profits | Losses | Net result |
| **A. Financial assets** | | | |
| 1. Financial assets carried at amortised cost | **–** | **–** | **–** |
| 1.1 Loans to banks | – | – | – |
| 1.2 Loans to customers | – | – | – |
| 2. Financial assets carried at fair value through other comprehensive income | – | (2) | (2) |
| 2.1 Debt securities | – | (2) | (2) |
| 2.2 Loans | – | – | – |
| **Total assets (A)** | **–** | **(2)** | **(2)** |
| **Financial liabilities carried at amortised cost** | **1** | **(9)** | **(8)** |
| 1. Payables to banks | – | – | – |
| 2. Payables to customers | – | – | – |
| 3. Outstanding securities | 1 | (9) | (8) |
| **Total liabilities (B)** | **1** | **(9)** | **(8)** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

Concerning financial liabilities, the item includes gains and losses from the repurchase of bonds issued by the Bank.

### Section 7 – Net income/loss on the other financial assets and liabilities carried at fair value through profit or loss - Item 110

The items displayed in the tables relating to "Section 7 - Net income (loss) of other financial assets and liabilities measured at fair value through profit or loss" - Item 110, concerning capital losses on debt securities mandatorily measured at fair value, are not filled out as the value is lower than one thousand euros.

## Section 8 – Net adjustments/reversals for credit risk – Item 130

### 8.1 Breakdown of net adjustments/reversals for credit risk relating to financial assets measured at amortised cost

**(€/000)**

| Transactions/Income items | Adjustments (1) | | | Reversals (2) | | Total 2018 |
|---|---|---|---|---|---|---|
| | First and second stage | Third stage | | First and second stage | Third stage | |
| | | write-off | Other | | | |
| **A. Loans to banks** | **(10)** | **–** | **–** | **–** | **–** | **(10)** |
| - Loans | (10) | – | – | – | – | **(10)** |
| - Debt securities | – | – | – | – | – | **–** |
| of which: impaired acquired or originated loans | – | – | – | – | – | **–** |
| **B. Loans to customers:** | **(237)** | **(31)** | **(667)** | **488** | **228** | **(219)** |
| - Loans | (234) | (31) | (667) | 486 | 228 | **(218)** |
| - Debt securities | (3) | – | – | 2 | – | **(1)** |
| of which: impaired acquired or originated loans | – | – | – | – | – | **–** |
| **Total** | **(247)** | **(31)** | **(667)** | **488** | **228** | **(229)** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

### 8.2 Breakdown of net adjustments/reversals for credit risk relating to financial assets measured at fair value through other comprehensive income

***(€/000)***

| Transactions/Income items | Adjustments (1) | | | Reversals (2) | | Total 2018 |
|---|---|---|---|---|---|---|
| | First and second stage | Third stage | | First and second stage | Third stage | |
| | | write-off | Other | | | |
| A. Debt securities | (36) | – | – | 3 | – | **(33)** |
| B. Loans | – | – | – | – | – | **–** |
| - to customers | – | – | – | – | – | **–** |
| - to banks | – | – | – | – | – | **–** |
| Of which: impaired financial assets acquired or originated | – | – | – | – | – | – |
| **Total** | **(36)** | **–** | **–** | **3** | **–** | **(33)** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

## Section 9 - Profits / losses from contractual changes without derecognition - Item 140

### 9.1 Breakdown of profits (losses) from contractual changes

As at 31 December 2018, losses were recognized for a total of € 20 thousand as part of the item profits (losses) from contractual changes without derecognition.

### Section 10 – Administrative expenses - Item 160

#### 10.1 Staff expenses: breakdown

***(€/000)***

| Type of expense/Values | Total 2018 | Total 2017 |
|---|---|---|
| 1) Employees | (2,040) | (2,324) |
| a) wages and salaries | (1,364) | (1,571) |
| b) social security charges | (380) | (403) |
| c) employee severance indemnities | (43) | (173) |
| d) pension costs | – | – |
| e) provision for employee severance indemnities | (131) | (130) |
| f) provision for retirement benefit and similar liabilities: | – | – |
| - defined contribution | – | – |
| - defined benefits | – | – |
| g) payments to external supplementary pension funds: | – | – |
| - defined contribution | – | – |
| - defined benefits | – | – |
| h) costs deriving from payment plans based on own equity instruments | – | – |
| i) other benefits in favour of employees | (122) | (47) |
| 2) Other employed personnel | (1) | (4) |
| 3) Directors and Auditors | (314) | (384) |
| 4) Personnel in retirement | – | – |
| 5) Recovery of expenses for employees in secondment at other businesses | – | – |
| 6) Recovery of expenses for third-party employees in secondment at the company | – | – |
| **Total** | **(2,355)** | **(2,712)** |

Sub-item “c) employee severance indemnities” mainly refers to the amounts paid by the Bank, as settlement, for the termination in 2018 of three employment relationships in favour of former employees.

Sub-item “e) provision for staff severance indemnity” consists of:
1) Service Cost for € 118,684;
2) Net Interest Cost for € 12,721.

Sub-item i) “other benefits in favour of employees”, as detailed in the table 10.4 below, mainly includes the amounts paid by the Bank as an incentive to leave, in relation to the termination during the year of 4 employment relationships, as part of strategic initiatives for corporate reorganization, as discussed in the Directors’ Report.

Item "3) Directors and Auditors", includes the remuneration paid to directors and statutory auditors, including social security contributions paid by the company.

### 10.2 Average number of staff by category

| | Total 2018 | Total 2017 |
|---|---|---|
| Employees (a + b + c) | 42 | 43 |
| a) Managers | – | 1 |
| b) Middle managers | 5 | 5 |
| c) Remaining employed staff | 37 | 37 |
| Other staff | – | – |

The average number of employees is calculated in terms of weighted average, where the weight is the number of months worked by each person during the year. Part-time employees are accounted for at 50%.

The number of employees at the reporting date was 39.

### 10.3 Defined-benefit company retirement funds: costs and revenue

At 31 December 2018 there were no defined-benefit company retirement funds.

### 10.4 Other benefits in favour of employees

**(€/000)**

| | Total 2018 | Total 2017 |
|---|---|---|
| Miscellaneous personnel costs: provision for loyalty bonus | – | – |
| Miscellaneous personnel costs: accident insurance | – | – |
| Miscellaneous personnel costs: charges for leaving incentives | (75) | – |
| Miscellaneous personnel costs: meal vouchers | (13) | (13) |
| Miscellaneous personnel costs: training costs | (23) | (23) |
| Miscellaneous personnel costs: mileage reimbursements and reimbursement of documented expenses | (11) | (11) |
| **Other benefits in favour of employees** | **(122)** | **(47)** |

**10.5 Other administrative expenses: breakdown**

***(€/000)***

| | Total 2018 | Total 2017 |
|---|---|---|
| **Administrative expenses** | **(1,463)** | **(1,455)** |
| **General expenses** | **(978)** | **(970)** |
| Expenses for electronic services | (784) | (769) |
| Postal and telephone expenses | (72) | (74) |
| Stationery and printed material | (17) | (21) |
| Membership and similar fees | (79) | (86) |
| Finance leases and rentals | (26) | (20) |
| **Real estate expenses** | **(206)** | **(210)** |
| Lease payable and condominium expenses | (67) | (67) |
| Energy costs | (48) | (48) |
| Cleaning of premises | (2) | (3) |
| Security and surveillance expenses | (13) | (22) |
| Maintenance and repairs | (76) | (70) |
| **Professional and insurance expenses** | **(229)** | **(241)** |
| Fees for professional services | (51) | (89) |
| Auditing fees | (64) | (47) |
| Legal and sundry consultancy | (91) | (83) |
| Insurance | (23) | (22) |
| **Research and development costs** | **(30)** | **–** |
| Research and development costs | (30) | – |
| **Other administrative expenses - Other** | **(4)** | **(5)** |
| Miscellaneous | (4) | (5) |
| **Promotional and advertising expenses** | **(16)** | **(29)** |
| Advertising and entertainment | (16) | (29) |
| **Direct and indirect taxes** | **(260)** | **(206)** |
| Other | (260) | (206) |
| **Total administrative expenses** | **(1,723)** | **(1,661)** |

The sub-item "Membership and similar fees" - in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IFRIC 21 "Levies" – around one thousand euros as ordinary and additional contributions to the Single Resolution Fund (SRF), and € 24 thousand as ordinary contributions to the Interbank Deposit Protection Fund.

The item "Research and Development Costs" includes the costs incurred for the consulting services provided by a consulting firm with expertise in the industry, which supported the Bank in the implementation of technical-scientific projects for the development of software in support of business operations.

## Section 11 – Net allowances to provisions for liabilities and charges – Item 170

### 11.1 Breakdown of net provisions for credit risk relating to commitments to grant finance and financial guarantees granted

**(€/000)**

| Financial statement items | 2018 | | |
|---|---|---|---|
| | Phase 1 | Phase 2 | Phase 3 |
| | Provisions (Sign -) | | |
| Commitments to grant finance | | | |
| - Commitments to grant loans | (23) | (4) | – |
| Financial guarantees granted | | | |
| - Finance Guarantee contracts | – | – | – |
| **Total accruals (-)** | **(23)** | **(4)** | **–** |
| | Reallocations (+ sign) | | |
| Commitments to grant finance | | | |
| - Commitments to grant loans | 8 | – | 1 |
| Financial guarantees granted | | | |
| - Finance Guarantee contracts | – | – | 1 |
| **Total reallocations (+)** | **8** | **–** | **1** |
| | Net provision | | |
| **Total** | **(15)** | **(4)** | **1** |

### 11.2 Breakdown of net provisions for other commitments and other guarantees granted

At 31 December 2018 there were no net provisions relating to other commitments and other guarantees granted.

### 11.3 Net allocations to other provisions for liabilities and charges: breakdown

**(€/000)**

| Items | 2018 | | |
|---|---|---|---|
| | Provision (with - sign) | Reallocations (with + sign) | Net total |
| **Provisions and re-allocations to other provisions for liabilities and charges** | | | |
| 1. for claw-back risks | – | – | – |
| 2. for charity and solidarity purposes | – | – | – |
| 3. for personnel liabilities and charges | – | – | – |
| 4. for legal and tax disputes | (72) | – | (72) |
| 5. for other liabilities and charges | – | – | – |
| **Total** | **(72)** | **–** | **(72)** |

The item includes the provision for € 22 thousand relating to the dispute with a former employee for an action brought by the latter to challenge his dismissal for just cause in July 2017 and a further provision of € 50 thousand for an appeal lodged by a former employee who was dismissed for just cause during the year and who brought an action against the Bank seeking recognition of her unlawful dismissal and reinstatement in her job.

## Section 12 – Net adjustments/reversals on tangible assets - Item 180

### 12.1. Net adjustments to property, plant and equipment: breakdown

**(€/000)**

| Assets/Income items | Depreciation (a) | Adjustments for impairment (b) | Reversals (c) | Net result (a + b - c) |
|---|---|---|---|---|
| A. Tangible assets | | | | |
| A.1 Owned | (285) | – | – | (285) |
| - Functional assets | (285) | – | – | (285) |
| - For investment | – | – | – | – |
| - Inventories | X | – | – | – |
| A.2 Acquired on finance lease | – | – | – | – |
| - Functional assets | – | – | – | – |
| - For investment | – | – | – | – |
| **Total** | **(285)** | **–** | **–** | **(285)** |

Depreciation on tangible fixed assets amounted to € 285 thousand and includes depreciation on the properties, recognised on the basis of their useful life.

## Section 13 – Net adjustments to/write-backs on intangible assets – Item 190

### 13.1 Net adjustments to intangible assets: breakdown

**(€/000)**

| Assets/Income items | Depreciation (a) | Adjustments for impairment (b) | Reversals (c) | Net result (a + b - c) |
|---|---|---|---|---|
| A. Intangible assets | | | | |
| A.1 Owned | (61) | | | (61) |
| - Internally generated | (26) | | | (26) |
| - Other | (35) | | | (35) |
| A.2 Acquired on finance lease | – | | | – |
| **Total 2018** | **(61)** | | | **(61)** |

The item includes the amortization charge on intangible assets of € 61 thousand. We note in particular the amortization charge of € 26 thousand on software internally generated as part of the development activity carried out by the Laboratory set up by the Bank during the year.

**Section 14 – Other operating income and expenses – Item 200**

**14.1 Other operating expenses: breakdown**

**(€/000)**

| | Total 2018 | Total 2017 |
|---|---|---|
| Non-recurring gains/losses that cannot be classified into a specific item | (23) | (85) |
| Other operating expenses - other | (56) | (10) |
| **Total operating expenses** | **(79)** | **(95)** |

**14.2 Other operating income: breakdown**

**(€/000)**

| Items | Total 2018 | Total 2017 |
|---|---|---|
| Non-recurring gains/losses that cannot be classified into a specific item | 25 | 58 |
| Recovery of expenses | 215 | 213 |
| Other operating income | 243 | 3 |
| **Total other operating income** | **483** | **274** |

The item “Recovery of expenses” mainly relates to the recovery of stamp duties charged to customers, with offsetting entry in the sub-item Taxes and duties included under Other administrative expenses.

The item "Other operating income" mainly includes the income related to the tax credit for research and development activities, amounting to € 234 thousand which - in accordance with IAS 20 - is similar to an operating grant and was therefore recorded under other operating income.

**Section 15 – Profits (Losses) on equity investments – Item 220**

There were no items to be reported in the tables of “Section 15 – Profits (losses) on equity investments – Item 220” envisaged by Banca d’Italia Circular no. 262, 5th update of 22 December 2017.

**Section 16 – Net result of tangible and intangible assets carried at fair value – Item 230**

There were no items to be reported in the tables of “Section 16 – Net result on tangible and intangible assets carried at fair value – Item 230” envisaged by Banca d’Italia Circular no. 262, 5th update of 22 December 2017.

**Section 17 – Adjustments to goodwill – Item 240**

There were no items to be reported in the tables of “Section 17 – Adjustments to goodwill – Item 240” envisaged by Banca d’Italia Circular no. 262, 5th update of 22 December 2017.

**Section 18 – Profits (losses) on investment disposal – Item 250**

There were no items to be reported in the tables of “Section 18 – Profits (losses) on investment disposal – Item 250“ by Banca d’Italia Circular no. 262, 5th update of 22 December 2017.

## Section 19 – Income taxes for the year on current operations - Item 270

### 19.1 Income taxes for the year on current operations: breakdown

**(€/000)**

| | Income items/Values | Total 2018 | Total 2017 |
|---|---|---|---|
| 1. | Current taxes (-) | – | (21) |
| 2. | Changes in current taxes for previous years (+/-) | – | – |
| 3. | Reduction in current taxes for the period (+) | – | – |
| 3.bis | Reduction in current taxes for the year for tax credits as per law no. 214/2011 (+) | 22 | 7 |
| 4. | Change in prepaid taxes (+/-) | 15 | (2) |
| 5. | Change in deferred taxes (+/-) | 36 | 36 |
| 6. | Income taxes for the period (-) (-1+/-2+3+3bis+/-4+/-5) | 73 | 20 |

### 19.2 Reconciliation of notional and actual tax burden

**(€/000)**

| INCOME ITEMS | Tax |
|---|---|
| **Item/Values** | |
| IRES income taxes - Notional tax burden | |
| Decreases in the taxable base - Effects on IRES | – |
| Increases in the taxable base - Effects on IRES | – |
| **A. Actual tax burden - current IRES tax** | **–** |
| Increases of deferred tax assets | 16 |
| Decreases of deferred tax assets | – |
| Increases of deferred tax liabilities | – |
| Decreases of deferred tax liabilities | 30 |
| **B. Total effects of deferred IRES taxation** | **46** |
| **C. Change in current taxes for previous years** | **21** |
| **D. Total IRES for the period (A+B+C)** | **67** |
| IRAP theoretical tax charge with application of nominal tax rate (difference between brokerage margin and deductible costs): | – |
| Effect of decreases in value of production | – |
| Effect of increases in value of production | – |
| Change in current taxes for previous years | 1 |
| **E. Actual tax burden - current IRAP tax** | **1** |
| Increases of deferred tax assets | – |
| Decreases of deferred tax assets | (1) |
| Increases of deferred tax liabilities | – |
| Decreases of deferred tax liabilities | 6 |
| **F. Total effects of IRAP deferred taxability** | **5** |
| **G. Total pertaining IRAP (E+F)** | **6** |
| **H. IRES / IRAP substitute tax on differences between statutory and tax values of assets** | **–** |
| **TOTAL CURRENT IRES - IRAP TAXES (A+C+E+H)** | **22** |
| **TOTAL IRES - IRAP TAXES FOR THE YEAR (A+C+E+H)** | **73** |

### Section 20 – Profit (Loss) of discontinued operations, after taxes – Item 290

There were no items to be reported in the tables of "Section 20 – Profit / (Loss) on discontinued operations, after taxes – Item 290" envisaged by Banca d'Italia Circular 262, 5th update of 22 December 2017.

### Section 21 – Other information

There was no further information to provide on the income statement.

### Section 22 – EPS

#### 22.1 Average number of ordinary shares with diluted capital earnings

At 31 December 2018 the Bank owned no ordinary shares with diluted capital earnings.

#### 22.2 Other information

Earnings per share (basic and diluted) for 2018 amounted to € -0.17, calculated - as provided for by law - by dividing the result for the period by the average number of shares outstanding during the year.

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## Part D – COMPREHENSIVE INCOME

### BREAKDOWN OF COMPREHENSIVE INCOME

**(€/000)**

| | Items | 2018 | 2017 |
|---|---|---|---|
| **10.** | **Profit (loss) for the year** | **(1,284)** | **(476)** |
| | **Other income items not reversed to income statement** | | |
| **20.** | Equity securities designated at fair value through other comprehensive income | (87) | |
| | a) Changes in fair value | (87) | – |
| | Transfers to other equity items | – | – |
| **30.** | Financial liabilities designated at *fair value* through profit or loss (changes of own creditworthiness): | | |
| | a) Changes in fair value | – | – |
| | Transfers to other equity items | – | – |
| **40.** | Hedging of equity securities designated at fair value through other comprehensive income: | | |
| | a) Changes in fair value (hedged tool) | – | – |
| | a) Changes in fair value (hedging tool) | – | – |
| **50.** | Tangible assets | – | – |
| **60.** | Intangible fixed assets | – | – |
| **70.** | Defined-benefit plans | 62 | 1 |
| **80.** | Non-current assets and disposal groups | – | – |
| **90.** | Share of valuation reserves for equity investments carried at equity | – | – |
| **100.** | Income taxes related to other income items not reversed to income statement | 5 | – |
| | **Other income items reversed to income statement** | | |
| **110.** | Foreign investment hedging: | | |
| | a) changes in fair value | – | – |
| | b) reversal to income statement | – | – |
| | c) other changes | – | – |
| **120.** | Exchange rate differences: | | |
| | a) changes in value | – | – |
| | b) reversal to income statement | – | – |
| | c) other changes | – | – |
| **130.** | Cash flow hedging: | | |
| | a) changes in fair value | – | – |
| | b) reversal to income statement | – | – |
| | c) other changes | – | – |
| | of which: result from net positions | – | – |
| **140.** | Hedging instruments: (not designated items) | | |
| | a) changes in value | – | – |
| | b) reversal to income statement | – | – |

| | | | |
|---|---|---|---|
| | c) other changes | – | – |
| **150.** | Financial assets (other than equity securities) carried at fair value through other comprehensive income: | (346) | 2 |
| | a) changes in fair value | (379) | – |
| | b) reversal to income statement | 33 | – |
| | - amendments for credit risk | 33 | – |
| | - profits/losses on disposal | – | – |
| | c) other changes | – | 2 |
| **160** | - Non-current assets and disposal groups: | – | – |
| | a) changes in fair value | – | – |
| | b) reversal to income statement | – | – |
| | c) other changes | – | – |
| **170.** | Share of valuation reserves for equity investments carried at equity: | – | – |
| | a) changes in fair value | – | – |
| | b) reversal to income statement | – | – |
| | - adjustments due to impairment | – | – |
| | - profits/losses on disposal | – | – |
| | c) other changes | – | – |
| **180.** | Income taxes related to other income items reversed to income statement | 123 | -1 |
| **190.** | **Total of other income items** | **(243)** | **3** |
| **200.** | **Comprehensive income - (10 +190)** | **(1,527)** | **(474)** |

## Part E – INFORMATION ON RISKS AND HEDGING POLICIES

### *Introduction*

The Bank pays special attention to the governance and management of risks and ensures that its organizational / procedural controls, methodological solutions and tools are kept constantly up to date to support effective and efficient risk governance and control, also in response to changes in the operational and regulatory environment.

The Bank's risk management strategy rests on a holistic view of business risks that takes into account both the macroeconomic scenario and the individual risk profile, by encouraging a growing risk control culture across the organization and by strengthening transparent and accurate representation of said risks.

The Bank's risk taking strategies are summarized in the Risk Appetite Framework (RAF) approved by the Board of Directors. The latter defines the risk appetite, the tolerance thresholds, the risk limits, the risk governance policies and the reference processes necessary to define and implement them, in line with the maximum acceptable risk, the business model and the strategic plan. The RAF, which was introduced to ensure that risk-taking activities are in line with management expectations and compliant with the overall regulatory and prudential framework, is defined in light of the overall risk position and financial situation and performance of the Bank.

Both the general principles, in terms of risk appetite, and the safeguards adopted regarding the overall risk profile and the main specific risks, are defined within the framework.

The general principles underlying the Bank's risk-taking strategy are summarized below:
- the Bank's business model is mainly focused on financial intermediation activities. The traditional lending activity is also carried out;
- the objective of the corporate strategy is not to eliminate risks but to ensure they are fully understood so that they can be knowingly assumed and they are properly managed so as to ensure sound, long-term business sustainability;
- limited risk-appetite, capital adequacy, income stability, sound liquidity position, attention to maintaining a good corporate reputation, strong control over the main specific risks to which the company is exposed, are key elements underlying all business operations;
- formal and substantial compliance with the rules in order to avoid sanction and maintain strong relationship of trust with all corporate stakeholders.

Therefore, the *Risk appetite framework* provides a framework for the overall management of risks assumed by the Bank and for the definition of general risk appetite principles and the consequent development of safeguards against corporate risk.

The monitoring of the overall risk profile is based on a structure of limits aimed at ensuring compliance, both in ordinary and stress conditions, with minimum required solvency, liquidity and profitability levels.
In particular, overall risk oversight aims to maintain adequate levels of:
- capitalization, with respect to first and second pillar risks, through the monitoring of the Common Equity Tier 1 ratio, the Tier 1 ratio, the Total Capital ratio and the financial leverage indicator;
- liquidity, enabling the bank to face even prolonged periods of tension on the various funding markets both in the short-term and on a more structural basis, by monitoring the limits set under the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and loan collection gap;
- risk-adjusted profitability; by monitoring an indicator based on the ratio of adjustments for the impairment of financial assets to gross operating result excluding securities trading.

The RAF is defined through a structured and complex process, under the coordination of the company risk management in close interaction with the heads of the various business units, Administration, management control and other corporate control functions. This process is developed in line with the ICAAP / ILAAP processes and the development / updating of the recovery plan and provides the reference framework for the preparation of the annual budget and the business plan, ensuring consistency between risk-taking strategies and policies on the one hand and planning and budgeting processes on the other.
The Bank has also drawn up its recovery plan according to the indications of the relevant authorities; the plan outlines methods and measures to restore the company solvency profiles in the event of serious

deterioration of the financial situation. To this end, stress scenarios were identified that reveal the main vulnerabilities of the Bank and help measure their potential impact on the Bank's risk profile.

The risk governance model, i.e. the set of corporate governance arrangements and management and control mechanisms designed to cope with the risks to which the Bank is exposed, is part of the broader framework of the Bank's internal control system, which has been defined in accordance with the regulations for the prudential supervision of banks set out in the 15th update to Banca d'Italia Circular No. 263/2006, subsequently merged into Circular no. 285/2013 (First Part, Title IV, Chapter 3).

Consistent with these guidelines, the risks to which the Bank is exposed are monitored within an organizational model based on a full separation of control and production functions, which integrates methods and controls at different levels such as to ensure the achievement of the following purposes, according to sound and prudent management:
- monitoring the implementation of company strategies and policies;
- risk containment within the limits defined in the Bank's RAF;
- safeguarding asset value and protection against losses;
- efficiency and effectiveness of the operating processes;
- reliability and security of business information and IT procedures;
- preventing the risk that the bank is involved, albeit involuntarily, in illegal activities, such as those related to money laundering, usury and the financing of terrorism;
- compliance of operations with the law and supervisory regulations as well as with policies, internal regulations and procedures.

The internal control system therefore involves the entire organization, starting from the corporate bodies and then extending to:
- line controls, whose main objective is to ensure operations are properly carried out with respect to external /internal regulations;
- second level controls, designed to implement risk management controls (under the responsibility of Risk Management) and controls on regulatory compliance (under the responsibility of Compliance). With respect to the management of the risk of money laundering and terrorist financing, in compliance with the relevant regulations and following an accurate organizational analysis that took into account the size of the Bank, its overall operations and staff, the Bank has taken steps to to establish a specific Anti-Money Laundering Function;
- third-level controls (assigned to Internal Auditing), designed to identify anomalous trends in procedures and regulations and to assess the operation of the overall internal control system.

In line with the provisions issued by Banca d'Italia, the model adopted by the Bank outlines the main responsibilities of its governing and control bodies in order to ensure the overall effectiveness and efficiency of the internal control system.
Through a combined analysis of supervisory regulations and the Bank's articles of association, it is clear that the Bank's strategic supervisory function and management function are exercised under the coordinated and integrated action of the Board of Directors. The Chief Executive Officer participates in the management function is his role as head of the Bank's internal organization.
The strategic supervisory function guides the management process through:
- preparation of the strategic plan, within shall encapsulate the system of risk objectives (RAF);
- approval of the ICAAP / ILAAP report and of the budget, ensuring they are consistent between each other and with the internal control system and the organization.

The management function, to be understood as the set of decisions made by a corporate body for "the implementation of guidelines issued by the strategic supervisory function", is the responsibility of the Board of Directors with the support of the Chief Executive Officer, who participates in Board of Directors' meeting as board member and who has been delegated powers by the Board.

The Board of Statutory Auditors is the body vested with the control function and, as head of corporate control, it monitors the correct application of the law and the articles of association and, specifically, the adequacy of the internal control system and the effectiveness of the control functions, taking also advantage of the information provided by said functions.

## Section 1 – Credit risk

Credit risk, also known as counterparty risk, generally refers to the risk that the customer/counterparty does not perform its obligations in the manner and within the time provided for by the contract, due to lack of funds.
It is specifically the risk that the customer-debtor fails to fulfil even a part of their obligation in a loan transaction to reimburse principal and pay interest.
Credit risk, therefore, includes solvency, concentration and Country risks[1].

### Qualitative information

### 1. General aspects

The objectives and strategies of the Bank's lending activities are addressed to:

– efficient selection of counterparties to whom loans are granted, through accurate analysis of creditworthiness so as to contain insolvency risk;
– diversification, by limiting the concentration of exposures to single counterparties/groups or sectors of economic activity;
– constant monitoring of existing loans, both using IT procedures and through the monitoring of positions in order to promptly detect any symptoms of imbalance and take corrective actions aimed at preventing the deterioration of the loan.

The commercial policy of the Bank with respect to lending activities is oriented to providing financial support to the local economy and is characterized by a high propensity to maintain fiduciary and personal relations with all members of the community (households, small businesses and firms).
In sectoral terms, lending is mainly directed towards the following branches of economic activity *(services, trade, manufacturing).*
In addition to traditional lending activities, the Bank is exposed to position and counterparty risks with respect to its securities trading activities.
Securities trading involves limited exposure of the Bank to position risk as investments in financial instruments are, in general, oriented towards high issuers (central governments, financial intermediaries and non-financial companies) with high credit standing.

### 2. Credit risk management policies

### 2.1 Organisational issues

In light of legal provisions on "*Internal Control System"* (contained in circular letter No. 285/2013, Part One, Title IV, Chapter 3), the Bank's organizational structure has been shaped to facilitate an efficient and effective credit risk management and control process.
In addition to line controls, such as first-level activities, the functions responsible for monitoring the management of positions and those in charge of second-level and third-level control, measure and monitor risk performance and the correctness / adequacy of management and operational processes.

In terms of credit risk, the provisions describe a series of aspects and precautions that are already largely covered by process regulations, but which supplement these areas by requiring formalized criteria for the classification, assessment and management of impaired exposures.
The Credit Area, with its organizational units, is the body delegated to govern the review and approval stages of the lending process. The Credit and Litigation Control Office is the function delegated to monitor and manage disputes (as specified below).
The division of duties and responsibilities within this area is, as much as possible, designed to achieve the segregation of activities in conflict of interest, especially through appropriate levels of IT authorizations.
The entire credit management and control process is governed by an Internal Regulation *("Credit Regulation")* which, specifically:

- defines criteria and methods for assessing creditworthiness;
- defines criteria and methods for reviewing credit lines;

[1] Country risk is the risk associated with international transactions, when the foreign customers-debtors do not fulfil their obligations, due to the macroeconomic conditions in the country in which they operate.

- defines criteria and methods for monitoring loan performance, and actions to be taken when anomalies are detected;
- defines loan approval powers.

In compliance with the Guidelines for Italian Less significant banks regarding the management of impaired loans published by Banca d'Italia on 30 January 2018, the bank adopted a specific policy for the management of impaired loans which, in addition to defining criteria for their classification and measurement, outlines specific strategies aimed at optimizing NPL management through the maximization of the present value of recoveries taking into account the Bank's management capabilities, the external environment, the characteristics of impaired portfolios, the costs associated with managing them and the indirect costs associated with maintaining a high level of NPLs.
The Bank has in place appropriate organizational arrangements that ensure the timely adoption of the most suitable measures for the classification, assessment and management of impaired positions.

The function in charge of the classification, measurement and management of NPLs is the Credit Control and Litigation Office. This function is separate from the Units involved in the loan approval phase and can request the support of external experts.

With regard to transactions with connected parties, the Bank has adopted specific decision-making procedures designed to manage the risk that the proximity of certain individuals to the decision-making bodies of the Banks may compromise the impartiality and objectivity of decisions. In this perspective, the Bank has also adopted tools and an IT procedure to ensure that connected parties are correctly and fully identified. These measures were supplemented through an updating, where deemed necessary, of the framework resolution and the regulations already in use within the bank. This set of documents, which make up the Policy, is thus made compliant with the regulations on connected parties.

Currently the Bank's organization comprises two branches, each directed and controlled by a manager.

The control activity on the management of credit risks (as well as financial risks and operational risks) is performed by the risk control function (Risk Management), which directly reports to the Board of Directors, through a series of tasks arising from the responsibilities set out in the Supervisory Provisions on the internal control system.
Specifically, the function contributes in defining the RAF and the related risk governance policies and in setting the operating limits to the assumption of the various types of risk.
The function:

- is involved in the definition and implementation of the "Risk Governance Policy - RAF" and of the various
  steps that make up the risk management process, as well as in the setting of operating limits to the assumption of the various types of risk. In this respect, it is responsible, inter alia, for proposing the quantitative and qualitative parameters necessary to define the "Risk Governance Policy - RAF", which also refer to stress scenarios and, in the event of changes in the operating environment both within and outside the bank, the adjustment of those parameters.
- monitors the adequacy of the "Risk governance policy - RAF".
- monitors, on an ongoing basis, the adequacy of the risk management process and of operating limits.
- defines common assessment metrics for operational risks consistent with the "Risk Governance Policy - RAF", in coordination with Compliance, ICT and with the head of business continuity.
- defines evaluation and control systems for reputational risk, in coordination with the compliance function and the corporate functions more exposed to risk.
- supports the governing bodies in the evaluation of strategic risk by monitoring significant variables.
- ensures that risk measurement and control systems are consistent with the processes and methods in place to assess bank activities, in coordination with the organizational units involved;
- develops and applies indicators that can detect anomalies and inefficiencies in risk measurement and control systems.
- analyses the risks of new products and services and those arising from entering into new business segments and markets.
- provides preliminary advice on the level of consistency with the RAF of the most important transactions and, depending on the nature of the transaction, also seeks the opinion of other functions involved in the risk management process;

- constantly monitors the bank's risk profile and its consistency with the bank's risk appetite as well as compliance with the operating limits assigned to operating structures in relation to the assumption of various types of risk.
- ensures the proper monitoring of individual credit exposures.
- monitors the adequacy and effectiveness of measures taken to address any deficiencies detected in the risk management process.
- assesses the bank activities and formalizes the results in a specific report.

### 2.2 Management, measurement and audit systems

The management of credit risk depends on lending policies. For this purpose, the Board of Directors establishes the general principles governing lending to customers, approves the strategic guidelines and policies for loan disbursement and risk management, through the definition of specific parameters (type of loans, percentage of funding to be used in lending).

The whole lending process, from the preliminary assessment to disbursement, as well as monitoring positions, reviewing credit lines and responding to abnormal situations, was formalised in the "Credit Regulations", approved by the Board of Directors and periodically audited.
The regulations cover: credit authorities, prudential limits, acceptable collateral, loans classification, credit monitoring, control and reporting system.

Consistent with these policies, the Bank has defined criteria for classifying, assessing and managing impaired positions as well as methods for monitoring credit risk; the above also with the objective of activating a systematic monitoring of positions allocated to network representatives and coordinated by the Credit Control and Litigation Office.

Proper management of the credit process also requires an adequate risk measurement and control system.
In order to verify the effectiveness of the measures adopted, the Bank uses a "Control System", which is organised differently at the various levels within the Bank; each person involved in the system is responsible both for the supervisory activities and for reporting on the results of their audits.

The system is organised into the three levels outlined below:

1) line controls or first-level controls, to ensure that operations are properly carried out; these are performed by the commercial staff;

2) second-level controls, which are the responsibility of:
- the Credit Control and Litigation department, which, as part of its ordinary activities, carries out checks with regard to loan applications, granting and classification as well as audits on any unusual use of funds in the early stages of the loan and on loans performing in anomalous ways and therefore impaired;
- the Risk Management department, which monitors the activity, verifying transactions carried out and performing an overall assessment of the risk to which the Bank is exposed, also in relation to loan performance;
- the Compliance department, which verifies compliance with internal and external regulations.

3) third-level controls, carried out by Internal Audit, which, on the basis of a plan specifically set out for the purpose, verifies any anomalies or breaches of procedures and internal and external regulations, also assessing the functionality and adequacy of the overall internal control system.

Moreover, the following activities are carried out:
- preventive controls, which take place prior to granting the credit line and are specifically aimed at verifying compliance with credit authority limits, guarantee standards, the completeness and adequacy of all documents delivered to and/or signed by the customer;
- on-going controls, which take place after the loan has been granted and disbursed, involving monitoring of the positions in their various operating aspects, with particular reference to risk

management (unauthorised overdrafts, compliance with guarantee margins, etc.), in order to verify the recoverability of the loan at all times.

Finally, the Bank uses a management tool to carry out first-level controls through which the Credit Control Office and the branches can periodically monitor existing positions; this procedure uses historical internal databases and assigns a risk rating to each customer. Ratings are determined at the NDG level and any anomalies and data that contributed to their formulation are logged.

The IT application adopted by the Bank enables it to periodically extrapolate, among others, all performing relationships for which there is an indication of anomalous performance, including for example, being reported as doubtful in the system, the presence of past due and overdrawn amounts, qualifying as forborne, etc. Therefore, through constant monitoring of the reports provided by the application it is possible to promptly deal with anomalies in the credit relationship and take appropriate measures for the loans in question.
Credit exposures, as mentioned, are also monitored using the information provided by the Central Credit Register.
All fiduciary positions are also subject to periodic review, which is carried out for each individual counterparty/group of connected customers by the departments in charge based on credit limit.

### 2.3 Expected losses measurment methods

IFRS 9 introduced, for instruments recognized at amortized cost and at fair value with contra entry to equity (other than equity instruments), a model based on the "expected loss" concept, replacing the current "incurred loss” model provided for IAS 39.
The changes introduced by IFRS 9 are characterized by a prospective view that, in certain circumstances, may require the immediate recognition of all expected losses during the life of a loan. In particular, unlike IAS 39, the initial amounts of expected future losses on the entity’s financial assets will have to be recorded immediately and independently of any trigger event and said estimate will have to be continually adjusted also considering the counterparty credit risk. For the purpose of this estimate, the impairment model must consider not only past and current data, but also information relating to future events.
This forward-looking approach helps reduce the impact upon occurrence of the losses and allows the loan adjustments to be made in proportion to the increase in risk, thereby preventing any excessive burdening of the income statement upon occurrence of the loss events and reducing the pro-cyclic effect.

The new model for the measurement of expected credit losses on impaired loans and securities is applicable to financial assets (loans and debt securities), commitments to disburse funds, guarantees as well as to financial assets not measured at fair value through profit or loss. For credit exposures falling within the scope of application [2] of the new model, the accounting standard provides for the allocation of the individual positions to one of 3 stages according to changes in credit quality, defined based on a 12-month or lifetime (if there has been a significant increase in risk) expected credit loss model. In particular, the stage allocation consists of three different categories which reflect the credit quality deterioration model from initial recognition:

- in stage 1, loans not showing a significant credit risk (SICR) at the assessment date or identifiable as Low Credit Risk;
- in stage 2, loans showing a significant credit risk at the assessment date or not being identifiable as Low Credit Risk;
- in stage 3, non-performing loans[3].

The estimate of the expected loss through the Expected Credit Loss (ECL) approach, for the classes defined above, is made by allocating each exposure in the three reference stages, as detailed below:

- stage 1: the expected loss must be calculated over a 12 months’ time horizon;[4];
- stage 2: the expected loss must be calculated considering all the losses that are expected to be sustained during the entire life of the financial asset ( lifetime expected loss): therefore, compared to IAS 39, there will be a transition from the incurred loss estimate over a 12 month time horizon to an estimate that takes into consideration the entire residual life of the loan; furthermore, since the IFRS

[2] The application segments are divided into ordinary customers, interbank segment and Securities Portfolio.
[3] *Non performing* loans concern: impaired past due and/or overdrawn exposures, unlikely to pay and non-performing loans.
[4] The Expected Loss calculation for the purpose of calculating the collective write-downs on these exposures is made on a 12-month point-in-time basis.

9 also requires the calculation of the expected lifetime loss to be made according to forward-looking estimates, it will be necessary to consider the scenarios associated with macroeconomic variables (e.g. GDP, unemployment rate, inflation, etc.) that are capable of estimating forecasts for the entire residual term of the loan through a macroeconomic statistical model;

- stage 3: the expected loss must be calculated on a lifetime perspective but, unlikely the positions in stage 2, the calculation of the lifetime expected loss will be of an analytical nature.

Risk parameters (PD, LGD and EAD) are calculated based upon the impairment models. The Bank calculates the ECL according to the allocation stage, for each exposure, with respect to on-balance sheet and off-balance sheet credit exposures.

**Ordinary customers segment**

The drivers that are common to all the approaches identified for the construction of the PD input, concern:

- estimation of the 12-month PD developed through the construction of an appropriately segmented, statistical model based on the type of counterparty, for the assessment of creditworthiness according to major best market practices and the rules set out by the legislator in IFRS9;
- the inclusion of forward looking scenarios, through the application to the PD PiT of multipliers defined by the "Satellite Model" and definition of a series of potential scenarios capable of incorporating current and future macroeconomic conditions;
- the transformation of the 12 month-PD into a lifetime PD, in order to estimate a term structure of the PD along the entire residual life class of the loans.

The drivers that are common to all the approaches identified for the construction of the LGD input, concern:

- a consortium-type model that consists of two parameters: the Danger Rate (DR) and the Non-performing LGD (LGS);
- the IFRS 9 Danger Rate parameter is estimated starting from a set of administrative status transition matrices with a one year observation horizon. These matrices were calculated on a set of counterparties with a segmentation in line with that used for the development of PD models. The DR parameter, like the PD, is conditional upon the economic cycle, based on possible future scenarios, so as to incorporate assumptions of future macroeconomic conditions;
- the nominal LGS parameter is calculated as the arithmetic average of the nominal LGS, segmented by type of guarantee, and subsequently discounted based on the average recovery times observed for clusters of loans consistent with those of the nominal non-performing LGD.

The adopted EAD IFRS 9 model differs according to the macro type of technical form and the stage where the exposure has been classified. In order to estimate the EAD parameter over the lifetime horizon of loans with repayment by instalment it is necessary to consider the contractual repayment flows, for each year of the residual life of the loan. A further element that influences the future values of the EAD, i.e. the progressive repayment of instalment loans according to their contractual amortization plan, is the prepayment rate (a parameter that reflects early and partial termination events with respect to the contractual expiration date).

The Bank has provided for the allocation of the individual on- and off-balance sheet exposures in one of the 3 stages listed below based on the following criteria:

- in stage 1, exposures with generation date prior than three months as of the measurement date or that do not have any of the characteristics described in the following paragraph;
- in stage 2, exposures that have at least one of the characteristics described below at the reference date:
  - a significant increase in credit risk (SICR) has been found since the date of disbursement, such risk being defined in accordance with the operating methods set forth in specific technical documentation.
  - presence of the 'Forborne performing' attribute;
  - presence of exposures that are past due and/or overdrawn for more than 30 days;
  - exposures (with no 'lifetime PD' on the date of disbursement) that do not have the characteristics to be identified as 'Low Credit Risk' (or performing exposures that at the valuation date have the following characteristics: no lifetime PD at the date of disbursement and rating class at the reporting date less than or equal to 4 [5]).

[5] The rating model includes 13 classes.

- in stage 3, non-performing loans. These are the individual exposures relating to counterparties classified in one of the impaired loan categories envisaged by Banca d'Italia Circular no. 272/2008, as updated. This category includes impaired past due and/or overdrawn exposures, unlikely to pay and non-performing loans.

With regard to the allocation of performing loans to the "stages" required by IFRS 9, the breakdown of the performing loan portfolio, which accounted for 85.5% of total outstanding loans, was as follows in the financial statements at 31 December 2018:

- Stage 1: loans included in this risk stage, net of the associated value adjustments, accounted for 47% of the Bank's performing portfolio and 40% of total loans.

- Stage 2: loans included in this risk stage, net of the associated value adjustments, accounted for 53% of the Bank's performing loans and 45% of total loans.

The weigh of this aggregate on the stock of performing loans was essentially attributable to some automatic triggers which led to the allocation of approximately 88% of performing exposures in this risk class. Specifically:

- 63% consists of positions without rating as of their origination;

- 18% consists of forborne positions;

- 7% consists of positions that are past due by over 30 days.

The residual amount (12%) was attributable to exposures that recorded an increase in their Lifetime PD with respect to origination.

In the financial statements as at 31 December 2018, gross performing loans to customers measured at amortized cost amounted to € 20,607 thousand with a 3.2% hedging ratio, of which € 11,137 thousand were gross performing loans classified in Stage 2, with a 5.2% hedging ratio, which, mainly due to the absence of a rating at the disbursement date, were automatically classified in the aforementioned risk class upon transition to the new IFRS 9 accounting standard.

**Interbank segment**

The PD parameter is provided by an external provider and extrapolated from listed credit spreads or quoted bonds.

The LGD parameter was prudently set by applying the 45% regulatory level for IRB, with subsequent increases to take into account the different seniority levels of the securities.

For the EAD, logics similar to those applied for the ordinary customer model were applied. It should be noted that a prepayment parameter equal to zero was applied to interbank loans, in line with the underlying technical forms and with regard to the specific nature of the relationships underlying this segment.

The Bank has provided for the allocation of the individual exposures to the 3 stages, in the same way as with loans to customers. The 'Low Credit Risk' status is defined for performing exposures which at the valuation date have the following characteristics: no "Lifetime PD" on the date of disbursement and PD Point in Time of less than 0.3%.

**Securities portfolio**

The PD parameter is provided by an external provider based on two approaches:

- point-in-time: the default probability term structure for each issuer is obtained from listed credit spreads (CDS) or listed bonds;
- comparable: where market data do not allow for the use of specific credit spreads, since there are none or they are illiquid or not significant, the default probability term structure associated with the issuer is obtained through a proxy method. This method compares the issuer in question to a comparable issuer for which specific credit spreads are available or to a reference cluster for which it is possible to estimate a representative credit spread.

The LGD parameter is assumed to be constant for the entire life of the financial asset under analysis and is obtained on the basis of 4 factors: issuer and instrument type, instrument ranking, instrument rating and issuer's country. The minimum level starts at 45%.

The Bank has provided for the allocation of the individual purchased tranches of securities in 3 stages.
The first credit worthiness stage comprises: the tranches that can be classified as 'Low Credit Risk' (that is, those with PD at the reporting date below 0.26%) and those securities which had no significant increase in credit risk at the measurement date compared to the time of purchase;
The second stage include tranches which at the valuation date show an increase in credit risk compared to the date of purchase.
The third and final stage includes the tranches for which the ECL is calculated following the application of a 100% probability (i.e. in default).

### 2.4 Credit risk mitigation techniques

Risk mitigation techniques encompass instruments that contribute to reduce the loss the Bank would bear in the event of insolvency of the counterparty; they include, in particular, the guarantees and some contracts that determine a reduction in credit risk.

In accordance with the credit objectives and policies defined by the Board of Directors, the credit risk mitigation technique most used by the Bank consists in obtaining different types of real, personal and financial guarantees.
These forms of guarantee are requested according to the outcome of the assessment of customer creditworthiness and the type of credit line requested by said customers. As part of the loan approval and management process, the presence of mitigating factors is encouraged for counterparties with a less favourable credit rating or for certain medium/long-term types of loans.

In order to limit the risks of the protection ceasing to exist or expiring, specific safeguards are in place such as: restoration of the pledge where the initial value of the assets has decreased or, for mortgage guarantees, obligation of insurance coverage against damage from fire, as well as adequate monitoring of the value of the property.

With respect to activities on securities markets, considering that the portfolio tends to be made up of major issuers with high credit standing, no special forms of credit risk mitigation are currently required.

The main concentration of collateral (mainly mortgages) is linked to loans to retail customers (medium and long term).
The Bank established that lending transactions are backed by various types of guarantees according to the type of loan granted:
- personal guarantees;
- collateral (mortgages and other collateral).

The acquisition of guarantees requires careful evaluation, not only to determine the guarantees' value, on which the maximum amount of credit that can be extended is based, but also to verify any restrictions or impediments that might in some way limit their validity.

**Guarantees secured by assets**
With regard to collateral types, the Bank accepts the following guarantees:
- mortgages;
- pledge on deposits in euros or foreign currency;
- pledge on securities.

In terms of acquisition, assessment and management of the main forms of collateral, the company policies and procedures ensure that these guarantees are always obtained and managed in a way that ensures they are binding in all relevant jurisdictions and enforceable within reasonable time.
In this respect, the Bank abides by the following relevant principles:
- the property value does not depend to a significant extent on the debtor's creditworthiness;
- the independence of the expert in charge of carrying out the appraisal of the property;
- an insurance coverage has been taken out against the risk of damage to the property which is the object of the guarantee;

- adequate monitoring of the value of the property has been put in place, to verify that the requirements that permit the Bank to benefit from a lower capital absorption on guaranteed exposures are satisfied over time;
- the intended use of the property and the debtor's ability to repay.

The process of monitoring the value of the property which is the object of the guarantee is carried out using statistical methods.
In this regard, the assessment is carried out:
- at least every 3 years for residential properties;
- annually for non-residential properties.

For significant exposures (that is, for an amount exceeding € 3 million or 5 per cent of the Bank's own funds) the assessment is in any case reviewed by an independent expert at least every 3 years.

With regard to financial guarantees, the Bank, based on the policies and processes for managing credit risk and the defined limits and operating powers, directs the acquisition of these guarantees exclusively if the underlying financial assets are such that the company is able to calculate the fair value at least every six months (or whenever there are elements that suggest that a significant decrease in fair value has occurred).
A discount on market value is applied to the securities pledged as collateral, to an extent related to the nature of the securities. The Bank may accept securities as collateral at its own discretion, and can apply higher discounts to the securities it deems riskier.
The monitoring of financial collateral, in the case of pledges on securities, involves the continuous monitoring of the issuer's rating and the assessment of the fair value of the financial instrument given as collateral. An adjustment of the guarantee is requested when the market value is lower than the resolution value less the required discount.
The guarantee may also consist of a cash balance, in which case no discount is applied.

**Personal guarantees**
With regard to personal guarantees, sureties on first demand are accepted, issued by Italian and foreign banks or by natural or legal persons of proven solvency.

The main types of guarantors are entrepreneurs and company partners related to the debtor as well as, in the case of loans granted to sole proprietorships and / or natural persons (consumers and non-consumers), also relatives of the debtor. Less frequently the risk of insolvency is covered by personal guarantees provided by other companies (generally companies that are part of the same economic group of the debtor), or by financial institutions and insurance companies.

In the case of loans to parties belonging to certain economic categories (small business owners, traders, etc.) the Bank obtains specific guarantees (first demand or ancillary guarantees) from Confidi (credit guarantee consortia registered in the special list pursuant to Article 107 of the TUB) and from Medio Credito Centrale.

If a financing proposal includes personal guarantees from third parties, the preliminary investigation also extends to the latter party. In particular, depending on the type and amount of the guaranteed loan, the following analysis and inquiries are made:
- the financial and income situation of the guarantor, including by consulting the appropriate databases;
- exposure to the banking system;
- the information in the bank's information system;
- whether the guarantor is part of a group and the group’s overall exposure.

The Bank does not deal with OTC derivatives and has not entered into bilateral netting arrangements.

### 3. Impaired credit exposures

#### 3.1 Management strategies and policies

The Bank has in place regulatory / IT structures and procedures for the management, classification and control of loans.
Consistently with IAS / IFRS regulations, at each reporting date any objective evidence of impairment is verified for each instrument or group of financial instruments.
Impaired financial assets include loans when there is any objective evidence of impairment as a result of circumstances occurring after initial recognition.
On 9 January 2015 the European Commission approved, upon proposal of the European Banking Authority (EBA), the *"Final Draft ITS on supervisory reporting on forbearance and non performing exposures under article 99(4) of Regulation (EU) No 575/2013"*.
Following this provision, Banca d'Italia issued an update of its regulatory framework which, although substantially in line with the previous representation of risk of non-performing loans, reflects the new community regulation starting from 1 January 2015.

Based on the current regulatory framework, supplemented by the internal implementing provisions, impaired financial assets are classified according to the level of criticality in three main categories: "non-performing loans" (that is, exposures to counterparties in a state of insolvency or in substantially equivalent situations) "unlikely to pay" (i.e., positions for which the Bank considers it unlikely that, without recourse to actions such as the enforcement of guarantees, the debtor will entirely fulfil - in terms of principal and/or interest - its credit obligations), "impaired past due and/or overdrawn exposures" (i.e. exposures that are past due and/or overdrawn for over 90 days). The further category of "forborne exposures" is also envisaged, which refers to exposures that are subject to renegotiation and/or refinancing due to manifest or forthcoming financial difficulty. This last category constitutes a subset of both impaired loans (forborne non-performing exposures) and performing loans (other forborne exposures). The impaired forborne exposure category (impaired forborne exposures) is not a distinct or additional category of impaired exposures with respect to those previously mentioned, but it is a subset of each of them, which includes on-balance sheet exposures and commitments to disburse funds that are the subject of forbearance measures (*forborne exposure*), if they meet both of the following conditions:
- the debtor is in a situation of financial difficulty that prevents them from fully complying with the contractual commitments set out in their loan agreement and such as to amount to a "credit deterioration" (classified in one of the impaired exposure categories: non-performing, unlikely to pay, past due and/or overdrawn for more than 90 days),
- the bank agrees to amend the terms and conditions of the loan agreement, or to totally or partially refinance the loan, such that the debtor can comply with it (such concession would not have been granted if the debtor had not been in a state of difficulty).

These concessions are subject to careful monitoring as the legislation sets very strict criteria for migration across the categories (forborne non-performing, forborne performing, non-forborne).

In order to enable a correct and continuous monitoring of exposures with forborne status, the outsourcer has put in place specific functionalities that report, propose and in some cases update the changes in status.

In keeping with the Guidelines for Italian Less significant banks regarding the management of impaired loans published by Banca d'Italia on 30 January 2018, the bank adopted a specific "Policy for the management of impaired loans" which, in addition to defining criteria for their classification and measurement, outlines a specific strategy aimed at optimizing NPL management through the maximization of the present value of recoveries taking into account the Bank's management capabilities, the external environment, the characteristics of impaired portfolios, the costs associated with managing them and the indirect costs associated with maintaining a high level of NPLs.
This strategy comprises a short-term (1 year) and a medium/long term (3 years) operating plan in line with the strategic objectives set by the Bank.

The Credit Control and Litigation department has been tasked with the monitoring, classification, assessment and overall management of impaired loans.
That activity mainly consists in:

- monitoring the positions, supporting the branches that are in charge of 1st level controls;
- defining, in agreement with the Branch Manager, the actions necessary to bring the performing positions back to regular performance as soon as they show the first signs of anomaly;
- managing positions as soon as they qualify as "impaired exposures";
- Identifying and recommending adjustments to the exposures to the relevant bodies;

- register the positions as “unlikely to pay” and / or “non-performing” subject to prior authorization by the relevant bodies.

The classification is also implemented through automated procedures when predetermined default conditions are triggered, in particular as regards past due and/or overdrawn exposures, depending on the continuous past due and/or overdrawn amount and period.
The return to performing status of exposures classified as unlikely to pay and NPLs, governed by the Supervisory Authority and by specific internal regulations, is made upon recommendation of Credit Control and Litigation to the Chief Executive Officer, after verifying that the anomalies leading to the classification of exposures as impaired financial assets no longer apply and the stability of the new counterparty’s situation.

With regard to exposures classified as "Past due and overdrawn loans" the return to performing status takes place automatically when payment is received.
For the purposes of determining the recoverable value of impaired loans, the Bank has defined the valuation process within the aforementioned Policy, based on expected cash flows, expected recovery times and the estimated realizable value of the guarantees, if any, the modification of which may entail a change in recoverable value; this calculation is based on the information available as at the valuation date.
The adjustment for each loan is determined as difference between the carrying amount at the time of measurement (amortised cost) and the current value of estimated future cash flows, calculated by applying the original actual interest rate.
This assessment is made at the time the exposures are classified, when relevant events occur and is, however, reviewed periodically in accordance with criteria and procedures laid down by the credit policies adopted.
Specifically: impaired loans classified as unlikely to pay and non-performing loans are subject to an analytical assessment by the Credit Control and Litigation department.

Impaired overdue loans are subject to a flat-rate assessment, using the same methodology as for the impairment of "performing" receivables; if an actual loss is expected, a write-down of the individual account is carried out.

The management and recovery of non-performing loans is carried out by the Credit Control and Litigation Office, with the support of external legal advisors and a debt collection company in order to pursue the best solutions for recovering the debt.

The loan assessment is subject to review whenever the Bank becomes aware of significant events that can alter the prospects of recovery.

Following publication in the OJEC, in November 2016, of the Commission Regulation (EU) 2016/2067 the adoption process of IFRS 9 was completed. The new standard has replaced IAS 39 and is therefore applicable to all financial instruments that can be classified as assets and liabilities in the balance sheet, significantly changing the relevant classification and measurement criteria and the methods for determining their impairment, and introducing new rules for the designation of hedging relationships.
The application of IFRS 9 is mandatory from the first financial reporting date after 1 January 2018 which, for the bank, is the FINREP deadline as at 31 March 2018.

In the broader context of the changes introduced by the standard, the new impairment model is of particular importance. For more detailed considerations in this regard, see the comments in Section 1 - Credit risk, Qualitative information, 2.3 Expected losses measurement methods
With respect to the main management control processes, being aware that the cost of risk is one of the most significant variables in determining current and future economic results, special attention is paid to the necessary consistency of the assumptions underlying the estimates of the multi-year plan and the annual budget (developed on the basis of expected macroeconomic and market scenarios), of the ICAAP and the RAF and those taken as reference for determining accounting provisions .
With regard to the impact of the new accounting standard on the bank’s balance sheet and income statement, it should be noted that the main impact upon first adoption arise precisely from the application of the new impairment model which, as mentioned, unlike the “incurred loss” approach of IAS 39, is based on the concept of expected loss, as well as from the application of the rules for the transfer of exposures to the various classification stages.
IFRS 9 provides for the retrospective application of the standard and, therefore, the new requirements must be applied as if they had always been applied. The differences between the book value at 31 December

2017 and the restated book value according to the new rules as at 1 January 2018 will be recognized as contra entry in shareholders' equity, in an "opening retained earnings/accumulated losses" reserve.
It should also be noted that the Bank has opted for the transitional regime introduced by Regulation (EU) 2017/2395 of the European Parliament and of the Council which amended Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms (CRR); the transitional arrangements from 2018 to 2022 are designed to mitigate the impacts on own funds deriving from the application of the new impairment model based on the evaluation of expected losses (*expected credit losses* - ECL) introduced by IFRS 9.

The provisions in question permit an entity to reintroduce in CET1 the effect from application of the new valuation model introduced by IFRS 9 for financial assets measured at amortized cost or at fair value through comprehensive income.
The rule in question allows dilution over five years of:

1. the incremental impact of the write-down of **performing and impaired** exposures recorded **at the IFRS 9 transition date** following application of the new impairment model ("*static*" component of the filter);
2. the potential further increase in collective write-downs with respect **to performing exposures** only, recognized at each reference date compared to the impact measured at the date of transition to the new standard ("*dynamic*" component of the filter).

The adjustment to CET1 determines the re-inclusion in CET1 of the impact to the extent shown below, for each of the 5 years comprised in the transitional period:

- 2018 - 95%
- 2019 - 85%
- 2020 - 70%
- 2021 - 50%
- 2022 - 25%

The application of the transitional provisions to CET1 requires a symmetrical adjustment in the determination of credit risk capital requirements through an adjustment of the exposures determined pursuant to Article 111, paragraph 1, of the CRR. In particular, the specific loan adjustments for which the value of the individual exposure is reduced must be multiplied by a graduation factor determined on the basis of the complement to 1 of the weight of the adjustment made to CET1 on the total amount of specific loan adjustments.
Opting for these transitional arrangements makes it possible to postpone the most significant component of the impact on own funds arising from the application of the new impairment model introduced by IFRS 9, such that, especially in the early years of the transitional regime, it remains within levels that are considered as absolutely not critical for the bank's solvency profile.
The Risk Management Department is responsible for assessing the consistency of the classifications, the adequacy of provisions and the effectiveness of the recovery process; it also verifies the correct application of valuation parameters laid down by internal regulations for non-performing loans subject to individual assessment. More specifically, it verifies the correct application of the criteria envisaged for assessing:

- loans secured by real estate collateral;
- loans secured by lien;
- loans secured by guarantees provided by consortia /MCC;
- loans secured by principal obligor and/or by guarantors by way of surety who own real estate assets that may be seized (both in the case of classification as unlikely to pay and as non-performing);
- unsecured loans to individuals without seizable assets;
- unsecured loans to sole proprietorships, partnerships and companies.

### 3.2 Write-offs

The Bank's rules regarding write-offs are outlined in the Credit Regulation. When there are no longer any reasonable expectations of recovering a receivable, this must be "written off". The event that triggers the write-off may occur before the legal actions for debt recovery have been completed and does not entail a waiver of its claim by the bank.

The write-off can concern the entire amount of the receivable or a portion of it and corresponds to:

- the reversal of total value adjustments, with contra-entry to the gross value of the receivable;
- the impairment loss on the receivable recognized directly in the income statement, for the amount exceeding the total value adjustments.

Any recoveries from collection after the write-off, are recognized in the income statement.

The Bank writes off uncollectible positions and recognizes the losses of the residual unadjusted amount in the following cases:

- the receivable is found to be uncollectible on the basis of certain and precise elements (such as, by way of example, the unknown abode or lack of means of the debtor, failed recoveries from levy of execution against land and chattels, failed foreclosures, insolvency proceedings closed with incomplete relief for the Bank, if there are no further enforceable guarantees, etc.);
- assignment of debt;
- waiver of receivable, as a result of unilateral relief of debt or residual amount on the basis of settlement agreements.

As regards the application of write-offs to non-performing loans, the Bank opted for this solution for the full amount of 19 positions for which the non-recoverability of the receivable had become certain.
It should be noted that the positions subject to write-off had already been largely written-down. The impact on the income statement amounted to € 39 thousand.

### 3.3. Impaired financial assets acquired or originated

The acquisition of impaired financial assets is not part of the Bank's business model.

### 4. Financial assets subject to commercial renegotiations and forborne exposures

The impaired forborne exposure category (non-performing forborne exposures) is not a distinct or additional category of impaired exposures with respect to those previously mentioned (non-performing, unlikely to pay, past due) but it is a subset of each of them, which includes on-balance sheet exposures and commitments to disburse funds that are the subject of forbearance measures (forborne exposure), if they meet both of the following conditions:

a) - the debtor is in a situation of financial difficulty that prevents them from fully complying with the contractual commitments set out in their loan agreement and such as to amount to a "credit deterioration" (classified in one of the impaired exposure categories: non-performing, unlikely to pay, past due and/or overdrawn for more than 90 days),
b) and the bank agrees to amend the terms and conditions of the loan agreement, or to totally or partially refinance the loan, such that the debtor can comply with it (such concession would not have been granted if the debtor had not been in a state of difficulty).

Forborne exposures towards debtors who are in a difficult financial situation other than a “credit deterioration” are instead classified in the “other forborne exposure” category (“forborne performing exposure”) and are classified under “Other non-impaired exposures”, or under “Non-impaired past-due exposures” if they meet the requirements for this classification.

In terms of the Bank's internal regulations, after having ascertained that a forbearance measure appears to comply with the forbearance requirements, the forborne exposure attribute is assigned as follows:

- “forborne performing” when both the following conditions occur:
  - the debtor was classified as performing before the forbearance resolution;
  - the debtor has not been reclassified by the Bank among the non-performing counterparties due to the forbearance measures granted;
- “forborne non performing” when at least one of the following conditions occurs:
  - the debtor was classified as non-performing before the forbearance resolution;
  - the debtor has been reclassified under non-performing exposures, due to the forbearance measures granted, including the cases in which (in addition to the other regulatory cases), following the assessment, significant impairment losses have arisen.

For the purposes of the reclassification of forborne non-performing exposures, there must be compliance with a "cure period" of one year starting from the date the measures were granted together with the borrower’s conduct showing that there are no longer any critical issues concerning the full repayment of the debt. Therefore, the Credit and Litigation Control Office performs an analysis of the debtor to verify that all the following criteria are satisfied:

1) the exposure is not considered impaired or in default;
2) there is no evidence of overdue amounts;

3) the debtor has repaid, through regular payments, an amount equal to the total of all the amounts previously overdue (if any at the date of granting the forbearance measures) or equal to the amount written-off according to the forbearance measures ( in the absence of overdue amounts), or has otherwise demonstrated their ability to comply with the conditions set for the period following the granting of the forbearance measures. In the latter case, for the purposes of the assessment, the presence of arrears with respect to other intermediaries should also be considered.

A credit exposure classified as forborne performing becomes forborne non-performing when even just one of the following conditions is met:

- the prerequisites for classifying the counterparty among impaired loans are met;
- the credit exposure was previously classified as impaired with a forborne non-performing attribute and subsequently, the conditions having been met, the counterparty was placed under observation (with simultaneous transfer of the credit line in question to forborne performing), but: i) during the period it qualified as forborne performing, one of the credit lines of the financed counterparty has become past due for more than 30 days; or ii) during the period it qualified as forborne performing, the counterparty holding the line in question is subject to the application of further forbearance measures.

In order for a credit exposure classified as “forborne performing” to lose this attribute, with consequent return to performing, the following conditions must be met simultaneously:

- an analysis of the debtor's financial situation shows that the transactions no longer meet the conditions that qualify them as impaired;
- at least two years have elapsed (*Probation period)* from the nearest of the date the forbearance measure was granted and the date of exit from the classification as impaired exposure;
- the debtor has made regular payments (both principal and interest) to an extent greater than an irrelevant aggregate amount of principal and interest for at least half of the observation period;
- with respect to the debtor, there are no transactions with amounts past due by more than 30 days at the end of the observation period.

In 2018 the Bank applied concessions in favour of 12 counterparties, of which 7 already classified as impaired exposures and 5 as performing. Overall, 12 credit lines were affected and two of these were repaid during the year.
The oldest forborne position still outstanding dates back to 2016.

## Quantitative information

### A. Credit quality

Equity securities and UCITS units are excluded for the purpose of quantitative information on credit quality.
The term "on-balance-sheet exposures" means all on-balance-sheet financial assets held with respect to banks or customers, whatever their accounting portfolio allocation (measured at fair value through profit or loss, measured at fair value through other comprehensive income, measured at amortized cost, financial assets held for sale).

The term "off-balance sheet credit exposures" means all financial transactions other than cash transactions (financial guarantees issued, revocable and irrevocable commitments, derivatives, etc.) that involve the assumption of credit risk, whatever the purpose of such transactions (trading, hedging, etc.). Off-balance sheet credit exposures also include the counterparty risk associated with securities lending transactions. Likewise, where necessary, they include the counterparty risk associated with exposures inherent in repurchase agreements, in the giving or taking of goods on loan, as well as in margin loans falling under the notion of “SFT Transactions” (Securities Financing Transactions) defined in prudential regulations.

Impaired credit exposures (on-balance sheet and off-balance sheet) do not include financial assets held for trading and hedging derivatives, which are therefore, conventionally, recognized among non-impaired credit exposures.

### A.1 Impaired and non-impaired credit exposures: amount, value adjustments, changes and breakdown by type of business

### A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

**(€/000)**

| Portfolio/Quality | Non-performing loans | Unlikely to pay | Impaired overdue exposures | Non-impaired overdue exposures | Other non-impaired exposures | Total |
|---|---|---|---|---|---|---|
| 1. Financial assets carried at amortised cost | 1,336 | 1,072 | 973 | 1,498 | 30,915 | **35,794** |
| 2. Financial assets measured at fair value through other comprehensive income | – | – | – | – | 7,503 | **7,503** |
| 3. Financial assets designated at fair value | – | – | – | – | – | **–** |
| 4. Other financial assets mandatorily measured at fair value | – | – | – | – | 11 | **11** |
| 5. Discontinuing operations | – | – | – | – | – | **–** |
| **Total 2018** | **1,336** | **1,072** | **973** | **1,498** | **38,429** | **43,308** |
| **Total 2017** | **1,439** | **970** | **433** | **1,897** | **32,147** | **36,886** |

At the reporting date, the portfolio "1. Financial assets measured at amortized cost" included forborne exposures for approximately € 2,578 thousand (of which € 788 thousand impaired and € 1,790 thousand non-impaired), entirely attributable to credit loans and advances to customers.
In particular, the breakdown of forborne exposures according to credit quality was as follows:

- € 355 thousand included in the unlikely to pay category;
- € 433 thousand included in the impaired overdue exposures;
- € 101 thousand included in the non-impaired overdue exposures;
- € 1,689 thousand included in the other non-impaired exposures.

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

**(€/000)**

| Portfolio/Quality | Impaired | | | | Non-impaired | | | Total (net exposure) |
|---|---|---|---|---|---|---|---|---|
| | Gross exposure | Overall adjustments | Net exposure | Overall partial write-offs (*) | Gross exposure | Overall adjustments | Net exposure | |
| 1. Financial assets carried at amortised cost | 5,483 | 2,102 | 3,381 | – | 33,086 | 673 | 32,413 | **35,794** |
| 2. Financial assets measured at fair value through other comprehensive income | – | – | – | – | 7,542 | 39 | 7,503 | **7,503** |
| 3. Financial assets designated at fair value | – | – | – | – | X | X | – | – |
| 4. Other financial assets mandatorily measured at fair value | – | – | – | – | X | X | 11 | **11** |
| 5. Discontinuing operations | – | – | – | – | – | – | – | – |
| **Total 2018** | **5,483** | **2,102** | **3,381** | – | **40,628** | **712** | **39,927** | **43,308** |
| **Total 2017** | **4,965** | **2,123** | **2,842** | – | **34,196** | **152** | **34,044** | **36,866** |

| Portfolio/Quality | Assets of manifest poor credit quality | | Other assets |
|---|---|---|---|
| | Cumulative Capital losses | Net exposure | Net exposure |
| 1. Financial assets held for trading | – | – | 7,384 |
| 2. Hedging derivatives | – | – | – |
| **Total 2018** | – | – | **7,384** |
| **Total 2017** | – | – | **17,781** |

** Value to be displayed for information purposes*

### A.1.3 Breakdown of financial assets by past due ranges (book values)

***(€/000)***

| Portfolios/risk stages | First stage | | | Second stage | | | Third stage | | |
|---|---|---|---|---|---|---|---|---|---|
| | From 1 day to 30 days | From over 30 to 90 days | Over 90 days | From 1 day to 30 days | From over 30 to 90 days | Over 90 days | From 1 day to 30 days | From over 30 to 90 days | Over 90 days |
| 1. Financial assets carried at amortised cost | 258 | – | – | 398 | 535 | 307 | 93 | 3 | 2,774 |
| 2. Financial assets carried at fair value through other comprehensive income | – | – | – | – | – | – | – | – | – |
| **Total 2018** | **258** | **–** | **–** | **398** | **535** | **307** | **93** | **3** | **2,774** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

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

***(€/000)***

| Reasons/risk stages | Overall adjustments | | | | | | | | | | | | | Total provisions on commitments to grant finance and financial guarantees granted | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Assets falling in the first stage | | | | Assets falling in the second stage | | | | Assets falling in the third stage | | | | Of which: impaired financial assets acquired or originated | | | | |
| | Financial assets carried at amortised cost | Financial assets carried at fair value through other comprehensive income | of which: individual write-downs | of which: collective write-downs | Financial assets carried at amortised cost | Financial assets carried at fair value through other comprehensive income | of which: individual write-downs | of which: collective write-downs | Financial assets carried at amortised cost | Financial assets carried at fair value through other comprehensive income | of which: individual write-downs | of which: collective write-downs | | First stage | Second stage | Third stage | |
| **Opening balance** | 193 | 5 | – | 198 | 650 | – | – | 650 | 2,277 | – | 1,973 | 304 | – | 19 | – | – | **3,144** |
| Increases from financial assets acquired or originated | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | **–** |
| Eliminations other than write-offs | -6 | – | – | -6 | -96 | – | – | -96 | -109 | – | – | -109 | – | – | – | – | **-211** |
| Net adjustments/write-backs for credit risk (+/-) | -63 | 11 | – | -52 | 24 | 23 | – | 47 | 407 | – | – | 407 | – | 15 | 3 | 1 | **421** |
| Contractual amendments not derecognised | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | **–** |

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Changes in the estimate methodology | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| write-off | – | – | – | – | – | – | – | – | -473 | – | – | -473 | – | – | – | – | **-473** |
| Other changes | -30 | – | – | -30 | – | – | – | – | – | – | – | – | – | – | – | – | **-30** |
| **Final inventories** | 94 | 16 | – | 110 | 578 | 23 | – | 601 | 2,102 | – | 1,927 | 175 | – | 34 | 3 | 1 | **2,851** |
| Recoveries from collection of financial assets written-off | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Write-offs directly recorded in the income statement | – | – | – | – | – | – | – | – | 31 | – | – | 31 | – | – | – | – | **31** |

**A.1.5 Financial assets, commitments to disburse funds and financial guarantees given: transfers between credit risk stages (gross and nominal amounts)**

**(€/000)**

| Portfolios/risk stages | Gross values/par value | | | | | |
|---|---|---|---|---|---|---|
| | Shifts between first and second stage | | Shifts between second and third stage | | Shifts between first and third stage | |
| | From first to second stage | From second to first stage | From second to third stage | From third to second stage | From first to third stage | From third to first stage |
| 1. Financial assets carried at amortised cost | 2,478 | 183 | 1,626 | 53 | 482 | 5 |
| 2. Financial assets carried at fair value through other comprehensive income | – | – | – | – | – | – |
| 3. Commitments to grant finance and financial guarantees granted | 414 | 41 | 5 | – | 7 | 6 |
| **Total 2018** | **2,891** | **224** | **1,631** | **53** | **489** | **11** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

### A.1.6 On- and off-balance sheet exposures with banks: gross and net values

**(€/000)**

| Type of exposure/amounts | Gross exposure | | Total adjustments and provisions | Net exposure | Overall partial write-offs* |
|---|---|---|---|---|---|
| | Impaired | Non impaired | | | |
| **A. ON-BALANCE SHEET EXPOSURES** | | | | | |
| a) Non-performing | – | X | – | – | – |
| of which: forborne exposures | – | X | – | – | – |
| b) Unlikely to pay | – | X | – | – | – |
| of which: forborne exposures | – | X | – | – | – |
| c) Impaired overdue exposures | – | X | – | – | – |
| of which: forborne exposures | – | X | – | – | – |
| d) Non-impaired overdue exposures | X | – | – | – | – |
| of which: forborne exposures | X | – | – | – | – |
| e) Other non-impaired exposures | X | 17,321 | 43 | 17,278 | – |
| of which: forborne exposures | X | – | – | – | – |
| **TOTAL (A)** | **–** | **17,321** | **43** | **17,278** | **–** |
| **B. OFF-BALANCE SHEET EXPOSURES** | | | | | |
| a) Impaired | – | X | – | – | – |
| a) Non-impaired | X | 90 | – | 90 | – |
| **TOTAL (B)** | **–** | **90** | **–** | **90** | **–** |
| **TOTAL (A+B)** | **–** | **17,411** | **43** | **17,368** | **–** |

** Value to be displayed for information purposes*

### A.1.7 On- and off-balance sheet exposures with clients: gross and net values

***(€/000)***

| Type of exposure/amounts | Gross exposure | | Total value adjustments and total provisions | Net exposure | Overall partial write-offs* |
|---|---|---|---|---|---|
| | Impaired | Non impaired | | | |
| **A. ON-BALANCE SHEET EXPOSURES** | | | | | |
| a) Non-performing | 2,840 | X | 1,504 | 1,336 | – |
| of which: forborne exposures | – | X | – | – | – |
| b) Unlikely to pay | 1,514 | X | 442 | 1,072 | – |
| of which: forborne exposures | 624 | X | 269 | 355 | – |
| c) Impaired overdue exposures | 1,129 | X | 156 | 973 | – |
| of which: forborne exposures | 490 | X | 57 | 433 | – |
| d) Non-impaired overdue exposures | X | 1,629 | 131 | 1,498 | – |
| of which: forborne exposures | X | 112 | 11 | 101 | – |
| e) Other non-impaired exposures | X | 29,072 | 538 | 28,534 | – |
| of which: forborne exposures | X | 1,850 | 161 | 1,689 | – |
| **TOTAL (A)** | **5,483** | **30,701** | **2,771** | **33,413** | **–** |
| **B. OFF-BALANCE SHEET EXPOSURES** | | | | | |
| a) Impaired | 11 | X | – | 11 | – |
| a) Non-impaired | X | 4,644 | 37 | 4,607 | – |
| **TOTAL (B)** | **11** | **4,644** | **38** | **4,618** | **–** |
| **TOTAL (A+B)** | **5,494** | **35,346** | **2,809** | **38,031** | **–** |

** Value to be displayed for information purposes*

### A.1.8. On-balance sheet credit exposures with banks: changes in gross impaired exposures

At 31 December 2018 there were no impaired exposures with banks.

### A.1.8bis On-balance sheet credit exposures with banks: changes in gross forborne exposures broken down by credit quality

At 31 December 2018 there were no on-balance-sheet forborne exposures to banks.

### A.1.9 On-balance sheet credit exposures with customers: changes in gross impaired exposures (€/000)

| Transactions/Categories | Non-performing loans | Unlikely to pay | Impaired overdue exposures |
|---|---|---|---|
| **A. Opening gross exposure** | **3,126** | **1,256** | **583** |
| - of which: exposures disposed of (not derecognised) | – | – | – |
| **B. Increases** | **495** | **789** | **1,142** |
| B.1 transfers from non-impaired exposures | 37 | 786 | 1,045 |
| B.2 transfers from impaired financial assets acquired or originated | – | – | – |
| B.3 transfers from other categories of impaired exposures | 391 | – | – |
| B.4 Contractual amendments not derecognised | – | – | – |
| B.5 other increases | 67 | 3 | 97 |
| **C. Decreases** | **781** | **531** | **596** |
| C.1 transfers to non-impaired exposures | – | – | 79 |
| C.2 write-offs | 494 | 10 | – |
| C.3 repayments | 287 | 451 | 196 |
| C.4 revenue from disposals | – | – | – |
| C.5 losses on disposals | – | – | – |
| C.6 transfers to other categories of impaired exposures | – | 70 | 321 |
| C.7 Contractual amendments not derecognised | – | – | – |
| C.8 other decreases | – | – | – |
| **D. Closing gross exposure** | **2,840** | **1,514** | **1,129** |
| - of which: exposures disposed of (not derecognised) | – | – | – |

### A.1.9bis On-balance sheet credit exposures with customers: changes in gross forborne exposures broken down by credit quality

(€/000)

| Transactions/Quality | Forborne exposures: impaired | Forborne exposures: non-impaired |
|---|---|---|
| **A. Opening gross exposure** | **1,115** | **1,350** |
| - of which: exposures disposed of (not derecognised) | – | – |
| **B. Increases** | **496** | **1,095** |
| B.1 transfers from non-impaired non-forborne exposures | 187 | 758 |
| B.2 transfers from non-impaired forborne exposures | 227 | X |
| B.3 transfers from impaired forborne exposures | X | – |
| B.4 other increases | 82 | 337 |
| **C. Decreases** | **497** | **483** |
| C.1 transfers to non-impaired non-forborne exposures | X | – |
| C.2 transfers to non-impaired forborne exposures | – | X |
| C.3 transfers to impaired forborne exposures | X | 227 |
| C.4 write-offs | 4 | – |
| C.5 repayments | 420 | 256 |
| C.6 revenue from disposal | – | – |
| C.7 losses on disposal | – | – |
| C.8 other decreases | 73 | – |
| **D. Closing gross exposure** | **1,114** | **1,962** |
| - of which: exposures disposed of (not derecognised) | – | – |

### A.1.10: On-balance sheet impaired exposures with banks: changes in total value adjustments

At 31 December 2018 there were no on-balance-sheet impaired exposures with banks.

### A.1.11 On-balance sheet impaired exposures with customers: changes in total value adjustments

***(€/000)***

| Transactions/Categories | Non-performing loans | | Unlikely to pay | | Impaired overdue exposures | |
|---|---|---|---|---|---|---|
| | Total | of which: forborne exposures | Total | of which: forborne exposures | Total | of which: forborne exposures |
| **A. Opening overall adjustments** | **1,687** | **–** | **440** | **354** | **150** | **43** |
| - of which: exposures disposed of (not derecognised) | – | – | – | – | – | – |
| **B. Increases** | **525** | **–** | **231** | **26** | **258** | **95** |
| B.1 Adjustments from impaired financial assets acquired or originated | – | X | – | X | – | X |
| B.2 Other adjustments | 394 | – | 138 | – | 135 | 50 |
| B.3 losses on disposal | – | – | – | – | – | – |
| B.4 transfers from other categories of impaired exposures | 126 | – | – | – | – | – |
| B.5 Contractual amendments not derecognised | – | X | – | X | – | X |
| B.6 other increases | 5 | – | 93 | 26 | 123 | 45 |
| **C. Decreases** | **708** | **–** | **229** | **111** | **252** | **81** |
| C.1 write-backs for valuations | 83 | – | 111 | 95 | 34 | 9 |
| C.2. write-backs for repayments | 131 | – | 71 | – | 117 | 38 |
| C.3 profits on disposals | – | – | – | – | – | – |
| C.4 write-offs | 494 | – | 10 | 4 | – | – |
| C.5 transfers to other categories of impaired exposures | – | – | 37 | 12 | 89 | 34 |
| C.6 Contractual amendments not derecognised | – | X | – | X | – | X |
| C.7 other decreases | – | – | – | – | 12 | – |
| **D. Closing overall adjustments** | **1,504** | **–** | **442** | **269** | **156** | **57** |
| - of which: exposures disposed of (not derecognised) | – | – | – | – | – | – |

**A.2 Classification of financial assets, commitments to disburse funds and financial guarantees given based on external and internal ratings**

**A.2.1 Breakdown of financial assets, commitments to disburse funds and financial guarantees given: by external ratings (gross amounts)**

***(€/000)***

| Exposures | External rating classes | | | | | | Unrated | Total |
|---|---|---|---|---|---|---|---|---|
| | Aaa/Aa3 | A1/A3 | Baa1/Baa3 | Ba1/Ba3 | B1/B3 | < B3 | | |
| **A. Financial assets measured at amortised cost** | – | – | **1,841** | **1,505** | – | – | **35,223** | **38,569** |
| - First stage | – | – | 1,841 | 1,505 | – | – | 18,603 | **21,949** |
| - Second stage | – | – | – | – | – | – | 11,137 | **11,137** |
| - Third stage | – | – | – | – | – | – | 5,483 | **5,483** |
| **B. Financial assets measured at fair value through other comprehensive income** | – | – | **6,550** | **992** | – | – | – | **7,542** |
| - First stage | – | – | 5,943 | 616 | – | – | – | **6,559** |
| - Second stage | – | – | 607 | 376 | – | – | – | **983** |
| - Third stage | – | – | – | – | – | – | – | – |
| **Total (A+B)** | – | – | **8,391** | **2,497** | – | – | **35,223** | **46,111** |
| of which: impaired financial assets acquired or originated | – | – | – | – | – | – | – | – |
| **C. Commitments to grant finance and financial guarantees granted** | – | – | – | – | – | – | **4,745** | **4,745** |
| - First stage | – | – | – | – | – | – | 4,739 | **4,739** |
| - Second stage | – | – | – | – | – | – | – | – |
| - Third stage | – | – | – | – | – | – | 6 | **6** |
| **Total C** | – | – | – | – | – | – | **4,745** | **4,745** |
| **Total (A + B + C)** | – | – | **8,391** | **2,497** | | – | **39,968** | **50,856** |

The risk classes for external ratings in this table refer to those used by the agency Moody's.

**A.2.2 Breakdown of financial assets, commitments to disburse funds and financial guarantees given: by internal ratings (gross amounts)**

This table is not provided, since the Bank used no internal rating models to manage credit risk.

## A.3 Breakdown of guaranteed exposures by type of guarantee

### A.3.1 On- and off-balance sheet guaranteed exposures with banks

This table is not provided, since the Bank has no secured on-balance sheet exposures with banks.

### A.3.2 On- and off-balance sheet guaranteed exposures with customers

***(€/000)***

| | Gross exposure | Net exposure | Guarantees secured by assets (1) | | | | Personal guarantees (2) | | | | | | | | | Total (1)+(2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Credit derivatives | | | | | Credit commitments | | | | |
| | | | | | | | Credit Linked Notes | Other derivatives | | | | | | | | |
| | | | Mortgaged property | Property under finance lease | Securities | Other real guarantees | | Central counterparties | Banks | Other financial companies | Other entities | Public Administrations | Banks | Other financial companies | Other entities | |
| **1. Guaranteed on-balance sheet exposures:** | **23,057** | **20,743** | **13,220** | **–** | **329** | **425** | **–** | **–** | **–** | **–** | **–** | **194** | **–** | **330** | **5,377** | **19,875** |
| 1.1 wholly secured | 21,265 | 19,162 | 12,756 | – | 329 | 177 | – | – | – | – | – | 194 | – | 330 | 5,377 | 19,163 |
| - of which impaired | 3,487 | 1,978 | 1,278 | – | – | 21 | – | – | – | – | – | 18 | – | – | 661 | 1,978 |
| 1.2 partially secured | 1,792 | 1,581 | 464 | – | – | 248 | – | – | – | – | – | – | – | – | – | 712 |
| - of which impaired | 1,297 | 1,120 | 366 | – | – | 30 | – | – | – | – | – | – | – | – | – | 396 |
| **2. Guaranteed off-balance sheet exposures:** | **3,354** | **3,329** | **–** | **–** | **–** | **115** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **27** | **3,181** | **3,323** |
| 2.1 wholly secured | 3,097 | 3,075 | – | – | – | 34 | – | – | – | – | – | – | – | 27 | 3,036 | 3,097 |
| - of which impaired | 4 | 4 | – | – | – | – | – | – | – | – | – | – | – | – | 4 | 4 |
| 2.2 partially secured | 257 | 254 | – | – | – | 81 | – | – | – | – | – | – | – | – | 145 | 226 |
| - of which impaired | 7 | 6 | – | – | – | 6 | – | – | – | – | – | – | – | – | – | 6 |

### A.4 Financial and non-financial assets obtained through the enforcement of guarantees received

**(€/000)**

| | Derecognized credit exposure | Gross value | Overall adjustments | Book value | |
|---|---|---|---|---|---|
| | | | | | of which obtained during the year |
| **A. Tangible assets** | – | – | – | – | – |
| A.1. Functional assets | – | – | – | – | – |
| A.2. Investment property | – | – | – | – | – |
| A.3. Inventories | – | – | – | – | – |
| **B. Equity securities and debt securities** | – | – | – | – | – |
| **C. Other assets** | – | – | – | – | – |
| **D. Non-current assets held for sale and disposal groups** | **82** | **82** | – | **82** | **82** |
| D.1. Tangible assets | 82 | 82 | – | 82 | 82 |
| D.2. Other assets | – | – | – | – | – |
| **Total December 2018** | **82** | **82** | – | **82** | **82** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

At the reporting date, the assets acquired amounted to € 82 thousand.

In particular, the item "Tangible assets" refers to the enforcement of a mortgage on residential property securing a loan.

## B. Breakdown and concentration of credit exposures

### B.1 Segment distribution of on- and off-balance sheet exposures with clients

**(€/000)**

| Exposures/Counterparties | Public Administrations | | Financial companies | | Financial companies (of which: insurance companies) | | Non-financial companies | | Households | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Overall adjustments | Net exposure | Overall adjustments | Net exposure | Overall adjustments | Net exposure | Overall adjustments | Net exposure | Overall adjustments |
| **A. On-balance sheet exposures** | | | | | | | | | | |
| A.1 Non-performing loans | – | – | – | – | – | – | 591 | 1,142 | 744 | 362 |
| of which: forborne exposures | – | – | – | – | – | – | – | – | – | – |
| A.2 Unlikely to pay | – | – | – | – | – | – | 1,030 | 412 | 42 | 30 |
| of which: forborne exposures | – | – | – | – | – | – | 352 | 267 | 3 | 2 |
| A.3 Impaired overdue exposures | – | – | – | – | – | – | 613 | 105 | 360 | 51 |
| of which: forborne exposures | – | – | – | – | – | – | 228 | 37 | 205 | 21 |
| A.4 Non-impaired exposures | 5,065 | 7 | 3,308 | 3 | – | – | 12,679 | 368 | 8,981 | 291 |
| of which: forborne exposures | – | – | – | – | – | – | 893 | 104 | 896 | 69 |
| **Total (A)** | **5,065** | **7** | **3,308** | **3** | **–** | **–** | **14,913** | **2,027** | **10,127** | **734** |
| **B. Off-balance sheet exposures** | | | | | | | | | | |
| B.1 Impaired exposures | – | – | – | – | – | – | 4 | – | 6 | 1 |
| B.2 Non-impaired exposures | – | – | 13 | – | – | – | 4,004 | 29 | 590 | 9 |
| **Total (B)** | **–** | **–** | **13** | **–** | **–** | **–** | **4,008** | **29** | **596** | **9** |
| **Total (A+B) 2018** | **5,065** | **7** | **3,321** | **3** | **–** | **–** | **18,921** | **2,056** | **10,723** | **744** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

### B.2 Geographical distribution of on- and off-balance sheet exposures with clients

***(€/000)***

| Exposures/ Geographical areas | Italy | | Other European countries | | America | | Asia | | Rest of the World | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Overall adjustments | Net exposure | Overall adjustments | Net exposure | Overall adjustments | Net exposure | Overall adjustments | Net exposure | Overall adjustments |
| **A. On-balance sheet exposures** | | | | | | | | | | |
| A.1 Non-performing loans | 1,320 | 1,501 | 15 | 3 | – | – | – | – | – | – |
| A.2 Unlikely to pay | 1,072 | 442 | – | – | – | – | – | – | – | – |
| A.3 Impaired overdue exposures | 973 | 156 | – | – | – | – | – | – | – | – |
| A.4 Non-impaired exposures | 29,198 | 669 | 835 | – | – | – | – | – | – | – |
| **Total (A)** | **32,563** | **2,768** | **850** | **3** | – | – | – | – | – | – |
| **B. Off-balance sheet exposures** | | | | | | | | | | |
| B.1 Impaired exposures | 11 | 1 | – | – | – | – | – | – | – | – |
| B.2 Non-impaired exposures | 4,607 | 37 | – | – | – | – | – | – | – | – |
| **Total (B)** | **4,618** | **38** | – | – | – | – | – | – | – | – |
| **Total (A+B) 2018** | **37,181** | **2,806** | **850** | **3** | – | – | – | – | – | – |
| **Total (A+B) 2017** | **33,865** | **2,271** | **2,115** | **5** | – | – | – | – | – | – |

### B.3 Geographical distribution of on- and off-balance sheet exposures with banks

**(€/000)**

| Exposures/Geographical areas | Italy | | Other European countries | | America | | Asia | | Rest of the World | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Overall adjustments | Net exposure | Overall adjustments | Net exposure | Overall adjustments | Net exposure | Overall adjustments | Net exposure | Overall adjustments |
| **A. On-balance sheet exposures** | | | | | | | | | | |
| A.1 Non-performing loans | – | – | – | – | – | – | – | – | – | – |
| A.2 Unlikely to pay | – | – | – | – | – | – | – | – | – | – |
| A.3 Impaired overdue exposures | – | – | – | – | – | – | – | – | – | – |
| A.4 Non-impaired exposures | 14,353 | 41 | 2,925 | 2 | – | – | – | – | – | – |
| **Total (A)** | **14,354** | **41** | **2,925** | **2** | – | – | – | – | – | – |
| **B. Off-balance sheet exposures** | | | | | | | | | | |
| B.1 Impaired exposures | – | – | – | – | – | – | – | – | – | – |
| B.2 Non-impaired exposures | 90 | – | – | – | – | – | – | – | – | – |
| **Total (B)** | **90** | – | – | – | – | – | – | – | – | – |
| **Total (A+B) December-2018** | **14,443** | **41** | **2,925** | **2** | – | – | – | – | – | – |
| **Total (A+B) December-2017** | **16,226** | – | **3,386** | – | – | – | – | – | – | – |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

### B.4 Major exposures

***(€/000)***

| | 2018 | 2017 |
|---|---|---|
| a) Amount (book value) | 19,160 | 22,748 |
| b) Amount (weighted value) | 13,602 | 16,261 |
| c) Large exposures: number of positions | 6 | 8 |

At the reporting date, there were risk positions representing a major risk for a nominal value of € 19,160 thousand.
These positions include:

- € 5,985 thousand from exposures to the Italian state, consisting mainly of Italian government securities;
- € 13,175 thousand from exposures to Supervised Institutions, consisting of € 7,814 thousand from on-demand interbank exposures and for the residual amount, primarily, of securities issued by Italian banks.

## C. Securitisations

There were no items to be reported in the tables of Section C. Securitisation envisaged by Banca d'Italia Circular 262, 5th update of 22 December 2017.

## D. Disclosures related to unconsolidated structured entities (other than special purpose vehicles for securitisation)

There were no items to be reported in the tables of Section D. Disclosures related to unconsolidated structured entities (other than special purpose vehicles for securitization) envisaged by Banca d'Italia Circular 262, 5th update of 22 December 2017.

## E. Disposals

There were no items to be reported in the tables of Section E. Disposals envisaged by Banca d'Italia Circular 262, 5th update of 22 December 2017.

## F. Credit risk measurement models

The Bank does not use internal models for measuring credit risk.

**Section 2 – Market risks**

Market risk is the general risk associated with the unpredictable performance of macro-economic variables. Therefore, the development of operations on the financial markets and trading in securities and currencies may lead to increased risks associated with changes in market prices that result in:

- Interest rate risk
- Price/equity risk
- Exchange rate risk

Before analysing each risk category, please note that for the purposes of this Section, the quantitative and qualitative information is reported with reference to the "trading book" and the "banking book" as defined in the legislation governing supervisory reporting. In particular, the trading book comprises all the financial instruments subject to capital requirements for market risks.

**2.1 – Interest rate risk and price risk – Regulatory Trading Book**
**Qualitative information**
**A. General aspects**

Following the introduction of IFRS 9, as amply explained above, the Bank has defined its business models for the management of its financial assets. Therefore, based on the new classification introduced by the accounting standard, the supervisory trading book for FY 2018 is made up of debt securities allocated to the HTS (Hold to Sell / Trading) business model. The aforementioned portfolio is held according to trading strategies and includes positions in financial assets held for the purpose of benefiting from differences between purchase and selling prices resulting from the materialization of expected short-term market movements and/or from arbitrage opportunities.
The management strategy is trading-oriented, with trading being carried out through the Trading Desk with the objective of achieving adequate profitability from opportunities offered by financial markets. Profit targets are mainly pursued through the change in the fair value of the instruments held in the portfolio.
The main risk associated with managing the Trading book is, in general, market risk and specifically, position risk, linked to potential losses resulting from fluctuations in the prices of the financial instruments that make up the Trading Book.
The associated capital absorption is measured according to the standardized approach.
The regulatory trading book is composed mainly of Euro-denominated debt securities of issuers from Zone A countries. Furthermore, the Bank does not take speculative positions in derivatives and does not trade equities.

**B. Measurement and management of market rate risk and price risk**

Interest rate risk is the effect on price due to changes in interest rates on financial markets. This effect depends on the characteristics of the instrument, such as, for example, its residual life, the coupon rate and any early repayment options.
Therefore, the risk of a change in interest rates having an adverse impact on the Bank's financial situation is inherent in the trading business, as the Bank's performance is affected by the fluctuations in interest rates in Europe and in the other markets where it carries out its business.
In view of this and given the impossibility to fully predict changes to securities and currency prices and, in general, the evolution of markets, the Bank implements management policies and control systems which ensure sound and prudent management of market risks, in line with the general guidelines established by the Board of Directors.
They respond to the twofold need of:

- regulating operations in the financial markets area according to specific business objectives in terms of risk/return;
- complying with the directions given by Banca d'Italia, in terms of capital requirements.

In particular, in order to limit the risk of changes in interest rates and fluctuations in market prices, the activity on the regulatory trading book is governed by the operating limits established in the "Financial Markets Regulation", approved by the Board of Directors and regularly audited.
These limits were set with reference to the following control parameters, which are built into the Bank's IT system:

- "modified duration", an indicator generally used for bond-like instruments;
- "VAR", a model for evaluating the risk involved in a given financial portfolio;
- short sales;
- stop loss.

In order to verify the effectiveness of the measures adopted, the Bank uses a "Control System", which is organised differently at the various levels within the Bank; each person involved in the system is responsible both for the supervisory activities and for reporting on the results of their audits.
The system is organised into the three levels outlined below:

1. first-level controls or line checks, aimed at ensuring that operations are properly carried out; these controls are carried out directly by operating managers, who, during daily operations, verify compliance with the limits set into the system. Moreover, with particular reference to financial activities, first-level controls are ensured automatically through the IT system on the basis of the control parameters set into the system;
2. second-level controls, which are the responsibility of:
   - ✓ Back Office which, in the ordinary course of transaction processing, verifies compliance with the system of limits and the proper exercise of authorities. It identifies any transactions not completed due to non-compliance with one or more of the control parameters established and requests their approval by the persons in charge;
   - ✓ Risk Management department, which monitors the activity, verifying transactions carried out and performing an overall assessment of the risk to which the Bank is exposed in relation to market trends, the nature of the instruments traded and the issuers and the counterparties involved;
3. third-level controls, carried out by Internal Audit, which, on the basis of a plan specifically set out for the purpose, verifies any anomalies or breaches of procedures and internal and external regulations, also assessing the functionality and adequacy of the overall internal control system.

On the other hand, with respect to the method adopted to measure the risk in question, the Bank performs systematic stress tests through sensitivity analyses of the regulatory trading book following an hypothetical interest rate shock of +/- 100 bps.

**Quantitative information**

### 1. 1. Regulatory trading book: breakdown of cash financial assets and liabilities and financial derivatives by residual term (repricing date)

**(€/000)**

| Type/Residual term | Sight | Up to 3 months | From over 3 to 6 months | From over 6 months to 1 year | From over 1 year to 5 years | From over 5 to 10 years | Over 10 years | Unlimited term |
|---|---|---|---|---|---|---|---|---|
| **1. On-balance sheet assets** | – | – | – | **1,309** | **5,165** | **838** | – | – |
| 1,1 Debt securities | – | – | – | 1,309 | 5,165 | 838 | – | – |
| - with option of early redemption | – | – | – | – | 1,084 | – | – | – |
| - other | – | – | – | 1,309 | 4,081 | 838 | – | – |
| 1.2 Other assets | – | – | – | – | – | – | – | – |
| **2. On-balance sheet liabilities** | – | – | – | – | – | – | – | – |
| 2.1 Repurchase agreements | – | – | – | – | – | – | – | – |
| 2.2 Other liabilities | – | – | – | – | – | – | – | – |
| **3. Financial derivatives** | – | – | – | – | – | – | – | – |
| 3.1 With underlying security | – | – | – | – | – | – | – | – |
| - Options | – | – | – | – | – | – | – | – |
| + long positions | – | – | – | – | – | – | – | – |
| + short positions | – | – | – | – | – | – | – | – |
| - Other derivativ | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| es | – | – | – | – | – | – | – | – |
| + long positions | – | – | – | – | – | – | – | – |
| + short positions | – | – | – | – | – | – | – | – |
| 3.2 Without underlying security | – | – | – | – | – | – | – | – |
| - Options | – | – | – | – | – | – | – | – |
| + long positions | – | – | – | – | – | – | – | – |
| + short positions | – | – | – | – | – | – | – | – |
| - Other derivatives | – | – | – | – | – | – | – | – |
| + long positions | – | – | – | – | – | – | – | – |
| + short positions | – | – | – | – | – | – | – | – |

The Bank has assessed its vulnerability to adverse market scenarios through stress tests, by applying to the regulatory trading book an assumed shift of +/-100 bps in interest rates, in accordance with Regulatory regulations in force.

The results of the stress test on the Bank's brokerage margin, profit for the year and shareholders' equity are summarized in the table below.

| Assumed change in interest rates | Δ Brokerage margin | Δ Operating result | Δ Shareholders' equity |
|---|---|---|---|
| +100 bps | -3.17% | -7.49% | -0.84% |
| - 100 bps | 3.66% | 8.66% | 0.97% |

**2. Regulatory trading book: breakdown of exposures in equity securities and equity indices by the major listing market Countries**

The table in question is not filled out as the exposures in equity securities and share indices were lower than € one thousand at the reporting date.

**3. Regulatory Trading book - internal models and other sensitivity analysis methods**

The Bank does not use internal models for measuring the risk in question.

**2.2 – Interest rate risk and price risk - Banking book**

**Qualitative information**

**A. General aspects, measurement and management of market rate risk and price risk**

The risk of a change in interest rates having an adverse impact on the Bank's financial situation is inherent in the banking book.
Therefore, the sources of interest rate risk to which the Bank is exposed mainly consist in the assets and liabilities making up the banking book, namely:

- receivables;
- debt securities;
- various types of funding from customers.

Interest rate risk, essentially, arises from mismatches between asset and liability items sensitive to changes in interest rates in terms of amount, maturity, financial duration, and interest rate.
In line with the nature and complexity of its business, the Bank has put in place appropriate mitigation and control measures to contain the extent of this risk.
Specifically, from an organizational standpoint, the Bank has identified Risk Management as the unit in charge of overseeing the interest rate risk management process for the banking book, with the monitoring activity being performed quarterly.

As regards the method adopted to measure the risk in question, the Bank uses the methodological guidelines provided for in Circular 285/2013, as amended, consistent with the guidelines provided by the Basel Committee, for the implementation of the simplified approach to calculate own funds with respect to the interest rate risk of the banking book under ordinary and stressed conditions.
In particular, the 20th update of circular 285/2013 of 21 November 2017 implemented ABE guidelines on the management of interest rate risk in the banking book. With reference to the measurement of interest rate risk from the interest income or expected profits perspective, the bank is making the necessary adjustments in order to make use of adequate instruments that comply with regulations.
Thus, this methodology assesses the impact of a hypothetical change in interest rates of +/- 200 basis points on the exposure to interest rate risk of the banking book.

Specifically, the application of the aforementioned simplified method is based on the following logical steps.

1. Defining the banking book: consisting of all assets and liabilities not included in the regulatory trading portfolio.
2. Determination of the "relevant currencies", i.e. currencies whose weight measured as a share of total assets or liabilities in the banking book is greater than 5%. Each relevant currency defines an aggregated position. Currencies whose weight is less than 5% are aggregated among them.
3. Classification of assets and liabilities in time brackets: 14 time brackets have been defined. Fixed rate assets and liabilities are classified according to their residual life, those with a floating rate based on the interest rate renegotiation date. Except for specific classification rules for certain assets and liabilities, assets and liabilities are included in the due date schedule according to the criteria set forth in Circular 272 "Manual for completing the Accounts Matrix". Non-performing, unlikely to pay and impaired past-due and/or overdrawn positions must be recorded in the relevant residual life classes based of the expected recovery of underlying cash flows as measured by the bank for the purpose of the latest available financial statement valuations: in this respect, it should be noted that for any impaired exposures subject to forbearance measures (forborne non-performing), reference is made to the cash flows and maturity dates agreed upon renegotiation / refinancing of the position. Likewise, forborne performing exposures are allocated to the time brackets on the basis of the new agreed conditions (relating to the amounts, at the re-pricing dates for variable rate exposures and at the new maturities for fixed rate exposures). Non-performing exposures for which cash flow recovery forecasts are not available are allocated to the different time brackets on a proportional basis, using as allocation basis the distribution in the various residual life brackets of the recovery forecasts of other impaired positions (with the same type of deterioration).
4. Weighting of the net exposures of each bracket: in each bracket assets and liabilities are offset, obtaining a net position. The net position of each bracket is multiplied by the corresponding weighting factor. The weighting factors by bracket are calculated as the product of an approximation of the modified duration of the bracket and a hypothetical change in rates. For downward scenarios, negative rates of interest are excluded.

5. Sum of the net weighted exposures of the various brackets: the net weighted exposure of the individual aggregates approximates the change in present value of the items denominated in the currency of the aggregate in the event the assumed rate shock materializes.
6. Aggregation in the various currencies: the positive exposures relating to the individual "significant currencies" and the aggregate of the non-relevant currencies" are added together. The value thus obtained is the change in economic value given the assumed scenario.

In determining own funds under ordinary conditions, the Bank takes into account the annual changes in interest rates recorded over a 6-year observation period, alternatively considering the 1st percentile (downward) or 99th percentile (upward). For downward scenarios, negative rates of interest are excluded.
The Bank determines the risk indicator, which is the ratio of internal capital, quantified given the assumed interest rate scenario, to the value of own funds. The attention threshold was set at 20% by Banca d'Italia.
The Bank monitors compliance with the aforementioned threshold on a quarterly basis for internal management purposes. If the Bank's economic value decreases by more than 20% of its own funds, the Bank undertakes appropriate initiatives based on the actions defined by the Supervisory Authority.
With respect to current market conditions, the Bank considers that the parallel shift of the curve of +/- 200 basis points for the purpose of determining the internal capital in ordinary conditions is also sufficient for the stress test. For downward scenarios, the bank ensures compliance with the restriction on non-negative interest rates.

Price risk on the banking book is calculated by the Bank using the Monte Carlo method, over a time horizon of 1 month and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors which determine the exposure of the invested portfolio to market risk (including interest rate risk, equity risk, exchange rate risk and inflation risk).

**Quantitative information**

### 1. Banking book: breakdown of financial assets and liabilities by residual duration (by repricing date)

***(€/000)***

| Type/Residual term | Sight | Up to 3 months | From over 3 to 6 months | From over 6 months to 1 year | From over 1 year to 5 years | From over 5 to 10 years | Over 10 years | Undetermined term |
|---|---|---|---|---|---|---|---|---|
| **1. On-balance sheet assets** | **15,620** | **13,866** | **168** | **906** | **9,090** | **3,502** | **155** | **–** |
| 1,1 Debt securities | – | – | – | 802 | 7,735 | 3,221 | – | – |
| - with option of early redemption | – | – | – | – | – | 11 | – | – |
| - other | – | – | – | 802 | 7,735 | 3,210 | – | – |
| 1.2 Loans to banks | 7,993 | 226 | – | – | – | – | – | – |
| 1.3 Loans to customers | 7,627 | 13,640 | 168 | 104 | 1,355 | 281 | 155 | – |
| - current accounts | 3,209 | 3 | 119 | 5 | 120 | 9 | – | – |
| - other loans | 4,418 | 13,637 | 49 | 99 | 1,235 | 272 | 155 | – |
| - with option of early redemption | – | – | – | – | – | – | – | – |
| - other | 4,418 | 13,637 | 49 | 99 | 1,235 | 272 | 155 | – |
| **2. On-balance sheet liabilities** | **28,555** | **6,658** | **6,159** | **2,732** | **1,691** | **–** | **–** | **–** |
| 2.1 Payables to customers | 28,494 | 1,658 | 1,898 | 738 | 1,691 | – | – | – |
| - current accounts | 26,740 | – | – | – | – | – | – | – |
| - other payables | 1,754 | 1,658 | 1,898 | 738 | 1,691 | – | – | – |
| - with option of early redemption | – | – | – | – | – | – | – | – |
| - other | 1,754 | 1,658 | 1,898 | 738 | 1,691 | – | – | – |
| 2.2 Payables to banks | 61 | 5,000 | – | 1,501 | – | – | – | – |
| - current accounts | 1 | – | – | – | – | – | – | – |
| - other payables | 60 | 5,000 | – | 1,501 | – | – | – | – |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2,3 Debt securities | – | – | 4,261 | 493 | – | – | – | – |
| - with option of early redemption | – | – | – | – | – | – | – | – |
| - other | – | – | 4,261 | 493 | – | – | – | – |
| 2.4 Other liabilities | – | – | – | – | – | – | – | – |
| - with option of early redemption | – | – | – | – | – | – | – | – |
| - other | – | – | – | – | – | – | – | – |
| **3. Financial derivatives** | – | – | – | – | – | – | – | – |
| 3.1 With underlying security | – | – | – | – | – | – | – | – |
| - Options | – | – | – | – | – | – | – | – |
| + long positions | – | – | – | – | – | – | – | – |
| + short positions | – | – | – | – | – | – | – | – |
| - Other derivatives | – | – | – | – | – | – | – | – |
| + long positions | – | – | – | – | – | – | – | – |
| + short positions | – | – | – | – | – | – | – | – |
| 3.2 Without underlying security | – | – | – | – | – | – | – | – |
| - Options | – | – | – | – | – | – | – | – |
| + long positions | – | – | – | – | – | – | – | – |
| + short positions | – | – | – | – | – | – | – | – |
| - Other derivatives | – | – | – | – | – | – | – | – |
| + long positions | – | – | – | – | – | – | – | – |
| + short positions | – | – | – | – | – | – | – | – |
| **4. Other off-balance sheet** | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **transactions** | – | – | – | – | – | – | – | – |
| + long positions | – | – | – | – | – | – | – | – |
| + short positions | – | – | – | – | – | – | – | – |

The Bank has assessed its vulnerability to adverse market scenarios through stress tests, by applying to the banking book an assumed shift of +/-100 bps in interest rates, in accordance with the regulatory rules in force.
The results of the stress test on the Bank's brokerage margin, profit for the year and shareholders' equity are summarized in the table below.

| **Assumed change in interest rates** | **Δ Interest margin** | **Δ Operating result** | **Δ Shareholders' equity** |
|---|---|---|---|
| +100 bps | -1.03% | -0.80% | -2.54% |
| - 100 bps | -0.71% | -0.55% | 0.07% |

The table below shows the capital requirement resulting from a hypothetical change in rates, taking as reference the annual changes in historical interest rates recorded over the 2011-2017 period, and alternatively considering the 1st percentile (decrease / floor with non-negative rates constraint) and 99th percentile (upward / cap). The maximum exposure, which was taken into account, was obtained by applying the floor.

In accordance with the applicable legislation, we also calculated the "Risk Index" (ratio of own funds for the risk in question to the Bank's own funds) which at 31 December 2018 was 0.29%. This value is considerably lower than the 20% limit value set by Banca d'Italia.

| | **31/12/2018 (€/000)** |
|---|---|
| Capital requirement with respect to interest rate risk under ordinary conditions | 34 |
| Own funds | 11,742 |
| Risk Index (20% threshold) | 0.29% |

For the estimate of own funds under stressed conditions, the hypothetical changes in rates are determined on the basis of scenarios predefined by the Bank, which assume parallel and non-parallel shifts of the interest rate curve, as well as a parallel change of +/- 200 basis points. Again, for downward scenarios, negative rates of interest are excluded.
By comparing the results obtained by applying the various alternative scenarios with the result obtained under ordinary conditions, as envisaged by prudential regulations, the Bank was found to be more vulnerable to the latter situation. Given the composition of the entire banking book, this condition represents the most appropriate stress situation to "test" its capital strength.
It follows that the own funds for the risk in question is the same as in normal conditions.

In addition to monitoring interest rate risk using the above methodology, the Bank performs systematic stress tests through a sensitivity analysis of the banking book following a hypothetical interest rate shock.
The vulnerability assessment of the banking book is summarized in a special "sensitivity report", drawn up on a monthly basis, with the support of Cassa Centrale Banca, which estimates the impact on the present value of asset and liability items of a hypothetical shift of the yield curve of +/- 100 and +/- 200 basis points.
This impact is further broken down by individual technical form of asset and liability to identify their contribution to the overall sensitivity and capture the different response of fixed and floating rate positions.

***2. Banking book – internal models and other sensitivity analysis methods***

The Bank does not use internal models for measuring the risk in question.

### 2.3 Exchnage rate risk

Exchange rate risk is the risk of a loss in the purchasing power of a currency held and of an impairment in receivables resulting from adverse changes to the foreign exchange rates.

### Qualitative information

#### A. General aspects, management and measurement of exchange rate risk

The exchange rate risk to which the Bank is exposed is assessed with reference to the receivables and payables denominated in foreign currencies. Receivables in foreign currency consist exclusively of deposits with clearing houses and/or banks, made up of commissions generated from securities trading on OTC markets (Eurobonds), which takes place in the instrument's currency of denomination.
The main balances generally consist of cash deposits in U.S. dollars, which are considered as a strategic currency from the point of view of volumes.
In order to limit exchange rate risk, the Bank has management policies and control systems in place which ensure sound and prudent risk management, in line with the general guidelines established by the Board of Directors.
In particular, the "Financial Markets Regulations" lay down limitations on the assumption of foreign currency positions both in terms of currency and volume. In addition, exposure to currency risk is measured through a method that reflects the requirements of the relevant supervisory regulations. This is based on the calculation of the "net foreign exchange positions", i.e. the net balance of all assets and liabilities (on and off balance-sheet) for each currency. The internal audit system previously described provides for the periodic verification of the adequacy of and compliance with the limits set by the Regulations.

#### B. Currency exchange hedge

At the reporting date of 31 December 2018 there were no outstanding foreign currency hedges.

**Quantitative information**

**1. Breakdown by currency of assets, liabilities and derivatives**

***(€/000)***

| Items | Currencies | | | | | |
|---|---|---|---|---|---|---|
| | US Dollar | British Pound | Yen | Canadian Dollar | Swiss Frank | Other currencies |
| **A. Financial assets** | **649** | **13** | – | – | – | – |
| A.1 Debt securities | – | – | – | – | – | – |
| A.2 Equity securities | – | – | – | – | – | – |
| A.3 Loans to banks | 649 | 13 | – | – | – | – |
| A.4 Loans to customers | – | – | – | – | – | – |
| A.5 Other financial assets | – | – | – | – | – | – |
| **B. Other assets** | – | – | – | – | – | – |
| **C. Financial liabilities** | **376** | – | – | – | – | – |
| C.1 Payables to banks | – | – | – | – | – | – |
| C.2 Trade payables | 376 | – | – | – | – | |
| C.3 Debt securities | – | – | – | – | – | – |
| C.4 Other financial liabilities | – | – | – | – | – | – |
| **D. Other liabilities** | – | – | – | – | – | – |
| **E. Financial derivatives** | – | – | – | – | – | – |
| - Options | – | – | – | – | – | – |
| + long positions | – | – | – | – | – | – |
| + short positions | – | – | – | – | – | – |
| - Other derivatives | – | – | – | – | – | – |
| + long positions | – | – | – | – | – | – |

| | | | | | | |
|---|---|---|---|---|---|---|
| + short positions | – | – | – | – | – | – |
| **Total assets** | **649** | **13** | – | – | – | – |
| **Total liabilities** | **376** | – | – | – | – | – |
| **Imbalance (+/-)** | **273** | **13** | – | – | – | – |

The Bank's overall exposure to exchange rate risk is very limited: therefore, the effects of changes in exchange rates on brokerage margin, profit for the year and shareholders' equity as well as the results of the scenario analysis are not reported.

The amounts in the table relate to:

- deposits with banks in foreign currencies for trading activities;
- cash balances in foreign currencies related to customer deposits.

**2. Internal models and other sensitivity analysis methods**

The Bank does not use internal models for measuring the risk in question.

**Section 3 – Derivative instruments and hedging policies**

There were no items to be reported in the tables of this Section envisaged by Banca d'Italia Circular 262, 5th update of 22 December 2017.

**Section 4 – Liquidity risk**

It is the risk that:
- in relation to banking activities:
  1. in a lending transaction, the customer-debtor fails to fulfil their monetary obligations within the agreed time limits;
  2. the Bank is unable to fulfil its obligations as they fall due;
- in relation to financial brokerage activities, in a securities transaction, it is difficult to liquidate market positions within the desired time limits.

**Qualitative information**

**A. General issues, management processes, and methods of measurement for liquidity risk**

Banks are naturally exposed to liquidity risk – or rather, the risk of not being able to fulfil their payment obligations due to the inability to gather funding in the market (funding liquidity risk) or to ensure asset disposal (asset liquidity risk) – due to the transformation of maturities. Having access to an adequate system for regulating and managing this risk plays a fundamental role in maintaining stability not only for the individual bank, but also for the market in general, considering that the imbalances of a single financial institute may have repercussions across the board.
To this end, in line with prudential supervisory requirements, the Bank has adopted:
- a specific "Liquidity Risk Governance and Management Policy", for the management of liquidity in the "ordinary" course of business;
- a "Contingency Funding and Recovery Plan", which is an integral and substantial part of the policy as it governs the process, roles and responsibilities in case the Bank finds itself in a "liquidity stress" situation.

**1. Liquidity Risk Governance Policy**
The liquidity risk can be generated by various factors both internal and external to the Bank. The sources of liquidity risk can therefore be distinguished into the following macro-categories:
0) internal: specific adverse events of the Bank (e.g. deterioration of the Bank's creditworthiness and loss of confidence by creditors);
**7.** external: when the origin of risk is attributable to negative events that cannot be directly controlled by the Bank (political crises, financial crises, catastrophic events, etc.) which lead to liquidity stress on the markets;
**8.** combinations of the above factors.
The factors underlying liquidity risk are identified through the following process:
**9.** analysis of the time distribution of cash flows from financial assets and liabilities and from off-balance sheet transactions;
**10.** detection:
0) of items that do not have a defined maturity (items "at sight and on demand");
- of financial instruments that incorporate (express or implied) options which can change the amount and / or the time distribution of cash flows (for example, early repayment options);
- of financial instruments which by their nature generate cash flows that vary depending on the performance of specific underlying assets (for example, derivatives);
- analysis of the seniority level of financial instruments.

The objective of the "Liquidity Risk Governance and Management Policy" is to establish internal guidelines and rules for the management of liquidity and *funding*, to ensure the Bank maintains and manages an appropriate liquidity level, including as part of the adequacy self-assessment under current, prospective and*stressed conditions*.
In particular, in compliance with the principle of proportionality and taking into account the operating size and organizational complexity of the Bank, the nature of its business and the type of services offered, we first

defined the roles, tasks and responsibilities of the organizational units involved in the liquidity management process.

Subsequently, we identified the step that make up the "Liquidity risk management process", which is designed to ensure that a sufficient amount of liquid assets is maintained over time under stress scenarios relating to events that affect the bank and the market. These activities are:

1. Identification of risk factors and measurement of risk exposure;
2. Conducting stress tests;
3. Definition of mitigation tools;
4. Controls;
5. Reporting.

Consistent with legal provisions applicable to banks in Class 3 and with the principle of proportionality, the Bank carries out monthly stress tests in terms *of sensitivity analysis* or "*scenario analysis*". The latter, carried out according to a qualitative approach based on company experience and on indications provided by the regulations and supervisory guidelines, envisage two liquidity stress "scenarios": market/systemic and specific for the individual bank. In particular, the Bank carries out the stress test by extending the scenario envisaged by the LCR regulation, in order to assess the impact of adverse events on risk exposure and on the adequacy of "liquidity reserves" both from a quantitative and qualitative standpoint.
Through these tests, we assume that the Bank is facing difficulties or is unable to meet its commitments as they fall due unless it undertakes procedures and/or uses tools that, due to their intensity and/or method of application, deviate from ordinary management.
More specifically, the Bank's ability to cope with liquidity stresses using its own funds, is first and foremost assessed through ongoing monitoring, including on a prospective basis (when performing the "ICAAP-ILAAP" structured reporting), of compliance with the short-term minimum capital requirement indicator, namely the *Liquidity Coverage Ratio*" - "LCR".
In this regard it should be noted that the European Commission (EU) Delegated Regulation no. 61/2015 introduced the *Liquidity Coverage Requirement (LCR*) for credit institutions (hereinafter RD-LCR). The LCR is a short-term rule aimed at ensuring that each bank has available liquid assets enabling them to survive in the short/very short term in the event of acute stress, without resorting to the market. The indicator compares the liquid assets available to the bank with the net cash outflows (difference between gross outflows and inflows) expected over a period of 30 calendar days, the latter developed taking into account a predefined *stress* scenario.

Furthermore, with the same frequency, an additional *stress test* is performed on the regulatory "LCR" indicator that assumes an additional *shock* in terms of *haircut* to "high quality" securities in the Bank's portfolio.
the Bank intends to pursue a dual objective:

1. the management of **operational liquidity** aimed at verifying the Bank's ability to meet expected and unforeseen short-term cash payment commitments (up to 12 months);
2. the management of **structural liquidity** aimed at maintaining an adequate ratio of total liabilities to medium / long-term assets (over 12 months).

The Bank has set up two level of controls to monitor its short-term operational liquidity:

0) the first level provides for the *daily / infra-monthly* monitoring of the treasury position;
– the second level provides for the monthly monitoring of the overall operational liquidity position.

With reference to the monthly monitoring of the overall **operational liquidity** position, the Bank uses the monthly analytical reports provided by Cassa Centrale Banca as part of its Management Consulting Service.

The monthly measurement and monitoring of the **operational liquidity** position is carried out through:

– the LCR indicator, for the 30-day liquidity position, as determined on the basis of the RD-LCR and reported (according to the outline prepared by EBA) to the supervisory authority on a monthly basis;
– the "Management Liquidity Indicator" covering different time frames up to 12 months, consisting of the ratio of liquid assets to net cash flows calculated with management metrics under ordinary business conditions;
– its liquidity position through the "Time To Survival" indicator, designed to measure the ability to cover the liquidity imbalance generated by the ordinary operation of balance sheet items;
– a set of summary indicators designed to detect vulnerabilities in the Bank's liquidity position with respect to the various significant risk factors, such as concentration of repayments, concentration of deposits, dependence on interbank funding;
– the quantification of Readily Marketable Assets.

With reference to the management of the **structural liquidity**, the Bank uses the monthly analytical reports provided by Cassa Centrale Banca as part of its Management Consulting Service.

The "Transformation of Maturities" indicators measure the term and amount of loans to customers, of customer time deposits and of the available assets in order to assess the consistency and sustainability over time of the Bank's financial structure.

The "*Net Stable Funding Ratio*" indicator consisting of the ratio of stable funding sources to medium-long term assets. The indicator was defined according to a logic similar to the structural liquidity rule established by the *Basel 3* regulatory framework.
With specific reference to the audit phase, this aims to determine on the one hand, the effectiveness of the protective measures adopted by the Bank and, on the other, the long-term appropriateness of the limits set.
In order to guarantee a proper management of the liquidity risk for both short term (up to 1 year) and medium/long-term (over 1 year), integrated controls are performed and differently organized according to the various levels within the Bank, in order to prevent multiple audits of operating units.

In particular, audits are carried out by the following departments:

- *Treasury*
- *Risk Management*
- *Internal Audit*

The Treasury function is responsible for managing both short-term and structural liquidity and *funding.*
It carries out its activities in compliance with the authorizations and authorization procedures provided by the Board of Directors and with any other guidance provided by the Chief Executive Officer, by taking appropriate steps to secure the resources required to meet the Bank's payment commitments.

The *Risk Management* function, which is independent from the operational "liquidity risk management" functions, contributes to developing the "Liquidity Risk Governance and Management Policy", verifies compliance with the limits imposed and proposes risk mitigation initiatives to the Corporate Bodies.
It is in charge of measuring and controlling both "short term" and "structural" liquidity risk, under "normal" and "stressed" conditions, to verify the effectiveness of the bank's control measures and the adequacy over time of established operating limits.
More in detail, the *Risk Management* function monitors liquidity risk by:

- verifying that the bank has the "very short-term" liquidity (1 to 30 days) and "short-term" liquidity (up to 12 months) necessary to carry out operations, respectively on a daily and monthly basis;
- monitoring compliance with operational limits to the assumption of liquidity risks on a monthly basis, through the observation of *early warning* "short-term" and "structural" indicators;
- performing *stress tests*" on a monthly basis;
- monitoring "systemic" and "specific" early warning indicators, respectively on a daily and monthly basis.

To this end, with the support of Cassa Centrale Banca, the *Risk Management* function adopts data collection and processing procedures at suitable intervals that ensure the production of reliable and timely information. Such information is incorporated in specific *"reports*" developed to support the measurement and control of liquidity risk which are submitted to the Board of Directors on a *monthly* basis.

The *Internal Audit* function also conducts regular audits on:

- the adequacy of the system for collection and verification of information;
- the system for measuring liquidity risk and the pertinent internal evaluation process, as well as the pertinent *stress*testing process;
- the process of reviewing and updating the Emergency Plan;

It also assesses the functioning and reliability of the overall control system in place for liquidity risk management and verifies that the corporate functions and bodies make full use of the information available.
Reviews and updates of the Policy are approved by resolution of the Board of Directors.

### 2. *Contingency Funding Plan*

To cope with adverse funding situations and to readily cover liquidity needs, a specific instrument has been put in place called ""*Contingency Funding and Recovery Plan*" - "*CFRP*"*.*

The Plan's main objective is to protect the Bank's assets in situations of liquidity drain by putting in place crisis management strategies and procedures to be triggered in order to mitigate the negative impact and to obtain funding in the event of additional and/or alternative sources of financing.
In particular, the CFRP documents the management of any specific or systemic liquidity crisis in terms of mitigating actions available to the Bank and responsibilities assigned to the relevant corporate functions.
The Plan, therefore, responds to stress conditions, intended as situations other than ordinary business, in which the Bank is able to meet its liquidity requirements through its self-funding ability.
Reviews and updates of the Plan are approved by resolution of the Board of Directors.

The recourse to refinancing with the ECB amounted to € 5 million and consisted exclusively of funding from participation in the ECB's Open Market Operations (OMA)

## Quantitative information
## 1. Time distribution by residual contract term of financial assets and liabilities

***(€/000)***

| Items/Time frames | Sight | From over 1 day to 7 days | From over 7 to 15 days | From over 15 days to 1 month | From over 1 month to 3 months | From over 3 to 6 months | From over 6 months to 1 year | From over 1 year to 5 years | Over 5 years | Undetermined term |
|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance sheet assets** | **11,357** | **150** | **628** | **331** | **2,602** | **1,120** | **4,395** | **21,240** | **10,687** | **226** |
| A.1 Government securities | – | – | – | – | 2 | 10 | 30 | 2,300 | 2,810 | – |
| A.2 Other debt securities | – | – | 4 | 12 | 39 | 62 | 2,253 | 11,035 | 1,411 | – |
| A.3 UCIT units | – | – | – | – | – | – | – | – | – | – |
| A.4 Loans | 11,357 | 150 | 624 | 319 | 2,561 | 1,048 | 2,112 | 7,905 | 6,466 | 226 |
| - banks | 8,002 | – | – | – | – | – | – | – | – | 226 |
| - clients | 3,355 | 150 | 624 | 319 | 2,561 | 1,048 | 2,112 | 7,905 | 6,466 | – |
| **On-balance sheet liabilities** | **28,620** | **2** | **640** | **277** | **5,720** | **6,186** | **2,781** | **1,683** | – | – |
| B.1 Deposits and current accounts | 28,433 | 2 | 585 | 277 | 635 | 1,794 | 2,224 | 1,589 | – | – |
| - banks | 61 | – | – | – | – | – | 1,513 | – | – | – |
| - clients | 28,372 | 2 | 585 | 277 | 635 | 1,794 | 711 | 1,589 | – | – |
| B.2 Debt securities | – | – | – | – | – | 4,277 | 525 | – | – | – |
| B.3 Other liabilities | 187 | – | 55 | – | 5,085 | 115 | 32 | 94 | – | – |
| **"Off-balance sheet" transactions** | – | – | – | – | – | – | – | – | – | – |
| C.1 Financial derivatives with exchange of capital | – | – | – | – | – | – | – | – | – | – |
| - long positions | – | – | – | – | – | – | – | – | – | – |
| - short positions | – | – | – | – | – | – | – | – | – | – |
| C.2 Financial derivatives without exchange of capital | – | – | – | – | – | – | – | – | – | – |
| - long positions | – | – | – | – | – | – | – | – | – | – |
| - short positions | – | – | – | – | – | – | – | – | – | – |
| C.3 Loans and deposits to be received | – | – | – | – | – | – | – | – | – | – |
| - long positions | – | – | – | – | – | – | – | – | – | – |
| - short positions | – | – | – | – | – | – | – | – | – | – |
| C.4 Irrevocable commitments to grant finance | – | – | – | – | – | – | – | – | – | – |
| - long positions | – | – | – | – | – | – | – | – | – | – |
| - short positions | – | – | – | – | – | – | – | – | – | – |
| C.5 Financial guarantees granted | – | – | – | – | – | – | – | – | – | – |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 | – | – | – | – | – | – | – | – | – | – |

The measurement and control of both "short term" and "structural" liquidity risk, under "normal" and "stressed" conditions, intended to verify the effectiveness of the bank's control measures and the adequacy over time of established operating limits, led to the following outcome.

The daily checks on the very short-term liquidity (from 1 to 30 days) necessary for the Bank's operations never showed any deficiency in the bank's "liquidity buffers" to cover any negative daily prospective balance over the analysis horizon. Therefore, the Bank's "liquidity buffers" have always been sufficient to cover any net funding requirements.
The analysis of the Bank's short-term (up to 12 months) "Net Financial Position" and "liquidity buffers", carried out on a monthly basis, did not show any imbalance over the 12-month assessment horizon.

With specific reference to 31/12/2018, the "Time to Survival" is longer than 12 months. Therefore, the Bank is able to cover the cumulative liquidity gap resulting from the inertial operation of all financial statement items, through its own "liquidity buffers", without having to change its funding plan/asset disposal plan or having to resort to third-party sources.

The monitoring of "short-term" and "structural" early warning indicators carried out on a monthly basis showed full compliance with operational limits to the assumption of liquidity risks, as the threshold limits established by the Bank were never exceeded. Therefore, the Bank can cope with potential imbalance situations that may compromise its resilience to either "short-term" or "structural" liquidity risk.

The stress tests carried out monthly did not show any special vulnerability or the inadequacy of the "liquidity buffers" held by the Bank.
More specifically, the value of the short-term indicator "Liquidity Coverage Ratio" - "LCR" at 31/12/2018 was 324.64%, which is significantly higher than the 70% minimum requirement laid down by law for 2017 (100%).
Similarly, the results of the additional stress test on the "LCR" regulatory indicator, also performed monthly, showed a stressed value of this indicator of 304.78%, which is again considerably higher than the 70% minimum requirement laid down by law.

Therefore, the Bank is able to cope with short-term liquidity needs through its autonomous funding capacity, both in stress situations and in the event of an additional stress scenario compared to that envisaged by the legislation in force.

As regards the concentration of funding sources, as at 31 December 2018, funding from the first 10 counterparties accounted for 52% of total bank funding.
Lastly, the monitoring of "systemic" and "specific" early warning indicators carried out daily and monthly, respectively, never showed any breach of the threshold limits established by the Bank. Therefore, no situations outside the "ordinary course of business" were detected that might lead to the beginning of a "systemic" or specific crisis.

**Section 5 – Operational risks**

Operational risk, as defined by prudential regulations, is the risk of suffering losses due to the inadequacy or malfunction of procedures, human resources and internal systems, or due to external events.
This definition includes legal risk (i.e. the risk of suffering losses arising from the infringement of laws or regulations, from contractual or extra-contractual liability or other disputes), but does not consider reputational and strategic risk.

**Qualitative information**

Operational risk, inherent in banking activity, is generated across all company processes. In general, the main sources of operational risk are related to internal frauds, external frauds, labour relations and safety in the workplace, professional obligations to customers or the nature or characteristics of products, damage from external events and the malfunction of computer systems.

Operational risk, as such, is a pure risk as it is associated with events that have only adverse effects. It comprises all the anomalies that by affecting the company's output exclusively result in:
- financial loss;
- higher operating costs;
- lower revenue.

Because it is aware that operational risk is inherent in the banking business, the Bank pays close attention to controlling this type of risk.

For this purpose, the internal audit system that the company employs is based on principles of prudent and effective management. Furthermore, the system is periodically reviewed to determine whether it is adequate and functions properly in terms of efficacy (the system's capacity to achieve the goals) and efficiency (the system's capacity to achieve the above goals in terms of costs, risks and profitability consistent with those achieved by similar companies).
In this context, i.e. to ensure that risks are managed properly, the Bank has regulated every step of each process and established appropriate audit levels. It has also created specific units within its organisational structure in charge of overseeing these levels of control.
In order to evaluate risk exposure and the effects that adequate mitigation measures have on said exposure, qualitative and quantitative information must be appropriately combined. The qualitative component ("self-risk assessment") can be summarised as the assessment of the risk profile of each organisational unit, in terms of potential future losses, efficiency of the control system and appropriate management of risk mitigation techniques. The quantitative component, on the other hand, is based mainly on the statistical analysis of historical loss data. As the available information on losses, with reference to certain types of events, is not always relevant, internal data can be supplemented with system data.

In the event of a loss resulting from one of the above events, the Bank will supply the internal database of incurred operating losses, to be used in the future when applying its internal risk calculation model.
As part of business continuity, the Bank has adopted a "business continuity management process" which prescribes the methods for analysing the impact on business and the criteria for drawing up the "Business Continuity Plan".

The "Plan" explains how to deal with emergencies, in order to ensure, where appropriate, the continuity of the bank's vital operations and the return to normal operation within a reasonable time.

Both documents were approved by the Bank's Board of Directors.
With reference to significant legal disputes, disclosure is provided below on threatened and/or ongoing litigation with third parties as at 31/12/2018:

- With reference to the writ of summons received upon application by a customer claiming the invalidity and unlawfulness of some financial transactions entered into with the Bank over the 2010-2013 three year period, the Judge dismissed the reserve imposed at the hearing of 18 May 2018; not having understood the facts under examination, he requested a technical advice by a appointing a court expert (CTU) and setting for 19 February 2019 the hearing for the oath. The Bank has appointed 2 Technical Consultants to receive support in the appraisal stage. It should be noted that, on the basis of the views expressed by our legal advisor, as at the reporting date the Bank had not recognized any provision in the financial statements for this contingent liability, since the financial outlay is unlikely and the amount cannot be reliably estimated;

- There are no updates on the pending dispute with Ipervigile srl, regarding the loss of Euro 50 thousand in the year 2013, in relation to which the bank, on the one hand, has activated the insurance coverage, and on the other, has made a provision of Euro 15 thousand corresponding to the deductible to be paid by the Insured;
- with reference to the writ of summons upon a customer's application, notified on 21 December 2016, seeking reimbursement of a cloned check and the related damages, the Judge of the Court of Naples, ruling on the matters reserved at the hearing of 04.12.2018, did not render a judgment on all the objections and requests made by the parties, but merely issues an "interlocutory" measure admitting the testimonial evidence requested by the Bank and postponing the case for witness hearing to 18.06.2019. It should be noted that, on the basis of the views expressed by our legal advisor, as at the reporting date the Bank had not recognized any provision in the financial statements for this contingent liability, since the financial outlay is unlikely and the amount cannot be reliably estimated;
- with respect to the writ of summons served to the Bank by a customer who brought an action seeking to have the Bank's liability ascertained for the financial brokerage activity carried out on behalf of the plaintiff. Following the exchange of briefs pursuant to art.183 paragraph 6 of the Italian Code of Civil Procedure, after having reserved the decision at the hearing on 16/10/2014, the judge partially rejected the plaintiff's requests for admission of evidence while upholding in full those of the Bank, with examination of witnesses to be thus completed at the hearing on 21.05.2019. It should be noted that, on the basis of the views expressed by our legal advisor, as at the reporting date the Bank had not recognized any provision in the financial statements for this contingent liability, since the financial outlay is unlikely and the amount cannot be reliably estimated;
- with reference to the dispute brought by a former employee and concerning an appeal against dismissal for just cause occurred in July 2017, the proceedings are currently at the stage where the order issued pursuant to article 1 of law 92/2012 has been challenged, since, by order of 03.05.2018, the Court of Naples upheld the employee's request, ordering her reinstatement in the job and the payment of compensation for an amount equivalent to 12 months' pay. The judge of the opposition proceedings, after carrying out a preliminary investigation, postponed the hearing for the decision to 20.03.2019 In the aforementioned hearing, the judge rejected the objection and confirmed the order of 03.05.2018.

  On the basis of the opinions expressed by the Bank's legal advisor, at the reporting date the Bank set aside a provision to cover the corresponding financial outlay.
- with reference to the appeal of a former employee dismissed for just cause on 30.04.2018 who brought an action against the Bank to have the alleged unlawfulness of the dismissal ascertained and to be reinstated in his job. In February 2019, the aforementioned dispute was closed by a settlement agreement between the parties.

  It should be noted that at the reporting date, the Bank set aside a provision to cover the relevant financial outlay.

### *Quantitative information*

With respect to the regulatory measurement of the prudential requirement for operational risks, the Bank, having considered its organizational, operational and dimensional features, opted for application of the Basic Indicator Approach - BIA.
According to this approach, the capital requirement for operational risks is measured by applying the 15% regulatory ratio to the average of the last three observations on an annual basis of an indicator of the volume of company operations ("relevant indicator") with reference to the year end (31 December).
At 31 December 2018 the capital requirement was € 612 thousand (€ 687 thousand at 31 December 2017).
In 2018 there were no events resulting in operating losses.

| **Operational risk** | |
|---|---|
| **Relevant indicator** | **(€/000)** |
| Relevant indicator 2016 | 4,628 |
| Relevant indicator 2017 | 4,350 |
| Relevant indicator 2018 | 3,260 |

## Part F – Information on Shareholders' Equity

### Section 1 – Corporate equity

### A. Qualitative Information

One of the Bank's well-established strategic priorities is to focus on adequate size of capital and its development over time. Equity is indeed the first defence against the risks associated with banking operations and the main benchmark for the assessments carried out by the supervisory authority and the market on the solvency of the intermediary.
The Bank's Shareholder's equity is calculated as the sum of the share capital, the share premium reserve, the profit reserves, the valuation reserves and the profit (loss) for the year, as indicated in Part B of this Section.

The notion of equity that the Bank uses in its assessments is based on the notion of "own funds" as established by Regulation (EU) no. 575/2013 (CRR), and comprises the following elements:
- Tier 1, made up of Common Equity Tier 1 – CET 1 and Additional Tier 1 – AT1;
- Tier 2 – T2.

Equity thus defined is the main safeguard for business risks in accordance with regulatory provisions; it is indeed the best indicator of effective management, both strategically and in terms of current operations, as it is a financial resource capable of absorbing the potential losses the Bank may incur as a result of its exposure to all the risks assumed, and acts as a guarantee for depositors and creditors in general.
The supervisory regulations require that the Bank's overall capital adequacy, current, prospective and under stressed conditions, be measured using internal methodologies so as to ensure that there are sufficient financial resources to cover all risks, including in adverse economic conditions; the above with reference not only to "First Pillar" risks (i.e. credit and counterparty risks, market risks on the trading portfolio and operational risk), but also with regard to additional risk factors - "Second Pillar" risks - that affect the business activity (such as, for example, concentration risk, interest rate risk on the banking book, etc.).

The monitoring of the current and prospective capital adequacy is therefore developed in a dual perspective:
- regulatory capital with respect to Pillar I risks;
- total internal capital with respect to Pillar II risks, for the purposes of the ICAAP process.

With the aim of ensuring it has adequate capital on an ongoing basis, the Bank has put in place processes and instruments to determine an adequate level of internal capital capable of addressing every type of risk assumed, as part of an assessment of its current, prospective and "stressed" exposure that takes into account corporate strategies, development objectives, and the changes in the external environment.
For minimum capital requirements, please refer to the mandatory parameters provided for in the regulatory provisions in force (art. 92 of CRR), according to which CET 1 must satisfy at least the 4.5% requirement on total risk-weighted assets (CET1 capital ratio), Tier 1 must represent at least 6% of total risk-weighted assets (Tier 1 capital ratio) and the Bank's overall own funds must be at least 8% of total risk-weighted assets (Total capital ratio).

In this regard, Banca d'Italia annually issues a specific decision regarding the capital requirements of the Bank following the *supervisory review and evaluation process* (SREP) conducted pursuant to art. 97 et seq. of EU Directive 36/2013 (CRD IV) and in accordance with EBA provisions concerning the imposition of additional specific capital requirements set out in the document "Guidelines on common procedures and methodologies for the prudential review and evaluation process*",* published on 19 December 2014.
In particular, the aforementioned Article 97 of CRD IV establishes that Banca d'Italia must periodically review the rules, strategies, processes and mechanisms that the supervised banks put in place to face the complex risks to which they are exposed. Thus, through the SREP the Authority reviews and assesses the Bank's internal process for determining capital adequacy, analyses the risk profiles of the Bank both individually and in an aggregate perspective, including under stress conditions, and evaluates its contribution to systemic risk; it assesses the corporate governance system, the functions of the bodies, the organizational structure and the internal control system; it verifies compliance with the set of prudential rules.
At the end of this process, the Authority also has the power, pursuant to art. 104 of CRD IV, to request the intermediary to hold additional capital with respect to the minimum requirements mentioned above, to cover for its overall risk; quantified capital ratios that take into account the additional requirements are binding (" *target ratio*").

Therefore, the capital requirements based on the Bank's risk profile, pursuant to the capital measure of 03/12/2018, consist of mandatory capital requirements (i.e. the sum of the minimum requirements pursuant to

Article 92 of the CRR and the additional mandatory requirements determined as a result of the SREP) and of the capital conservation buffer applicable under the current transitional provisions of 1.875% (2.5% when fully in force, in 2019), overall making up the *overall capital requirement ratio - OCR*, as indicated below:

- 7.207% with reference to CET 1 ratio (made up of 5.332% as binding amount and of the capital conservation buffer for the remainder);
- 8.990% with reference to TIER 1 ratio (made up of 7.115% as binding amount and of the capital conservation buffer for the remainder);
- 11.361% with reference to Total Capital Ratio (made up of 9.486% as binding amount and of the capital conservation buffer for the remainder;

The capital conservation buffer is fully covered by CET1.
In the event of decrease in capital ratios below the OCR, but above the binding measure, capital conservation measures must be activated. Should one of the ratios fall below the binding limit, initiatives must be taken to immediately restore the ratios to values above such limit.
In order to ensure that the mandatory measures are complied with even when the economic / financial situation deteriorates, the Bank is also subject to the following capital guidance measures as against a greater risk exposure under stress conditions:

- 8.707% with reference to CET 1 ratio (made up of an OCR CET 1 ratio of 7.207% and a Target amount, due to a higher risk exposure in stress conditions, of 1.500%);
- 10.490% with reference to TIER 1 ratio (made up of an OCR CET 1 ratio of 8.990% and a Target amount, due to a higher risk exposure in stress conditions, of 1.500%);
- 12.861% with reference to Total Capital ratio (made up of an OCR CET ratio of 11.361% and a Target amount, due to a higher risk exposure in stress conditions, of 1.500%).

These capital levels reflect an expectation of Banca d'Italia as to the additional reserves to be held by the Bank. Where even just one of the Bank's capital ratios falls below the levels, the Bank must inform Banca d'Italia and explain the reasons that led the Bank's capital ratios to fall below the levels required by the Regulatory Authority.
As far as the *capital conservation buffer* is concerned, pursuant to the transition regime applicable, as from 1 January 2019 the Bank will have to stick to the minimum of 2.5% on overall risk assets (up 0.625% compared to the 2018 ratio).
Consequently, as of 1 January 2019, the capital guidance measure will be reduced by an amount of 0.625% (corresponding to the aforementioned increase in the capital conservation buffer) and will have to be covered exclusively through CET1.
In determining the aforementioned requirements, Banca d'Italia took into account, among other things, the Bank's internal capital measures as estimated by the Bank through the ICAAP.

A transitional period (2018-2022) began on 1 January 2018 aimed at mitigating the effects of the introduction of the new IFRS 9 accounting standard on capital. Specifically, the Bank implemented the *Phase-in* regime, introduced by EU Regulation 2017/2395, amending EU Regulation no. 575/2013 (so-called CRR) effective from 1 January 2018. Specifically, the 'Phase-in' involves the introduction of a prudential filter that mitigates - in the 2018-2022 period (the transitional period) - the potential negative impact on CET1 arising from greater value adjustments upon application of the new IFRS9 impairment model:

- a static approach: to be applied to the impact of the FTA only, resulting from the comparison between IAS 39 value adjustments at 31 December 2017 and IFRS value adjustments at 1 January 2018 (including adjustments to the *Stage* 3 position);
- a dynamic approach: to be applied to the impact resulting from the comparison between the value adjustments at 1 January 2018 and the subsequent reporting periods up to 31 December 2022, limited however to the increases in value adjustments of exposures classified in stage 1 and 2 (thus excluding adjustments to *stage* 3 positions).
  The adjustment to CET1 may be made during the 2018-2022 period, re-including in CET1 the impact to the extent shown below, for each of the 5 years comprised in the transitional period:
    - 2018: 95%
    - 2019: 85%
    - 2020: 70%
    - 2021: 50%
    - 2022: 25%

This adjustment to CET1 requires a symmetrical adjustment to the amounts of the exposures pursuant to Article 111, paragraph 1, of the CRR for the purpose of determining the credit risk capital requirements under the standardized approach.

As at 31 December  2018, the Bank had a ratio of Common Equity Tier 1 - CET1 - to risk-weighted assets (CET 1 ratio) of 25.07%, above the binding CET1 ratio assigned to the Bank; a ratio of Tier 1 capital to risk-weighted assets (Tier 1 capital ratio - Tier 1 ratio) of 25.07%, above the binding Tier 1 ratio assigned to the Bank; a ratio of own funds ti risk-weighted assets (total capital ratio) of 25.07%, above the total binding capital ratio assigned to the Bank.
The amount of own funds was, not only fully adequate to cover all three binding levels of capital, but also to cover the capital conservation buffer and the capital guidance. The capital surplus with respect to the total binding capital ratio amounted to € 7,995 thousand. The surplus with respect to the over-capital requirement and capital guidance amounted to € 5,718 thousand.
The Bank drafted and maintains its own Recovery Plan, in line with the pertinent statutory provisions (Directive 2014/59/EU "Bank Recovery and Resolution Directive – BRRD"), implemented in Italy on 16 November 2015 with legislative decrees 180 and 181), and in compliance with the Risk Appetite Framework adopted.

**B. Quantitative Information**

B.1 Corporate equity: breakdown

***(€/000)***

| Items/Values | **Amount 2018** | **Amount 2017** |
|---|---|---|
| 1. Share capital | 7,740 | 7,740 |
| 2. Share premium account | 1,071 | 1,071 |
| 3. Reserves | 4,316 | 5,676 |
| - profit reserve | 4,316 | 5,676 |
| a) legal reserve | 802 | 802 |
| b) reserve pursuant to articles of association | – | – |
| c) treasury share reserve | – | – |
| d) other | 3,514 | 4,874 |
| - other | – | – |
| 4. Equity instruments | – | – |
| 5. (Treasury shares) | – | – |
| 6. Valuation reserves: | -377 | -149 |
| - Equity securities designated at fair value impacting comprehensive income | -82 | |
| - Capital securities hedging carried at fair value impacting comprehensive income | – | |
| - Financial assets (other than equity securities) carried at fair value impacting comprehensive income | -208 | |
| - Tangible assets | – | – |
| - Intangible assets | – | – |
| - Foreign investment hedging | – | – |
| - Cash flow hedging | – | – |
| - Hedging instruments (items non designated) | – | – |
| - Exchange rate differences | – | – |
| - Non-current assets and disposal groups | – | – |
| - Financial liabilities designated at fair value impacting the income statement (changes of own creditworthiness) | – | – |
| - Actuarial gains (losses) relating to defined benefits pension plans | -87 | -149 |
| - Shares of valuation reserves for subsidiaries carried at equity | – | – |
| - Special revaluation regulations | – | – |
| 7. Profit (loss) for the year | -1,284 | -476 |
| **Total** | **11,466** | **13,862** |

### B.2 Valuation reserves of financial assets carried at fair value impacting comprehensive income: breakdown

***(€/000)***

| Assets/values | Amount 2018 | |
|---|---|---|
| | Positive reserve | Negative reserve |
| 1. Debt securities | 39 | - 247 |
| 2. Equity securities | – | - 82 |
| 3. Loans | – | – |
| **Total** | **39** | **- 329** |

With reference to the 2017 comparison figures, as illustrated in part A "Accounting policies concerning the approach followed for the exposure of comparables, please refer to the financial statements at 31.12.2017.

### B.3 Valuation reserves of financial assets carried at fair value impacting comprehensive income: year-on-year changes

**(€/000)**

| | Debt securities | Equity securities | Loans |
|---|---|---|---|
| **1. Opening balance** | **15** | **–** | **–** |
| **2. Positive changes** | **295** | **5** | **–** |
| 2.1 Fair value increases | 131 | – | – |
| 2.2 Adjustments for credit risk | 41 | X | – |
| 2.3 Reversal to the income statement of negative reserves due to disposal | – | X | – |
| 2.4 Transfers to other equity items (equity securities) | – | – | – |
| 2.5 Other changes | 123 | 5 | – |
| **3. Negative changes** | **518** | **87** | **–** |
| 3.1 Fair value decreases | 516 | 87 | – |
| 3.2 Write-backs for credit risk | 2 | – | – |
| 3.3 Reversal to the income statement from positive reserves: - due to disposal | – | X | – |
| 3.4 Transfers to other equity items (equity securities) | – | – | – |
| 3.5 Other changes | – | – | – |
| **4. Final inventories** | **- 208** | **- 82** | **–** |

**B.4 Valuation reserves relating to defined-benefit pension plans: year-on-year changes**

**(€/000)**

| | **Total 2018** |
|---|---|
| **1. Opening amount** | **- 149** |
| **2. Positive changes** | **62** |
| 2.1 Actuarial gains relating to defined-benefit pension plans | 62 |
| 2.2 Other changes | – |
| 2.3 Business combinations | – |
| **3. Negative changes** | **–** |
| 3.1 Actuarial losses relating to defined-benefit pension plans | – |
| 3.2 Other changes | – |
| 3.3 Business combinations | – |
| **4. Final inventories** | **- 87** |

**Section 2 – Own Funds and regulatory ratios**

With regard to the content of this section, please refer to the disclosure on own funds and capital adequacy contained in the public disclosure ("Third Pillar"), prepared pursuant to Regulation (EU) no. 575/2013 of 26 June 2013 (CRR).

## Part H – Transactions with Related Parties

The notion of Related Party and Transaction with a Related Party is based on the concept contained in the International Accounting Standard IAS 24 "Related Party Disclosures", where a Related Party of a reporting entity is defined as a parent, subsidiary, fellow subsidiary, associate, or joint venture of the reporting entity or as a party that exercises significant influence on the reporting entity, and where "Related Party Transactions" means "a transfer of resources, services or obligations regardless of whether a price is charged". The "Other Related Parties" category includes all those who are related to representatives of the companies in the banking group (close family members, parties controlled, including jointly, by the representatives, parties on which the representatives exercise significant influence or in which they hold a significant share of voting rights, parties controlled, including jointly, by close family members or over which the latter exercise significant influence or in which they hold a significant share of voting rights) and pension funds. "Close family members" means: a) the spouse (unless legally separated) and the cohabitant; b) the children and dependants of the related parties, of the spouse (not legally separated) or of the cohabitant.
In compliance with the regulatory framework introduced by Consob Resolution No. 17221 of 12 March 2010, as amended, in 2010 the Bank adopted a "Regulation for the management of related party transactions", in order to ensure transparency and substantive and procedural fairness of transactions with Related Parties, carried out directly or through the subsidiary.

### 1. Information on the remuneration of key management personnel

The 2018 emoluments pertaining to key management personnel, including directors and members of the Board of statutory auditors, can be summarised as follows:

***(€/000)***

| Overall remuneration paid to Directors | Total 2018 |
|---|---|
| - Salaries and other short-term benefits | 341 |
| - Post-employment benefits (social security, insurances, etc.) | 3 |

***(€/000)***

| Overall remuneration paid to Auditors | Total 2018 |
|---|---|
| - Salaries and other short-term benefits | 37 |
| - Post-employment benefits (social security, insurances, etc.) | 3 |

***(€/000)***

| Overall remuneration paid to Managers | Total 2018 |
|---|---|
| - Salaries and other short-term benefits | 47 |
| - Post-employment benefits (social security, insurances, etc.) | – |
| - Severance indemnity | 18 |
| - Other long-term benefits | – |

The values were determined as provided for in IAS 24 paragraph 17.

## 2. Information on transactions with related parties

| | Assets | Liabilities | Guarantees granted | Guarantees received | Revenue | Costs |
|---|---|---|---|---|---|---|
| Directors and Managers | 10 | 183 | – | – | – | – |
| Auditors | – | 8 | – | – | – | – |
| Family members | – | 88 | – | – | – | – |
| Other related parties | – | 198 | – | – | – | – |
| **Total** | **10** | **477** | **–** | **–** | **–** | **–** |

According to IAS 24, related parties can be summarised as directors, statutory auditors and key management personnel (members of the General Management), the immediate families of the above persons, and the subsidiaries, joint ventures and associates of any of the above entities.
Immediate family includes the person's cohabiting partner and children, the partner's children and other dependants of the person or partner.

# Attachments

## Attachments

### Audit and non-audit fees pursuant to article 249 duodecies of Consob Regulation no.11971/99 as amended and supplemented

The contractually agreed fees for FY2018 with the auditing company Deloitte & Touche S.p.A. to audit the Bank's accounts and for the other services rendered to the Bank are broken down here below, VAT and expenses included.

***(€/000)***

| Type of service | Fees' amount |
|---|---|
| Audit of the Financial Statements | 32 |
| Checking proper keeping of accounting records and proper reporting of the operations | 10 |
| Certification services: Audit for the signing of tax returns | 2 |
| Other services (*) | 4 |

(*) for the purposes of tax credit acknowledgement pursuant to art. 1, para. 35, of Law no.190 of 23 December 2014 – 2015 Stability Law.

### Country-by-Country Reporting

As set forth by Banca d'Italia Italy Circular no. 285 of 17 December 2013 as updated, the information is published on the Bank's website at the following link: www.bancapromos.it/it/documenti.

**Attachments**

**IAS/IFRS ratified by the European Commission at 31 December 2018**

| IAS/IFRS | RATIFYING REGULATION |
|---|---|
| IAS 1 Presentation of financial statements | 1126/2008, 1274/2008, 53/2009, 70/2009, 494/2009, 243/2010, 149/2011, 475/2012, 1254/2012, 1255/2012, 301/2013, 2113/2015, 2406/2015, 1905/2016, 2067/2016 |
| IAS 2 Inventories | 1126/2008, 70/2009, 1255/2012, 1905/2016, 2067/2016 |
| IAS 7 Statement of cash flows | 1126/2008, 1260/2008, 1274/2008, 70/2009, 494/2009, 243/2010, 1254/2012, 1174/2013, 1990/2017 |
| IAS 8Accounting policies, changes in accounting estimates and errors | 1126/2008, 1274/2008, 70/2009, 1255/2012, 2067/2016 |
| IAS 10 Events after the reporting period | 1126/2008, 1274/2008, 70/2009, 1142/2009, 1255/2012, 2067/2016 |
| IAS 11 Construction contracts | 1126/2008, 1260/2008, 1274/2008, 1905/2016 |
| IAS 12 Income taxes | 1126/2008, 1274/2008, 495/2009, 475/2012, 1254/2012, 1255/2012, 1174/2013, 1905/2016, 2067/2016, 1989/2017 |
| IAS 16 Property, plant and equipment | 1126/2008, 1260/2008, 1274/2008, 70/2009, 495/2009, 1255/2012, 301/2013, 28/2015, 2113/2015, 2231/2015, 1905/2016 |
| IAS 17 Leases | 1126/2008, 243/2010, 1255/2012, 2113/2015 |
| IAS 18 Revenue | 1126/2008, 69/2009, 1254/2012, 1255/2012, 1905/2016 |
| IAS 19 Employee benefits | 1126/2008, 1274/2008, 70/2009, 475/2012, 1255/2012, 29/2015, 2343/2015 |
| IAS 20 Accounting for government grants and disclosure of government assistance | 1126/2008, 1274/2008, 70/2009, 475/2012, 1255/2012, 2067/2016 |
| IAS 21 The effects of changes in foreign exchange rates | 1126/2008, 1274/2008, 69/2009, 494/2009, 149/2011, 475/2012, 1254/2012, 1255/2012, 2067/2016 |
| IAS 23 Borrowing costs | 1126/2008, 1260/2008, 70/2009, 2113/2015, 2067/2016 |
| IAS 24 Related party disclosures | 1126/2208, 1274/2008, 632/2010, 475/2012, 1254/2012, 1174/2013, 28/2015 |

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| | |
|---|---|
| IAS 26 Accounting and reporting by retirement benefit plans | 1126/2008 |
| IAS 27 Separate financial statements | 1126/2008, 1274/2008, 69/2009, 70/2009, 494/2009, 1254/2012, 1174/2013, 2441/2015 |
| IAS 28 Investments in associates and joint ventures | 1126/2008, 1274/2008, 70/2009, 494/2009, 495/2009, 1254/2012, 1255/2012, 2441/2015, 1703/2016, 2067/2016, 182/2018 |
| IAS 29 Financial reporting in hyperinflationary economies | 1126/2008, 1274/2008, 70/2009 |
| IAS 32 Financial instruments: presentation | 1126/2008, 1274/2008, 53/2009, 70/2009, 494/2009, 495/2009, 1293/2009, 475/2012, 1254/2012, 1255/2012, 1256/2012, 301/2013, 1174/2013, 1905/2016, 2067/2016 |
| IAS 33 Earnings per share | 1126/2008, 1274/2008, 494/2009, 495/2009, 475/2012, 1254/2012, 1255/2012, 2067/2016 |
| IAS 34 Interim financial reporting | 1126/2008, 1274/2008, 70/2009, 495/2009, 149/2011, 475/2012, 1255/2012, 301/2013, 1174/2013, 2343/2015, 2406/2015, 1905/2016 |
| IAS 36 Impairment of assets | 1126/2008, 1274/2008, 69/2009, 70/2009, 495/2009, 243/2010, 1254/2012, 1255/2012, 1374/2013, 2113/2015, 1905/2016, 2067/2016 |
| IAS 37 Provisions, contingent liabilities and contingent assets | 1126/2008, 1274/2008, 495/2009, 28/2015, 1905/2016, 2067/2016 |
| IAS 38 Intangible assets | 1126/2008, 1260/2008, 1274/2008, 70/2009, 495/2009, 243/2010, 1254/2012, 1255/2012, 28/2015, 2231/2015, 1905/2016 |
| IAS 39 Financial instruments: recognition and measurement | 1126/2008, 1274/2008, 53/2009, 70/2009, 494/2009, 495/2009, 824/2009, 839/2009, 1171/2009, 243/2010, 149/2011, 1254/2012, 1255/2012, 1174/2013, 1375/2013, 28/2015, 1905/2016, 2067/2016 |
| IAS 40 Investment property | 1126/2008, 1274/2008, 70/2009, 1255/2012, 1361/2014, 2113/2015, 1905/2016, 400/2018 |
| IAS 41 Agriculture | 1126/2008, 1274/2008, 70/2009, 1255/2012, 2113/2015 |
| IFRS 1 First-time adoption of international financial standards | 1126/2008, 1260/2008, 1274/2008, 69/2009, 70/2009, 254/2009, 494/2009, 495/2009, 1136/2009, 1164/2009, 550/2010, 574/2010, 662/2010, 149/2011, 1205/2011, 475/2012, 1254/2012, 1255/2012, 183/2013, 301/2013, 1174/2013, 2173/2015, 2343/2015, 2441/2015, 1905/2016, 2067/2016, 182/2018 |

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| | |
|---|---|
| IFRS 2 Share-based payment | 1126/2008, 1261/2008, 495/2009, 243/2010, 244/2010, 1254/2012, 1255/2012, 28/2015, 2067/2016, 289/2018 |
| IFRS 3 Business combinations | 1126/2008, 495/2009, 149/2011, 1254/2012, 1255/2012, 1174/2013, 1361/2014, 28/2015, 1905/2016, 2067/2016 |
| IFRS 4 Insurance contracts | 1126/2008, 1274/2008, 494/2009, 1165/2009, 1255/2012, 1905/2016, 2067/2016, 1988/2017 |
| IFRS 5 Non-current assets held for sale and discontinued operations | 1126/2008, 1274/2008, 70/2009, 494/2009, 1142/2009, 243/2010, 475/2012, 1254/2012, 1255/2012, 2343/2015, 2067/2016 |
| IFRS 6 Exploration for and evaluation of mineral assets | 1126/2008 |
| IFRS 7 Financial instruments: disclosures | 1126/2008, 1274/2008, 53/2009, 70/2009, 495/2009, 824/2009, 1165/2009, 574/2010, 149/2011, 1205/2011, 475/2012, 1254/2012, 1255/2012, 1256/2012, 1174/2013, 2343/2015, 2406/2015, 2067/2016 |
| IFRS 8 Operating segments | 1126/2008, 1274/2008, 243/2010, 632/2010, 475/2012, 28/2015 |
| IFRS 9 Financial instruments | 2067/2016, 498/2018(*) |
| IFRS 10 Consolidated Financial Statements | 1254/2012, 313/2013, 1174/2013, 1703/2016 |
| IFRS 11 Joint Arrangements | 1254/2012, 313/2013, 2173/2015 |
| IFRS 12 Disclosure of Interests in Other Entities | 1254/2012, 313/2013, 1174/2013, 1703/2016, 182/2018 |
| IFRS 13 – Fair value measurement | 1255/2012, 1361/2014, 2067/2016 |
| IFRS 15 – Revenue from Contracts with Customers | 1905/2016, 1987/2017 |
| IFRS 16 Leases | 1986/2017 (*) |
| SIC 7 Introduction of the Euro | 1126/2008, 1274/2008, 494/2009 |
| SIC 10 Government Assistance – No Specific Relation to Operating Activities | 1126/2008, 1274/2008 |
| SIC 15 Operating Leases - Incentives | 1126/2008, 1274/2008 |
| SIC 25 Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders | 1126/2008, 1274/2008 |

| | |
|---|---|
| SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease | 1126/2008, 1905/2016, 2067/2016 |
| SIC 29 Disclosure – Service Concession Arrangements | 1126/2008, 1274/2008, 254/2009 |
| SIC 31 Revenue – Barter Transactions Involving Advertising Services | 1126/2008, 1905/2016 |
| SIC 32 Intangible Assets – Web Site Costs | 1126/2008, 1274/2008, 1905/2016 |
| IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities | 1126/2008, 1260/2008, 1274/2008 |
| IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments | 1126/2008, 53/2009, 1255/2012, 301/2013, 2067/2016 |
| IFRIC 4 Determining Whether an Arrangement Contains a Lease | 1126/2008, 254/2009 1255/2012 |
| IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | 1126/2008, 1254/2012, 2067/2016 |
| IFRIC 6 Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | 1126/2008 |
| IFRIC 7 Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies | 1126/2008, 1274/2008 |
| IFRIC 9 Reassessment of Embedded Derivatives | 1126/2008, 495/2009, 1171/2009, 243/2010, 1254/2012, 2067/2016 |
| IFRIC 10 Interim Financial Reporting and Impairment | 1126/2008, 1274/2009, 2067/2016 |
| IFRIC 2 Service Concession Arrangements | 254/2009, 1905/2016, 2067/2016 |
| IFRIC 13 Customer Loyalty Programmes | 1262/2008, 149/2011, 1255/2012, 1905/2016 |
| IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | 1263/2008, 1274/2008, 633/2010, 475/2012 |
| IFRIC 15 Agreements for the Construction of Real Estate | 636/2009, 1905/2016 |
| IFRIC 16 Hedges of a Net Investment in a Foreign Operation | 460/2009, 243/2010, 1254/2012, 2067/2016 |

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| | |
|---|---|
| IFRIC 17 Distributions of Non-cash Assets to Owners | 1142/2009, 1254/2012, 1255/2012 |
| IFRIC 18 Transfers of Assets from Customers | 1164/2009, 1905/2016 |
| IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments | 662/2010, 1255/2012, 2067/2016 |
| IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine | 1255/2012 |
| IFRIC 21 Levies | 634/2014 |
| IFRIC 22 Foreign currency transactions and advance consideration | 519/2018(*) |
| IFRIC 23 Uncertainty over income tax treatments | 1595/2018 (**) |

(*) Entities shall begin applying the provisions of this Regulation, at the latest on the first day of the first financial year beginning on or after 1 January 2018.
(**) Entities shall begin applying the provisions of this Regulation, at the latest on the first day of the first financial year beginning on or after 1 January 2019.

# PROMOS CORPORATE CONSULTING SRL

Sede Legale: VIALE GRAMSCI 19 NAPOLI (NA)
Iscritta al Registro Imprese di: Napoli
C.F. e numero iscrizione: 09023481212
Iscritta al R.E.A. di Napoli n. 1003044
Capitale Sociale sottoscritto €: 50.000,00 Interamente versato
Partita IVA: 09023481212

# Bilancio Abbreviato al 31/12/2018

## Stato Patrimoniale Attivo

| | Parziali 2018 | Totali 2018 |
|---|---|---|
| **A) Crediti verso soci per versamenti ancora dovuti** | | |
| **B) Immobilizzazioni** | | |
| I - Immobilizzazioni immateriali | | 1.421 |
| II - Immobilizzazioni materiali | | |
| III - Immobilizzazioni finanziarie | | |
| *Totale immobilizzazioni (B)* | | *1.421* |
| **C) Attivo circolante** | | |
| I - Rimanenze | | |
| Immobilizzazioni materiali destinate alla vendita | | |
| II - Crediti | | 41.840 |
| esigibili entro l'esercizio successivo | | 41.840 |
| esigibili oltre l'esercizio successivo | | |
| Imposte anticipate | | |
| III - Attivita' finanziarie che non costituiscono immobilizzazioni | | |
| IV - Disponibilita' liquide | | 37.267 |
| *Totale attivo circolante (C)* | | *79.107* |
| **D) Ratei e risconti** | | |
| *Totale attivo* | | *80.528* |

# Stato Patrimoniale Passivo

| | Parziali 2018 | Totali 2018 |
|---|---|---|
| **A) Patrimonio netto** | | |
| I - Capitale | | 50.000 |
| II - Riserva da soprapprezzo delle azioni | | |
| III - Riserve di rivalutazione | | |
| IV - Riserva legale | | |
| V - Riserve statutarie | | |
| VI - Altre riserve | | |
| VII - Riserva per operazioni di copertura dei flussi finanziari attesi | | |
| VIII - Utili (perdite) portati a nuovo | | |
| IX - Utile (perdita) dell'esercizio | | (382) |
| Perdita ripianata nell'esercizio | | |
| X - Riserva negativa per azioni proprie in portafoglio | | |
| *Totale patrimonio netto* | | *49.618* |
| **B) Fondi per rischi e oneri** | | |
| **C) Trattamento di fine rapporto di lavoro subordinato** | | |
| **D) Debiti** | | **30.910** |
| esigibili entro l'esercizio successivo | | 30.910 |
| esigibili oltre l'esercizio successivo | | |
| **E) Ratei e risconti** | | |
| *Totale passivo* | | *80.528* |

# Conto Economico

| | Parziali 2018 | Totali 2018 |
|---|---|---|
| **A) Valore della produzione** | | |
| 1) ricavi delle vendite e delle prestazioni | | 37.860 |
| 2/3) variaz. rimanenze prodotti in corso di lavoraz., semilavorati, finiti e lavori in corso su ordinaz. | | |
| 2) variazioni delle rimanenze di prodotti in corso di lavorazione, semilavorati, finiti | | |
| 3) variazioni dei lavori in corso su ordinazione | | |
| 4) incrementi di immobilizzazioni per lavori interni | | |
| 5) altri ricavi e proventi | | |
| contributi in conto esercizio | | |
| altri | | |
| *Totale altri ricavi e proventi* | | |
| *Totale valore della produzione* | | *37.860* |
| **B) Costi della produzione** | | |
| 6) per materie prime, sussidiarie, di consumo e di merci | | 20 |
| 7) per servizi | | 26.608 |
| 8) per godimento di beni di terzi | | 9.250 |
| 9) per il personale | | |
| a) salari e stipendi | | |
| b) oneri sociali | | |
| c/d/e) trattamento di fine rapporto, trattamento di quiescenza, altri costi del personale | | |
| c) trattamento di fine rapporto | | |
| d) trattamento di quiescenza e simili | | |
| e) altri costi | | |
| *Totale costi per il personale* | | |
| 10) ammortamenti e svalutazioni | | |
| a/b/c) ammortamento delle immobilizz.immateriali e materiali, altre svalutazioni delle immobilizz. | | 355 |
| a) ammortamento delle immobilizzazioni immateriali | | 355 |
| b) ammortamento delle immobilizzazioni materiali | | |
| c) altre svalutazioni delle immobilizzazioni | | |
| d) svalutazioni dei crediti compresi nell'attivo circolante e delle disponibilita' liquide | | |
| *Totale ammortamenti e svalutazioni* | | *355* |
| 11) variazioni delle rimanenze di materie prime, sussidiarie, di consumo e merci | | |

| | Parziali 2018 | Totali 2018 |
|---|---|---|
| 12) accantonamenti per rischi | | |
| 13) altri accantonamenti | | |
| 14) oneri diversi di gestione | | 1.021 |
| *Totale costi della produzione* | | *37.254* |
| **Differenza tra valore e costi della produzione (A - B)** | | **606** |
| **C) Proventi e oneri finanziari** | | |
| 15) proventi da partecipazioni | | |
| da imprese controllate | | |
| da imprese collegate | | |
| da imprese controllanti | | |
| da imprese sottoposte al controllo delle controllanti | | |
| altri | | |
| *Totale proventi da partecipazioni* | | |
| 16) altri proventi finanziari | | |
| a) da crediti iscritti nelle immobilizzazioni | | |
| da imprese controllate | | |
| da imprese collegate | | |
| da imprese controllanti | | |
| da imprese sottoposte al controllo delle controllanti | | |
| altri | | |
| *Totale proventi finanziari da crediti iscritti nelle immobilizzazioni* | | |
| b/c) da titoli iscr.nelle immob.che non costituisc.partecip.e da titoli iscr.nell'attivo circ.no partecip | | |
| b) da titoli iscritti nelle immobilizzazioni che non costituiscono partecipazioni | | |
| c) da titoli iscritti nell'attivo circolante che non costituiscono partecipazioni | | |
| d) proventi diversi dai precedenti | | |
| da imprese controllate | | |
| da imprese collegate | | |
| da imprese controllanti | | |
| da imprese sottoposte al controllo delle controllanti | | |
| altri | | |
| *Totale proventi diversi dai precedenti* | | |
| *Totale altri proventi finanziari* | | |
| 17) interessi ed altri oneri finanziari | | |
| verso imprese controllate | | |
| verso imprese collegate | | |
| verso imprese controllanti | | |
| verso imprese sottoposte al controllo delle controllanti | | |

| | Parziali 2018 | Totali 2018 |
|---|---|---|
| altri | | 26 |
| *Totale interessi e altri oneri finanziari* | | *26* |
| 17-bis) utili e perdite su cambi | | |
| *Totale proventi e oneri finanziari (15+16-17+-17-bis)* | | *(26)* |
| **D) Rettifiche di valore di attivita' e passivita' finanziarie** | | |
| 18) rivalutazioni | | |
| a/b/c/d) rival.di part.,immob.fin.,titoli attivo circol.,strum.finanz.derivati,att.fin.gest.tesoreria | | |
| a) di partecipazioni | | |
| b) di immobilizzazioni finanziarie che non costituiscono partecipazioni | | |
| c) di titoli iscritti all'attivo circolante che non costituiscono partecipazioni | | |
| d) di strumenti finanziari derivati | | |
| di attivita' finanziarie per la gestione accentrata della tesoreria | | |
| *Totale rivalutazioni* | | |
| 19) svalutazioni | | |
| a/b/c/d) sval.di part.,immob.fin.,titoli attivo circol.,strum.finanz.derivati,att.fin.gest.tesoreria | | |
| a) di partecipazioni | | |
| b) di immobilizzazioni finanziarie che non costituiscono partecipazioni | | |
| c) di titoli iscritti nell'attivo circolante che non costituiscono partecipazioni | | |
| d) di strumenti finanziari derivati | | |
| di attivita' finanziarie per la gestione accentrata della tesoreria | | |
| *Totale svalutazioni* | | |
| *Totale delle rettifiche di valore di attivita' e passivita' finanziarie (18-19)* | | |
| **Risultato prima delle imposte (A-B+-C+-D)** | | **580** |
| **20) imposte sul reddito dell'esercizio, correnti, differite e anticipate** | | |
| imposte correnti | | 962 |
| imposte relative a esercizi precedenti | | |
| imposte differite e anticipate | | |
| proventi (oneri) da adesione al regime di consolidato fiscale / trasparenza fiscale | | |
| *Totale delle imposte sul reddito dell'esercizio, correnti, differite e anticipate* | | *962* |
| **21) Utile (perdita) dell'esercizio** | | **(382)** |