# *Part A – Accounting Policies*

## *A.1 - General section*

### *Section 1 - Statement of compliance with International Accounting Standards*

The financial statements for the year ended 31/12/2018 have been prepared in accordance with international accounting standards issued by the International Accounting Standards Board (IASB) and approved as at the date of completion of the same, described in point A.2 below, as well as with related interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and Circular 262 of 22 December 2005 of the Banca d'Italia, updated as at 22 December 2017 , which was adopted on the basis of the mandate contained in Legislative Decree 38/2005 which effected the implementation in Italy of EC Regulation no. 1606/2002 on international accounting standards.
Circular no. 262 contains the financial statement tables, the bases of preparation and the contents of the notes to the financial statements.
Reference is also made to the "framework for the preparation and presentation of financial statements" (i.e., the IAS Framework).
Use has not been made of the derogation referred to in Article 5, paragraph 1, of Legislative Decree 38/2005.

### *Section 2 - General drafting principles*

The financial statements consist of a Statement of Financial Position, the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement and the Notes to the Financial Statements. Additionally, they are accompanied by the Directors' Report on Operations.
In compliance with the provisions of Article 5 of Italian Legislative Decree no. 38/2005, the financial statements have been drafted using the Euro as currency. The amounts of the Financial Statements are expressed in units of Euro, while the data reported in the Notes to the Financial Statements are expressed in thousands of Euros.

The general drafting principles dictated by IAS 1 and used in the preparation of the annual financial statements are:

1) Business Continuity: the financial statements have been prepared on the understanding that the Bank will continue its operating activities for the foreseeable future, therefore assets, liabilities and "off balance sheet" transactions were evaluated according to the operating values.
The possible foreseeable future which can be considered is that which emerges from all the available information used for the preparation of the strategic plan. Furthermore, in relation to the activity carried out, taking into account all the risks analysed and illustrated in other parts of the financial statements, the Bank considers that these fall within the scope of application of the criterion of IAS 1, according to which, when there is a history of profitable transactions and ready

access to financial resources, the going concern assumption is appropriate without detailed analysis.
In the evaluation of business continuity references to IAS 1 contained in the joint document "Banca d'Italia/Consob/ISVAP no. 2 of 6 February 2009" were used.

2) Accrual Basis of Accounting: costs and revenues are recorded, regardless of the time of their actual payment, according to economic maturity and according to the criterion of correlation.

3) Consistency of Presentation: the presentation and classification of items are maintained from one year to another in order to ensure the comparability of information unless a change is required by an International Accounting Standard, such as the application of the IFRS 9, or by an interpretation or it is clear that another presentation or classification is more appropriate in terms of relevance and reliability in the representation of the information. When the presentation or classification of items in the financial statements is amended, comparative amounts are reclassified, where possible, also indicating the nature and the reasons of the reclassification.

4) Materiality and Aggregation: each relevant class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately, unless they are irrelevant.

5) Prevalence of substance over form: the transactions and other events are recorded and represented in accordance with their substance and economic reality and not only according to their legal form.

6) Compensation: assets, liabilities, income and expenses are not offset if it is not required or permitted by an International Accounting Standard or an interpretation or is expressly provided for by the format for financial statements for banks.

7) Comparative information: comparative information is provided for the previous period for all data set out in the financial statements except when an International Accounting Standard or an Interpretation permits otherwise. Commentary and descriptive information is also included when significant for a better understanding of the financial statements for the financial year under review.

## *Use of estimates and evaluations*

The preparation of the financial statements requires the use of estimates and evaluations which can significantly impact on the values entered in the financial statements and in the income statement.
The use of estimates and assumptions is mostly required for:
- the quantification of the adjustments in the value of financial assets, receivables and tangible and intangible assets;
- the determination of the fair value of financial instruments to be used for the purposes of the financial statements and the use of valuation models for the determination of the fair value of financial instruments not quoted in active markets;
- the evaluation of the appropriateness of the value of goodwill and other intangible assets;

- the quantification of the employee benefit obligations and the provisions for risks and charges;
- the actuarial and financial assumptions used for the determination of liabilities related to defined benefit plans for employees;
- the estimates and assumptions on the recoverability of deferred tax assets;
- the determination of the parameters for significant increase in risk, essentially based on measurement models for the probability of default (PD) to the origination of financial assets and at the date of the financial statements;
- the inclusion of forward-looking factors, even of a macroeconomic type, for the determination of PD and LGD;
- the determination of the likelihood of the sale of impaired financial assets, through the realisation of positions on the market.

Estimates and reasonable assumptions are made through the use of all internal and external information available and historical experience.
The rectification of an estimate as a result of a change in circumstances on which it was based or as a result of new information or more experience is applied prospectively and creates an impact on the income statement for the period in which the change occurred and, possibly, on those of future periods.
The evaluation process is made particularly complex in view of the current macroeconomic and market context which, characterised by unusual levels of volatility, can be found in all financial indicators decisive for the purposes of the evaluation and the consequent difficulties in the formulation of performance forecasts, even for a short period, relating to the parameters of a financial nature significantly affecting the values subject to estimate.

## *Criteria for the classification of financial assets*

The classification of financial assets in the three categories provided for by IFRS 9 applicable as of 1 January 2018, depends on two criteria or drivers for classification: the business model with which financial instruments are managed (or Business Model) and the characteristics of the contractual cash flows of the financial asset (or the so-called "SPPI test"). The combination of the two drivers mentioned above leads to the classification of financial assets, as highlighted below:

- financial assets at amortised cost - assets that fall within the business model Hold to Collect (HTC) that, on passing the so-called "SPPI test" are shown to possess the necessary requirements to be included in the portfolio in question;
- financial assets at fair value with impact on overall profitability (FVOCI) - assets that fall within the business model Hold to Collect and Sell (HTCS) that, on passing the SPPI test, are shown to have the necessary requirements to be included in the portfolio in question. An exception is equity securities which may be entered in this portfolio, exercising the option provided by the "fair value option", but not passing the SPPI test;
- financial assets valued at fair value with an impact on the income statement (FVTPL) - it is a residual category, falling within this category are financial assets defined as trading assets or designated at fair value according to the business model to which they belong and instruments included in different business models which do not pass the so-called "SPPI test".

In order for a financial asset to be classified at amortised cost or FVOCI - in addition to the analysis of the business model - it is necessary that the contractual terms of the assets itself provide a certain dates, cash flows represented by payments of capital and interest on the amount of capital return ("solely the payment of principal and interest" - SPPI).
The SPPI test must be performed on each individual financial instrument at the time of the entry in the financial statements. Subsequent to initial write-up, and until it is recorded in the financial statements, the asset is no longer subject to revaluation for the purposes of the so-called "SPPI test". Where a financial instrument is cancelled (accounting derecognition) and entry of a new financial asset is affected, it is necessary to proceed to the execution of the so-called "SPPI test" on the new asset.

If the test reveals that the contractual cash flows (undiscounted) are "significantly different" with respect to the cash flows (also undiscounted) a benchmark instrument (i.e. without the element of time value changed) the cash flows of the contract cannot be regarded as complying with the definition of the so-called "SPPI test".

As regards the business model, IFRS 9 identifies three instances in relation to the way in which cash flows and sales of financial assets are managed:

- Hold to Collect (HTC): this is a business model whose objective is achieved through the collection of the cash flows of the contract of financial assets included in the Portfolios associated thereto. The insertion of a portfolio of financial assets in this business model does not necessarily imply the impossibility of selling such instuments even if it is necessary to consider the frequency, the value and the timing of sales in previous years, the reasons for sales and expectations on future sales;
- Hold to Collect and Sell (HTCS): this is a mixed business model, whose objective is reached through the collection of the cash flows of the contract of financial assets in portfolio and (also) through a sale that is an integral part of the strategy. Both assets (collection of contractual flows and sale) are indispensable to the attainment of the objective of the business model. Thus, sales are more frequent and significant with respect to an HTC business model and are an integral part of the strategies pursued;
- Others/Trading: this is defined as a residual category that includes both financial assets held for trading purposes and financial assets managed with a business model not attributable to the preceding categories (hold to collect and hold to collect and sell).

The business model is not dependent on the intention that the management has with reference to a single financial instrument but refers to the ways in which groups of financial assets are managed for the purposes of reaching a certain business goal.
For the Hold to Collect portfolios, the Bank has defined the thresholds for eligibility of sales that do not affect the classification and, at the same time, has established the parameters to identify sales consistent with this business model as attributable to an increase in credit risk.

## *Procedures for determining the amortised cost*

The amortised cost of a financial asset or financial liability is equal to the value of first write-up, decreased/increased capital repayments, of corrections/value writebacks and amortisation - calculated by the method of the effective interest rate - the difference between the amount paid and the amount payable on maturity, attributable typically to cost/income allocated directly to an individual credit.
The effective interest rate is the rate that equals the current value of a financial asset or financial liability to the contractual flow, for capital and interest, of future payments or received on maturity or to the next rate revaluation date.
For fixed rate instruments or a fixed rate for time periods (e.g. step-up bonds), future cash flows are determined on the basis of the rate of interest ruling during the life of the instrument.
For financial assets or financial liabilities at a variable rate, the determination of future cash flows is carried out on the basis of the last known rate. At each price revision date, the recalculation of the depreciation plan and the rate of actual yield over the useful life of the financial instrument, i.e. until the expiration date, is carried out.
The amortised cost is applied to loans and to debt securities included in the portfolio of assets under item "30 financial activities to assess at fair value and impact on overall profitability" or "40 Financial assets at amortised cost" and to debts and debt securities in circulation entered on the liabilities side.
The financial assets and financial liabilities negotiated at market conditions are initially recorded at their fair value, which normally corresponds to the amount paid or paid including transaction costs and commissions directly attributable.
The costs and internal marginal revenues attributable at the time of initial recording of the instrument and not recoverable from customers are considered as transaction costs.
These ancillary items, which must be traceable to the individual assets or liabilities, affect the actual yield and make the effective interest rate different from the contracted interest rate.
Excluded are costs and revenues associated indiscriminately to multiple transactions and related items that may be recorded during the life of the financial instrument.
Furthermore, not considered in the calculation of the amortised cost are costs that the Bank may incur regardless of the transaction, such as for administrative costs, stationery and communication.
The amortised cost also applies for the recording of the loss of value of the financial instruments listed above as well as for the write-up of those issued or purchased at a value different from their fair value. As indicated by IFRS 9, in some cases, a financial asset is considered impaired at the time of initial recording since the credit risk is very high, and where purchased, is purchased with large discounts. In circumstances in which the financial assets in question, on the basis of the application of the drivers of classification (i.e. SPPI test and business model), are classified among the assets carried at amortised cost or fair value with impact on overall profitability, the same are qualified as "Purchased originated or Credit Impaired Asset" (in short, "POCI") and are subject to a special treatment in regard to the process of impairment. The criterion for write-up at amortised cost does not apply to financial assets/liabilities backed by derivative hedging contracts for which there

is a provision for recording of changes in fair value relating to the hedged risk in the income statement.

### *Estimate of losses in the value of financial assets*

At each financial statement date, pursuant to IFRS 9, Financial assets other than those measured at fair value with an impact on the income statement are subjected to an evaluation to see if there is any indication that the entry value of said assets is not entirely recoverable.
For financial assets for which there is no evidence of impairment, i.e. for financial instruments not impaired classified in STAGE 1, the valuation provides for the recording of losses expected during the course of the next twelve months. However, at each financial statement date, it is necessary to verify whether there are indicators for which the credit risk of each transaction is significantly increased with respect to the time of initial write-up. In fact, in this case, should there be indicators of a significantly increased credit risk, the financial instruments, whilst still performing will suffer a negative change both from the point of view of staging and in valuation. Where such indicators exist, financial asset flows in STAGE 2 and a valuation of applied to same which provides for the entry of adjustments to the value equal to the expected losses through the entire residual life of the financial instrument (i.e., PD Lifetime).
To identify a "significant increase" in the credit risk the variation of the probability of default with respect to the time of the initial entry in the financial statement of the financial instrument is to be considered, as is the possible presence of a maturity date which is such that within least 30 days, the existence of measures for granting (forborne) and the classification of management in "under-control" watchlist determines the entry in STAGE2.
Focusing attention on the change in the probability of default, the significant increase in credit risk ("SICR") is determined by comparing the relative change of the Probability of Default recorded between the date of first entry of the report and that of observation Delta (PD) with thresholds of predetermined significance.

As regards non-performing positions, classified as STAGE 3, the valuation normally takes place according to analytical methods.
The criteria for the estimation of write-downs to be made to total impaired loans are based on the present value of expected cash flows taking into account any guarantees supporting the positions and any advances received. For the purposes of determining the current value of future cash flows, the basic elements are represented by the identification of estimated collections, the timing of payments and the rate used. The amount of the correction is equal to the difference between the book value of the asset and the actual value of the expected future cash flow, discounted at the original effective interest rate, duly updated in case of variable interest rate instruments, or, in the case of positions classified as non-performing, to the effective interest rate as at the date it became non-performing. Depending on the severity of the impairment status and the significance of the exposure, the estimates of the recovery value consider a so-called going concern approach, which presupposes the business continuity of the counterparty and the continued generation of operating cash flow, or a so-called gone concern approach: in the event of a scenario of the disposal of the

asset in which the recovery of the credit is based substantially on the value of the supporting guarantees or on the realisable value of capital assets, taking account of the volume of the debts and of any pre-existing rights.

Going on to analyse an alternative recovery scenario, it is shown that, in certain conditions, a strategy to maximise the recovery of cash flow, is the sale of certain non-performing loans with characteristics of transferability.

As regards impaired loans, it should be recalled that the Bank resorts to the settlement/cancellation of unrecoverable accounting items and proceeds to the consequent attribution to loss of the balance not yet adjusted in case of unrecoverability, transfer or waiver of such loans. In light of this, defined boundaries for non-performing loans having the transferability characteristics were evaluated on the basis of market estimates, valued and weighted according to a scenario of appropriate disposal.

### *Criterion for recognition of income items*

In addition to what is set out in the general drafting principles, revenues are entered at a precise moment, when the entity fulfils its obligation to transfer, to the customer of the asset or service promised, or over time, as the entity fulfils the obligation to transfer, to the customer, the asset or service promised. The asset is transferred when, or over the period in which, the customer acquires control thereover.

Specifically:

a) interest paid is noted pro rata temporis on the basis of the contractual interest rate or actual interest rate in the case of application of amortised cost. The item interest income (or interest expenses) also includes the differentials or margins, positive (or negative), accrued up to the financial statements date, relating to financial derivative contracts:
   - to hedge assets and liabilities that generate interest;
   - classified in the Balance Sheet in the trading portfolio, but transactionally connected with assets and/or financial liabilities at fair value (as per the fair value option);
   - transactionally connected with assets and liabilities classified in the trading portfolio and which provide for the liquidation of differentials or margins with several maturities.

b) default interest, possibly provided on a contractual basis, are recorded in the income statement only at the time of their actual collection.

c) dividends are noted in the Income Statement during the financial year in which their distribution has been approved.

d) commissions for revenues from services are entered on the basis of the existence of contractual agreements in the period in which the services were provided. Commissions considered at amortised cost for the purposes of determining the actual interest rate are recorded under interest.

e) revenues from the sale of financial instruments, determined by the difference between the amount paid or collected from the transaction and the fair value of the instrument are noted in the Income Statement at the time of recording the transaction.

f) revenues from the sale of non-financial assets are recorded at the time of the completion of the sale, i.e. when the obligation to be made towards the customer is fulfilled.
g) costs are noted at the time they are incurred in respect of the criterion of the correlation between the costs and revenues that derive directly and jointly from the same transactions or events.
h) costs directly attributable to assets valued at amortised cost and determinable from the outset, regardless of when they are settled, are recorded in the income statement by applying the actual interest rate.
i) costs that cannot be associated with revenues are recorded immediately in the income statement. All losses are recognised in the income statement in the year in which they are incurred.

## *Section 3 – Events after the reporting period*

In the period of time which elapsed between the date of reference of this report and its approval by the Board of Directors on 26 February 2019 no events occurred that entail an adjustment of the approved data in this regard nor did significant events occur such as to require a supplement to the information given.

## *Section 4 – Other aspects*

### *Audit*

The financial statements are subject to audit, pursuant to Legislative Decree No. 58/98 by the company BDO Italia S.p.A., applying the mandate conferred for the period 2011-2019 to said company by the shareholders' decision of 9 April 2011.

### *Accounting principles/approved and compulsorily applicable interpretations for the 2018 financial year*

Below is a list of the regulations approved by the European Commission during the 2018 financial year, or in preceding years, the application of which is mandatory as of the 2018 financial year, amending or supplementing the international accounting principles:

• No. 1905/2016 of 29/10/2016 and 1987/2017 of 31/10/2017 - IFRS 15 "Revenues from contracts with customers" and changes to other accounting principles/connected interpretations; these changes are to be applied with effect from 01/01/2018;

• No. 2067/2016 dated 22/11/2016 - IFRS 9 "Financial Instruments" compulsorily effective from 01/01/2018.

### *Accounting principles/approved and compulsorily applicable interpretation for years subsequent to 2018*

Below is a list of the regulations approved by the European Commission during the 2018 financial year, or in preceding years, the application of which is mandatory as of the 2019 financial year or later, amending or supplementing international accounting principles:

• No. 1986/2017 dated 31/10/2017 - IFRS 16 "Leasing" and changes to other accounting principles/connected interpretations; these changes will be applied with effect from 01/01/2019.
As at the date of drafting of the present document, the Bank is implementing procedures concerning the accounting management of IFRS16; the impacts of initial application are not tangible.

Particular importance is given, by financial institutions, to the entry into force of IFRS 15 "Revenues from contracts with customers" and IFRS 9 "Financial instruments".

Below is a summary, defining the impact of the new principles applied to banking activities, and the main provisions contained therein.

## *IFRS 15 "Revenues from contracts with customers"*

IFRS 15 "Revenues from contracts with customers" establishes the rules for recognising the revenue arising from contractual obligations with customers.

IFRS 15 must only be applied if the counterparty is a customer. The customer is the party that has concluded the contract with the entity to obtain, in exchange for a payment, goods or services that are part of the ordinary activities of the entity.

## *Scope*

The entity shall apply IFRS 15 to all contracts with customers, with the exception of leasing contracts falling within the scope of IAS 17 "Leasing", insurance contracts falling within the scope of IFRS 4 "Insurance Contracts", financial instruments and other contractual rights and obligations falling within the scope of IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint-Control Agreements", IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" and non-monetary trade between entities of the same business unit to facilitate sales to customers or potential customers.

## *The 5 steps of IFRS 15*

The new accounting policy provides that revenues should be entered adopting an approach based on the following 5 steps:
1) identification of contracts with a customer in which the contract is an agreement between two or more parties that gives rise to rights and obligations payable, which can be written, oral or derive implicitly from the usual trade practices of the entity;
2) identification of obligations to shown in the contract: a single contract may contain the promise to deliver, to the customer, more than one good or service. At the time of formalisation of the contract, the entity estimates the goods or services which are explicitly or implicitly promised in the contract and identifies, as a performance obligation, each commitment to transfer a specific good or service;
3) determination of the price of the transaction: the price is the amount that is expected to be received in exchange for the transfer of goods or services to the customer. The expected price may be a fixed amount, include variable items or non-monetary items. In this instance, the principle

introduces, with reference to the variable item, the potential estimate elements in the determination of the total price of the transaction;
4) breakdown of the price of the transaction between performance obligations: the distribution takes place where the contract includes several performance obligations and the price must be allocated to each obligation, on the basis of the "stand alone" sale prices of every single asset or service provided for in the contract. The selling price, in itself, is the price at which the entity would sell separately, to the customer, the good or service promised. The best indication of the selling price, in itself, is the price of the good or service that can be observed when the entity separately sells the good or service in similar circumstances and to comparable customers;
5) write-up of revenue in the Financial Statements occurs when the entity meets performance obligations: the revenue is entered only when the customer obtains control over the good or service transferred.

The amount of revenue to be entered is allocated on the performance obligation that was met in a certain period of time ("at a point in time") or during a given time span (also "over time"). In the case of performance obligations fulfilled "over time", the entity notes revenues during this period of reference, using an appropriate method to measure the progress made with respect to the complete fulfilment of the obligation.

### *The transition to IFRS 15*

From the analysis performed by Banca Valsabbina on revenues from contracts with customers, i.e. under the financial statement items "Active Commissions" and "Other operating income" it emerged that the accounting handling of such cases is already in line with the forecasts of the new principle and consequently do not reveal impacts on the net assets of the Bank as a result of the introduction of IFRS 15. However, following the introduction of the new principle impacts on information relating to revenue mentioned above to be provided in the Financial Statement were identified.

### *IFRS 9 “Financial instruments”*

In view of the forthcoming implementation of the new principle, IFRS 9, the Bank had already initiated, in the second half of 2015, a project, substantially concluded during the first quarter of 2018, which resulted in a major effort concerning the interpretation,, application, administration, organisational and management, on the basis of which a profound knowledge of the provisions of the new principle was consolidated.

### *Entry and deletion*

With reference to the criteria of the initial entry and deletion of financial assets and liabilities, IFRS 9 has substantially confirmed the approach set out in IAS 39.

### *Classification and valuation*

IFRS 9 provides for the following criteria for determining the classification of financial assets:

a) the business model followed to manage financial assets;
b) the characteristics of the contractual cash flows of financial assets.

On the basis of the different characteristics of the principle, three categories of classification and valuation are provided for:

- amortised cost ("*Amortised Cost* - AC");
- fair value for other items of the overall income statement ("*Fair value through other comprehensive income* - FVOCI);
- fair value with impact on the income statement ("*Fair value through profit or loss* - FVPL").

In the category of amortised cost, financial assets held in order to collect cash flows under contract are classified and valued. In the context of this model, sales characterised by limited frequency or of insignificant amount are recorded. No disposals made in the event of increases in credit risk are recorded. However, if the sales are frequent and of a significant amount it is necessary to assess whether these activities are consistent with the classification rules.

Financial assets are recorded in the FVOCI category:

- where contractual cash flows are represented exclusively by payment of capital and interest
- held in order to collect contractual cash flows as well as the flows resulting from the sale of assets. This business model allows for greater sales activity with respect to the AC portfolio.

Interest income, profits and losses from exchange rate differences, value adjustments due to impairment of financial assets entered in the FVOCI portfolio and the related writebacks of impairments are recorded in the income statement, changes in fair value are accounted for under the other items of the overall income statement (OCI). At the time of sale (or of any reclassification into other categories consequent to the change in the business model) accumulated profits and losses recorded under OCI are reclassified in the income statement.
For equity securities, at the time of first entry, it is possible to exercise the irrevocable option for their inclusion in the FVOCI portfolio. In this case, all changes in fair value shall be accounted for under OCI without the possibility of being reclassified in the income statement (neither for impairment nor for subsequent sale). Dividends are recorded in the income statement.

## *Effects of the adoption of IFRS 9 "Financial instruments"*

IAS 8 *"Accounting policies, changes in accounting estimates and errors* " provides that both the relevant information for assessing the impact on the financial statements resulting from the initial application of new accounting standards are provided. Given the scope of the changes provided for by IFRS 9, which information has been provided above, as from the 2015 financial year, the Bank has collaborated with its outsourcer for the necessary planning activities aimed at identifying the main areas of impact and defining the methodological framework of reference for the classification, measurement and impairment of financial assets.
The Bank relied upon the advice of a specialist company with which activities were carried out to:

- define the assignment criteria for new portfolios;

- identify the methodology for defining credit risk connected to financial assets other than credits, such as government bonds and commitments to grant credit;
- carry out, first in simulation on 31.12.2016, then effectively, activities to define the methodology to identify "significant impairment of the risk in relation to the authorisation date ".

As regards the first point, project activities have focused on the definition of the business model, for purposes of classification of financial assets in various portfolios considering the importance as well as the objective characteristics of same, which are identified via the so-called *Solely Payment Principal Interest* (SPPI Test) and via the so-called Benchmark Test where there are clauses that involve the so called. *modified time value of money*.
The so-called "SPPI test", of a qualitative nature, is aimed at verifying whether the financial instrument provides, substantially, for payments that are an expression solely of capital and interest.
The Benchmark Test, of a quantitative nature, is added to the "SPPI test" when the financial instrument presents an imperfect correlation between the reference parameter of the interest rate (e.g. Euribor 3 months) and the passage of time (e.g. monthly instalment). In this case, the aim of this test is to verify its importance in terms of different cash flows with respect to the cash flows of a "benchmark" instrument not distinguished by characteristics of "*modified time value of money*".
Passing the two tests is essential for the entry of the assets in the categories of amortised cost and FVOCI. A negative outcome involves the classification of the financial instrument in category "*Fair Value Through Profit of Loss*".

As regards the securities portfolio, the quantitative impacts highlighted relate mainly to the restatement of certain securities:

- previously classified under "Financial assets held for sale", which in terms of IFRS9 are associated with the business model "Hold to collect" and therefore valued at amortised cost;
- previously classified under "Financial assets held for sale", in terms of IFRS9 are compulsorily valued at fair value (shares in mutual and real estate investment funds).

As regards the loan portfolio of the Bank, mainly retail and normally based on standard products, where cash flows are directed to the remuneration of time and credit risk, the possibility of maintaining the classification at amortised cost for the totality of the financing granted by the Bank is confirmed.

Parameters have been defined for the determination of significant impairment of credit risk aimed at the correct allocation of performing exposures in stage 1 or stage 2.
In particular, the process for the recovery of creditworthiness evaluation carried out by the rating model at the time of the initial disbursement of each financing. Jointly with the outsourcer, the method of calculating the default probability curves on a multi-annual basis by inserting " *forward-looking* " valuations in order to transition from an *"incurred "* model to an "*expected*" model have been defined.

The classification criteria of credits in the "impaired" portfolio provided for by IAS 39 were maintained for identification of those to be classified in stage 3.

With reference to stage 3, it should be noted that as regards "default" positions, the rules of analytical evaluation of same, developed for a to "gone concern", include forward looking items in the estimate of the percentages of reduction for guaranteed assets.
IFRS 9 allows for the introduction of alternative recovery scenarios for exposures even with forecast sales scenarios, both to maximise cash flow and in relation to a specific strategy for the management of non-performing loans.
Accordingly, the Expected Credit Loss estimate, in accordance with IFRS 9, reflects, in addition that the recovery through the ordinary management of credit, the presence of the sales scenario and of cash flows arising from such sale.

## *Comparability*

The Bank has adopted the option provided for by the IFRS 1 principle, in terms of which compulsory restatement on a uniform basis of comparison data of the financial statements on initial application of the new IFRS9 principle, effective from 1 January 2018, is not required. However, a reconciliation table has been provided that highlights the methodology used and provides a reconciliation between the data of the last approved financial statements and the first financial statements to be drawn up in accordance with the provisions set out in 5$^{th}$ update of Circular 262.

## *Summary of impacts from the adoption of IFRS9, reconciliation tables and explanatory notes, shareholders' equity reconciliation table*

As at 01/01/2018, the date of the first application of IFRS9, assets in the financial statements as at 31/12/2017 (IAS39) were subjected to processes of reclassification, evaluation and impairment according to the new rules.

IAS8 "Accounting Policies, Changes in Accounting Estimates and Errors" provides that the effect of the transition to the new principle is the entry in the relevant shareholders' equity reserves; this is in order to show the effect which would have been produced at an equity level had the new principles been applied for a continuous period.

Given that the first application of IFRS15 has not impacted on equity, the effects shown below, in the reconciliation tables between equity assets as at 31/12/2017 and the equity assets as at 01/01/2018, are attributable solely to the adoption of IFRS9.

### *Summary of impacts of first application*

- *Book net equity:* the impact of the introduction of IFRS9 is equal to a total of -€61.5 million net of taxation, broken down into:
  *a)* impacts resulting from the reclassification/evaluation/impairment of securities entered in own portfolios for +€0.2 million, of which +€5 million for improvement in valuation reserves and -€4.8 million entered in changes in retained earnings from FTA;
  *b)* impacts resulting from the reclassification/valuation/impairment of receivables (for cash and off-balance sheet) equal to -€61.7 million recorded with contra-entry to profit reserves from FTA.

  Further details of the changes to the financial statements are provided in the section below "Reconciliation Statement between shareholders' equity as at 31/12/2017 (pursuant to IAS39) and shareholders' equity as at 01 January 2018 (pursuant to IFRS9)".

- *Own Funds and Solvency Ratios:* Banca Valsabbina has opted to use the transitional rules laid down in EU Regulation 2017/2395 (static + dynamic regime) defers over time, the impact on own funds resulting from the application of the new impairment model. The above framework provides for the inclusion, in the primary capital of class 1, a temporary positive item equal to a percentage of the increase immediately from the provisions for expected losses on receivables arising from the first application of IFRS9 (static item); a the "dynamic" item is also provided for, an item calculated on the basis of positive differences recorded in the valuation of the performing credits between the reporting date and the date of first application.

The percentage referred to above is equal to 95% for the 2018 year, 85% for 2019, 70% for 2020, 50% for 2021 and 25% for 2022; the transitional regime lasts 5 years and will end in 2022.

As at 31/12/2017, Own Funds in terms of computability for CET1 purposes were equal to €373.8 million, in terms of Total Capital €408.9 million; as at 01/01/2018, by adopting the transitional regime, which the Bank has adopted, these values were respectively equal to €363.7 million and €398.5 million. By not adopting the transitional regime, they would instead have amounted to €307.3 million and €342 million.

Solvency ratios as at 31/12/2017 were equal to 15.17% (CET1) and 16.60% (Total Capital Ratio); as at 01/01/2018, by adopting the transitional regime, they were, respectively, equal to 14.82% and 16.24%. If the bank had not exercised the option, these ratios would have amounted to 12.82% and 14.27%, ratios that, in any case, fully conform to SREP limits (6.925% and 10.875%).

### *Reconciliation statements and explanatory notes*

**Restatement of capital balances as at 31/12/2017 (pursuant to IAS 39) under the new financial statement items (pursuant to IFRS9) provided by the 5$^{th}$ update of Banca d'Italia Circular 262/2005**

The statement links the items of the financial statements’ assets and liabilities, published in the financial statement as at 31/12/2017, with the items introduced by the 5$^{th}$ update of Circular 262/2005 B.I.

It represents the application of the IFRS9 standard in terms of "classification" of financial instruments and, secondarily, of the "classification" of other items. The values of equity items, determined pursuant to the valuation rules of IAS39 standards, are then restated under the new items by observing the business model defined as well as the outcome of the SPPI test.

| | | Circular 262/2005 5th update - ASSETS | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Circular 262/2005 4th update - ASSETS** | **31.12.2017 IAS39** | **10.Cash and cash equivalents** | **20.Financial assets at fair value with a corresponding asset item in the income statement.** | | | **30.Financial assets at fair value with impact on overall profitability** | **40.Financial assets valued at amortised cost** | | **70. Equity investments** | **80.Tangible assets** | **90.Intangible assets** | **100.Tax assets** | | **120.Other assets** |
| | | | **a) financial assets held for trading** | **b) financial assets at fair value** | **c) financial assets at fair value** | | **a) loans and receivables with banks** | **b) loans and receivables with customers** | | | | **a)current** | **b) paid in advance** | |
| 10.Cash and cash equivalents | **15,771,020** | 15,771,020 | - | - | - | - | - | - | - | - | - | - | - | - |
| 20.Financial assets held for trading | **173,702** | - | 173,702 | - | - | - | - | - | - | - | - | - | - | - |
| 30.Financial assets at fair value | **9,379,650** | - | - | 9,379,650 | - | - | - | - | - | - | - | - | - | - |
| 40.Financial assets held for sale | **939,254,006** | - | - | - | 150,985,620 | 636,836,948 | - | 151,431,438 | - | - | - | - | - | - |
| 60.Loans with banks | **129,371,724** | - | - | - | - | 15,084,876 | 114,286,848 | - | - | - | - | - | - | - |
| 70.Loans with customers | **3,039,985,288** | - | - | - | 86,624,078 | - | - | 2,953,361,210 | - | - | - | - | - | - |
| 100.Equity investments | **1,121,248** | - | - | - | - | - | - | - | 1,121,248 | - | - | - | - | - |
| 110.Tangible assets | **29,234,310** | - | - | - | - | - | - | - | - | 29,234,310 | - | - | - | - |
| 120.Intangible assets | **9,819,351** | - | - | - | - | - | - | - | - | - | 9,819,351 | - | - | - |
| 130.Tax assets | **72,638,036** | - | - | - | - | - | - | - | - | - | - | 7,636,106 | 65,001,930 | - |
| a) current | 7,636,106 | - | - | - | - | - | - | - | - | - | - | 7,636,106 | - | - |
| b) paid in advance | 65,001,930 | - | - | - | - | - | - | - | - | - | - | - | 65,001,930 | - |
| 150.Other assets | **53,874,738** | - | - | - | - | - | - | - | - | - | - | - | - | 53,874,738 |
| **Total assets** | **4,300,623,073** | **15,771,020** | **173,702** | **9,379,650** | **237,609,697** | **651,921,825** | **114,286,848** | **3,104,792,648** | **1,121,248** | **29,234,310** | **9,819,351** | **7,636,106** | **65,001,930** | **53,874,738** |

| | | Circular 262/2005 5th update - LIABILITIES | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Circular 262/2005 4th update - LIABILITIES** | **31.12.2017 IAS39** | **10.Financial assets valued at amortised cost** | | | **20.Financial liabilities held for trading** | **60.Tax liabilities** | | **80.Other liabilities** | **90.Staff severance indemnity** | **100.Provisions for risks and charges** | | **110.Valuation reserves** | **140.Reserves** | **150.Share premium issues** | **160.Capital** | **170.Treasury shares (-)** | **180) Profit (loss) for the year (+/-)** |
| | | **a) payables to banks** | **b) payables to customers** | **c) securities issued** | | **a) current** | **b) deferred** | | | **a) commitments and guarantees issued** | **c) other provisions for risks and charges** | | | | | | |
| 10.Payables to banks | **687,269,410** | 687,269,410 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 20.Payables to customers | **2,609,954,680** | - | 2,609,954,680 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 30.Outstanding securities | **550,803,390** | - | - | 550,803,390 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 40.Financial liabilities held for trading | **134,664** | - | - | - | 134,664 | - | - | - | - | - | - | - | - | - | - | - | - |
| 80.Tax liabilities | **2,581,961** | - | - | - | - | 778,221 | 1,803,740 | - | - | - | - | - | - | - | - | - | - |
| a) current | 778,221 | - | - | - | - | 778,221 | - | - | - | - | - | - | - | - | - | - | - |
| b) deferred | 1,803,740 | - | - | - | - | - | 1,803,740 | - | - | - | - | - | - | - | - | - | - |
| 100.Other liabilities | **60,556,335** | - | - | - | - | - | | 59,657,124 | | 899,211 | | - | - | - | - | - | - |
| 110.Post-employment benefits | **5,158,352** | - | - | - | - | - | - | - | 5,158,352 | | | - | - | - | - | - | - |
| 120.Provisions for risks and charges | **2,195,097** | - | - | - | - | - | - | - | - | - | 2,195,097 | - | - | - | - | - | - |
| b) other provisions | 2,195,097 | - | - | - | - | - | - | - | - | - | 2,195,097 | - | - | - | - | - | - |
| 130.Valuation reserves | **(649,483)** | - | - | - | - | - | - | - | - | - | - | (649,483) | - | - | - | - | - |
| 160.Reserves | **59,775,417** | - | - | - | - | - | - | - | - | - | - | - | 59,775,417 | - | - | - | - |
| 170.Share premium issues | **230,298,585** | - | - | - | - | - | - | - | - | - | - | - | - | 230,298,585 | | | |
| 180.Capital | **106,550,481** | - | - | - | - | - | - | - | - | - | - | - | - | - | 106,550,481 | - | - |
| 190.Treasury shares (-) | **(8,185,301)** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (8,185,301) | - |
| 200.Profit (loss) for the year (+/-) | **(5,820,515)** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (5,820,515) |
| **Total liabilities and shareholders' equity** | **4,300,623,073** | **687,269,410** | **2,609,954,680** | **550,803,390** | **134,664** | **778,221** | **1,803,740** | **59,657,124** | **5,158,352** | **899,211** | **2,195,097** | **(649,483)** | **59,775,417** | **230,298,585** | **106,550,481** | **(8,185,301)** | **(5,820,515)** |

Item "20; Financial assets valued at fair value with impact on the income statement" includes.

a) financial instruments managed for trading purposes, recorded under subitem a);
b) financial assets for which IFRS9 allows choice of the "Fair Value Option", recorded under subitem b);
c) financial assets, other than those held for trading, attributed to Business Model Others and all financial assets that do not pass the SPPI test not held for trading. These assets are recorded under subitem c).

As classified according to IAS39 former items 20. and 30. have merged into new entries 20a) and 20b), respectively, without any type of reclassification.

The following securities, totalling €237.6 million, are, on the other hand, merged into new item 20c) Financial assets compulsorily valued at fair value:

- from the former AFS equity securities portfolio for €4 million, securities for which the FVOCI Option is not exercised;
- from the former AFS debt securities portfolio for €2.8 million reclassified in this item, given that the SPPI test has not been passed;
- from the former AFS CIU securities portfolio for €144.2 million reclassified in this entry given that (by definition) the SPPI test has not been passed;
- from the former item "70 Loans to customers" debt securities for €86.6 million reclassified in this item, given that the SPPI test has not been passed (securities characterised by contractual flows of uncertain interests).

Item "30; financial assets valued at fair value with impact on overall profitability" includes:

a) financial instruments associated with the HtC&S Business Model for which the SPPI test has been passed;
b) equity securities for which the FVOCI Option has been selected (financial statements value as at 31/12/17 €24.4 million); the possible plus/minus recorded at time of sale on such securities shall not be merged in the income statement but shall be restated as retained earnings.

In addition to that already present in the former IAS39 AFS portfolio and not reclassified in other portfolios, debt securities for €15.1 million have been transferred by former item "60 Receivables from banks" into this item.

Item "40; Financial assets valued at amortised cost" includes financial assets associated with the HtC Business Model passing the SPPI test.
In addition to those already present in former items IAS39 "60 Receivables from banks" and "70 Receivables from customers" and not already reclassified in other IFRS9 portfolios, government bonds for €151.4 million have been transferred from former item 40 "Financial assets held for sale" into this item, given that the HtC Business Model is more representative compared with HtC&S.

Item "100; Provisions for risks and charges", under the new subitem "a) commitments and guarantees issued" now includes the write-downs as regards guarantees issued and credit margin, write-downs first entered in the former item "100. Other liabilities" for €899 thousand.

**Reconciliation table between capital balances as at 31/12/2017 (already reclassified IFRS9) and capital balances as at 01/01/2018**

The table shows, for the individual items of assets and liabilities in the financial statements, the impact of the application of the provisions of standard IFRS9 in terms of "valuation" and "impairment".
The "valuation" columns report changes in value due to different evaluative criteria, while the “impairment" columns record changes in value attributable to the new model of impairment introduced with IFRS9.

| Circular 262/2005 5th update - ASSETS | 31.12.2017 IAS39 | Valuation of securities | Securities impairment | Receivables Valuation of receivables | Receivables impairment | 01.01.2018 IFRS9 |
|---|---|---|---|---|---|---|
| 10.Cash and cash equivalents | **15,771,020** | **-** | **-** | **-** | **-** | **15,771,020** |
| 20.Financial assets at fair value with a corresponding asset item in the income statement. | **247,163,049** | **-** | **-** | **-** | **-** | **247,163,049** |
| a) financial assets held for trading | 173,702 | - | - | - | - | 173,702 |
| b) financial assets at fair value | 9,379,650 | - | - | - | - | 9,379,650 |
| c) financial assets at fair value | 237,609,697 | - | - | - | - | 237,609,697 |
| 30.Financial assets at fair value with impact on overall profitability | **651,921,825** | **164,082** | **-** | **-** | **-** | **652,085,907** |
| 40.Financial assets valued at amortised cost | **3,219,079,496** | **3,860,397** | **(328,857)** | **-** | **(61,454,967)** | **3,161,156,069** |
| a) loans and receivables with banks | 114,286,848 | - | (161,090) | - | - | 114,125,758 |
| b) loans and receivables with customers | 3,104,792,648 | 3,860,397 | (167,766) | - | (61,454,967) | 3,047,030,311 |
| 70. Equity investments | **1,121,248** | **-** | **-** | **-** | **-** | **1,121,248** |
| 80.Tangible assets | **29,234,310** | **-** | **-** | **-** | **-** | **29,234,310** |
| 90.Intangible assets | **9,819,351** | **-** | **-** | **-** | **-** | **9,819,351** |
| 100.Tax assets | **72,638,036** | **(3,472,700)** | **-** | **-** | **54,716** | **69,220,052** |
| a) current | 7,636,106 | - | - | - | - | 7,636,106 |
| b) paid in advance | 65,001,930 | (3,472,700) | - | - | 54,716 | 61,583,946 |
| 120.Other assets | **53,874,738** | **-** | **-** | **-** | **-** | **53,874,738** |
| **Total assets** | **4,300,623,073** | **551,779** | **(328,857)** | **-** | **(61,400,251)** | **4,239,445,743** |

| Circular 262/2005 5th update - LIABILITIES | 31.12.2017 IAS39 | Valuation of Securities | Securities impairment | Valuation of Receivables | Receivables impairment | 01.01.2018 IFRS9 |
|---|---|---|---|---|---|---|
| 10.Financial liabilities valued at amortised cost | **3,848,027,480** | **-** | **-** | **-** | **-** | **3,848,027,480** |
| a) payables to banks | 687,269,410 | - | - | - | - | 687,269,410 |
| b) payables to customers | 2,609,954,680 | - | - | - | - | 2,609,954,680 |
| c) securities issued | 550,803,390 | - | - | - | - | 550,803,390 |
| 20.Financial liabilities held for trading | **134,664** | **-** | **-** | **-** | **-** | **134,664** |
| 60.Tax liabilities | **2,581,961** | **(23,107)** | **-** | **-** | **(270,140)** | **2,288,714** |
| a) current | 778,221 | - | - | - | - | 778,221 |
| b) deferred | 1,803,740 | (23,107) | - | - | (270,140) | 1,510,493 |
| 80.Other liabilities | **59,657,124** | **-** | **-** | **-** | **-** | **59,657,124** |
| 90.Staff severance indemnity | **5,158,352** | **-** | **-** | **-** | **-** | **5,158,352** |
| 100.Provisions for risks and charges | **3,094,308** | **-** | **-** | **-** | **593,475** | **3,687,783** |
| a) commitments and guarantees issued | 899,211 | - | - | - | 593,475 | 1,492,686 |
| c) other provisions for risks and charges | 2,195,097 | - | - | - | - | 2,195,097 |
| 110.Valuation reserves | **(649,483)** | **4,492,548** | **485,815** | **-** | **-** | **4,328,880** |
| 140.Reserves | **59,775,417** | **(3,917,662)** | **(814,672)** | **-** | **(61,723,586)** | **(6,680,504)** |
| 150.Share premium issues | **230,298,585** | **-** | **-** | **-** | **-** | **230,298,585** |
| 160.Capital | **106,550,481** | **-** | **-** | **-** | **-** | **106,550,481** |
| 170.Treasury shares (-) | **(8,185,301)** | **-** | **-** | **-** | **-** | **(8,185,301)** |
| 180 Profit (loss) for the year (+/-) | **(5,820,515)** | **-** | **-** | **-** | **-** | **(5,820,515)** |
| **Total liabilities and shareholders' equity** | **4,300,623,073** | **551,779** | **(328,857)** | **-** | **(61,400,251)** | **4,239,445,743** |

In reference to the effects resulting from the process of "valuation" of securities the overall impact is equal to €552 thousand and is derived from:

- + € 3.9 million that relates to the evaluation at amortised cost of debt securities first classified in the AFS portfolio and then valued at fair value; in terms of this reclassification advance taxation for €1.3 million has been provided for. The overall effect on the assets is therefore equal to + €2.6 million;
- + €0.2 million which relates to the fair value valuation of debt securities reclassified as at 01/01/2018 in the FVOCI portfolio and first valued at amortised cost; the deferred taxation entered in terms of FTA was entered under liabilities for an amount equal to €54 thousand;
- - €2.2 million relates to the transfer of advance taxation entered on debt securities and CIU classified under IAS39 in the AFS portfolio and reclassified in the new item "20c) Financial assets compulsorily valued at fair value with impact on the income statement"; such taxation has been reversed for more general reasons in relation to the recoverability of taxes in terms of FTA IFRS9.

As regards the effects resulting from the process of "impairment" on securities (new concept of "creditworthiness" introduced on debt securities included in the portfolios valued at amortised cost and the FVOCI) a the total effect equal to €815 thousand is recorded, of which €329 thousand

relating to the AC ptf and €486 thousand to the FVOCI ptf; it should be noted that, in terms of FTA, the effect on the FVOCI ptf allowed for o a flexible entry between profit reserves and valuation reserves.
Finally, in reference to effects arising from off-balance sheet impairment losses and losses on receivables for cash there is generally a negative net impact equal to €61.7 million, an impact that breaks down as follows:

- further write-downs on receivables for performing loans (stages 1 and 2) for €15.1 million, the impact resulting from the adoption of the "significant increase of credit risk" concept, probability of default calculated throughout the life of the credit for the positions classified in stage 2, losses calculated according to a forward looking principle instead of the incurred loss IAS39;
- Further write-downs on contingent liabilities/credit margins and other items for about €1.3 million;
- lump-sum write-downs on impaired "Non-performing" and "Impaired expired" classes for approximately €7.3 million, adjustment of write-downs resulting primarily from the introduction of the "forward looking" concept;
- Introduction of the "sale scenario " for sub-portfolio in default; evaluation according to a "sale scenario " instead of management "continuity" was carried out for the bulk of the default positions overdue before 2014, excluding non-transferable positions, and led to an impact equivalent to approximately €38 million.

As regards the change in Shareholders' Equity Reserves, a specific table is shown in the section below.

On the subject of taxation, it is noted that, in general, the valuation items included in the FTA are deductible for the purposes IRES (company tax) and for the purposes of IRAP(regional corporate tax) (impairment on loans, impairment losses on securities, tax realignment of the value of securities for the foreign currency portfolio); consideration must be given to the possible inclusion of tax credits arising from FTA, an entry that would have had a positive impact on capital reserves.
Given the following elements:

- volume of deductible items entered in the FTA;
- the presence of a certain amount of tax credits pursuant to Act 214/2011, certainly recoverable (according to a "depreciation plan" that covers the time period 2018-2026) and therefore already entered in the financial statements as at 31/12/2017;
- the probability that, in a "reasonable" period of time, sufficient tax can be generated so as to absorb the elements referred to above;
- no presence, as at 01/01/2018 of a business plan for the medium term that indicates the recovery of deductible items entered in the FTA;

it has been decided not to include claims resulting from tax entered in the FTA.

It is also pointed out that the non-inclusion in the accounts of these credits does not invalidate the deduction of the items resulting from FTA in the income statements for 2018 and subsequent years; whenever possible, tax on these items will be recovered

***Reconciliation table between net shareholders' equity 31/12/2017 (pursuant to IAS39) and net shareholders' equity as at 01 January 2018 (pursuant to IFRS9)***

This table summarises the impacts entered under Net Shareholders' Equity resulting from the first application of IFRS9, both in terms of classification/valuation and impairment; these impacts, amounting to a total of -€61,478 thousand net of taxation, have been described in detail in the paragraphs above.

| | |
|---|---|
| ***Net Shareholders' Equity as at 31/12/2017*** | ***381,969,184*** |
| | |
| *Impact on valuation reserves* | |
| - Transfer of securities from AFS ptf to mandatory FVtPL ptf | 1,798,964 |
| - Transfer of securities from AFS ptf to AC ptf | 2,583,764 |
| - Transfer of securities from AC ptf to FVOCI ptf | 109,820 |
| - creditworthiness impact on securities entered in the FVOCI ptf | 485,815 |
| | 4,978,363 |
| | |
| *Impact on profit reserves - Securities* | |
| - Transfer of securities from AFS ptf to mandatory FVtPL ptf | (3,917,662) |
| - creditworthiness impact on securities entered in the AC ptf | (328,857) |
| - creditworthiness impact on securities entered in the FVOCI ptf | (485,815) |
| | (4,732,334) |
| | |
| *Impact on profit reserves - Cash and off-financial statements receivables* | |
| - performing, introduction of the concept of staging-forward-looking | (15,663,473) |
| - impaired performing loans, adjustment of lump-sum write-downs | (7,354,987) |
| - non-performing loans, transfer scenario introduction | (38,047,651) |
| - other items | (657,475) |
| | (61,723,586) |
| | |
| ***Total impact*** | ***(61,477,557)*** |
| | |
| ***Net Shareholders' equity as at 01/01/2018*** | ***320,491,627*** |

# *A.2 - Section relating to the main items of the financial statements*

## 1 - Financial assets valued at fair value with impact on the income statement (FVTPL)

### Classification criteria

The following are classified in this category:

- financial assets held for trading mainly represented by debt securities and capital and the positive value of derivatives contracts held for the purpose of trading;
- financial assets that, although falling under the "Hold to Collect" and "Hold to Collect and Sell" business models, do not pass the so-called "SPPI test". Also falling under this category, are financial assets that are not held in the context of a business model whose objective is ownership (Business model "Hold to Collect"), or whose objective is achieved either by the collection of contractual cash flows or by selling, (Business model "Hold to Collect and Sell");
- financial assets designated at fair value: in fact, an entity can irrevocably designate in the entry of a financial asset as valued at fair value with impact on the income statement if considers that so doing will eliminate or significantly reduce valuation inconsistencies.

This item includes debt securities and funds included in a business model Other/Trading or that do not pass the so-called "SPPI test", equity instruments that do not qualify as control, connection and joint control held for trading or for which, during initial entry, designation at fair value with impact on overall profitability and CIU shares has not been opted for.
The item also includes derivative contracts accounted for under financial assets held for trading which are represented as assets if the fair value is positive and as liabilities if the fair value is negative.

In accordance with the rules provided for by IFRS 9, in relation to the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted except in circumstances where the entity modifies its business model for the management of financial assets. In such cases, which are highly infrequent, financial assets will be reclassified from the category valued at fair value with impact on the income statement to one of the other two categories provided for by IFRS 9.
If the entity reclassifies the financial asset by moving it from the category of FVTPL during the year to that of amortised cost, its fair value, as at the date of reclassification, becomes the new gross accounting value.
If the entity reclassifies the financial asset by moving it from the FVTPL category to the FVOCI category, the financial asset continues to be valued at fair value and the actual rate of interest is determined on the basis of the fair value of the asset at the date of reclassification.

## Criteria for recording

The initial entry of financial assets takes place at the date of settlement for debt securities and for equity securities, at the date of disbursement of funding and at the date of signature for derivatives contracts.
At the time of initial entry, financial assets valued at fair value with impact on the income statement are recorded at fair value, excluding costs or proceeds of the transaction directly attributable to the instrument. On the basis of IFRS 13 (Fair Value Measurement), in force since 1 January 2013, fair value is "the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market operators at the valuation date", without considering the costs and revenues of the transaction relating to the instrument itself.

## Valuation criteria

The financial assets valued at fair value with impact on the income statement are valued at fair value, where such determination is based on prices recorded in active markets or through internal valuation models generally used in financial practice as described in more detail in Part A.4 "Information on fair value" of the Explanatory Notes.
If the fair value of a financial asset becomes negative, this asset is accounted for as a financial liability.

## Derecognition criteria (write-offs)

Financial assets are erased from the financial statements when the contractual rights to the cash flows of the assets in question expire or when, following transfer, all the risks and benefits related to said financial asset or financial liability are substantially transferred.

## Criteria for recording income items

The result of the sale/reimbursement or valuation of financial assets held for trading is recorded in the income statement under item “80 Net trading income”.
The result of the sale/reimbursement or valuation of financial assets or liabilities valued at fair value is recorded in the income statement under item "110 Net result of financial assets and liabilities valued at fair value".
Interest recorded in item "10. Interest receivable and similar income" also includes accrued interest on financial instruments structured as loans and debt securities classified under item "20 Financial assets valued at fair value with impact on the income statement" of the assets.

# 2 - Financial assets valued at fair value with impact on overall profitability (FVOCI)

## Classification criteria

The following are Included in this category:

- assets and financial instruments held according to a of "Hold to Collect and Sell" business model (debt securities and loans) whose contractual terms provide for financial flows exclusively represented by payments of capital and interest on the amount of capital to be returned on certain dates (so-called "SPPI test" passed);
- Equity instruments (equity interests) not held for trading, for which at the time of initial entry the option for the designation at fair value and impact on overall profitability, the so-called "OCI option", was exercised.

The following are therefore included in this item: debt securities that are attributable to a Hold to Collect and Sell business model and which have passed the so-called "SPPI test", equity interests that do not qualify of control, connection and joint control, that are not held with the purpose of trading, for which the option for designation at fair value and impact on overall profitability is exercised, funds which are attributable to a Hold to Collect and Sell business model and which have passed the so-called "SPPI test".
According to the general rules provided for by IFRS 9 in relation to 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 permitted, except in circumstances, which are expected to be highly unusual, in which the entity modifies its business model for the management of financial assets.
If the entity reclassifies the financial asset by moving it from the FVOC category I to that of amortised cost, the financial asset is reclassified at its fair value at the date of reclassification. The profit/loss cumulated previously reported in other equity items are eliminated therefrom, by adjusting them against the fair value of the financial asset at the date of the reclassification. This adjustment does not affect the profit or loss for the financial year and is therefore not an adjustment due to reclassification.
If the entity reclassifies the financial asset by moving it from the FVOCI category to that of FVTPL, the financial asset continues to be valued at fair value. The profit (loss) cumulated, previously rrecorded in equity is reclassified therefrom to the income statement for the financial year by means of an adjustment due to reclassification.

## Criteria for entry

The initial entry of financial assets takes place at the date of settlement for debt securities and equity securities and the date of disbursement of funding. At the time of initial recording, assets are recorded at fair value including costs or proceeds of the transaction directly attributable to the instrument.

## Valuation criteria

Subsequent to initial entry, financial assets classified at fair value with impact on overall profitability, other than equity securities, are valued at fair value, recording, in the Income Statement, the impacts resulting from the application of the amortised cost of the effects of the impairment and the possible exchange rate effect, while other profits or losses resulting from a change in fair value are recorded in a specific equity reserve item "110 Valuation reserves", until the financial asset is written off. At the time of disposal, be it total or partial, profit or loss accumulated in the valuation reserve are transferred, in whole or in part, to the Income Statement.

Equity instruments for which the choice for classification in this category has been carried out are measured at fair value and the amounts recorded in a counter-entry in equity must not subsequently be transferred to the income statement, even in the event of a sale. The only item attributable to the equity securities in question that is subject to entry in the income statement is represented by the relative dividends.

For more information on the criteria for determining fair value, reference should be made to Section "A.4 Information on Fair Value" of Part A of the Explanatory Notes to the Financial Statements.

For financial instruments both in the form of debt securities and loans classified in stage 1 (i.e. on financial assets at the time of origination, where not impaired, and on instruments for which there is no significant increase of credit risk in relation to the date of initial entry) as at the date of initial entry and at each subsequent reporting date, an expected loss after a year is accounted for. Instead, for instruments classified in stage 2 (performing loans, for which there was a significant increase of credit risk in relation to the date of initial entry) and stage 3 (impaired) an expected loss for the entire residual life of the financial instrument is accounted for. Vice versa, equity securities are not subject to the process of impairment.

## Derecognition criteria (write-offs)

The write-off of financial assets held for sale takes place upon expiry of the contractual rights to the cash flows of the assets in question and when, following the transfer, all the risks and benefits related to financial assets are substantially transferred.

## Criteria for recording income items

In the Income Statement, item "10. Interest income and similar income", are reported and the amount represented by the progressive release of discounting calculated at the time of recording of the value adjustment on financial instruments that are structured as loans and debt securities classified in item "30. Financial assets valued at fair value with impact on overall profitability" of the assets.
Value adjustments calculated as at each Financial Statement date or interim position, determined in accordance with the rules of impairment of IFRS 9, are recorded immediately in the Income Statement under item "130. Adjustments/Write-backs for credit risk", offsetting item "110. Valuation reserves", as well as the recovery of part or all of the amounts which were the subject of previous writedowns.
Moreover, in the Income Statement, item "70. Dividends and similar income", reports dividends relating to equity securities for which the so-called "OCI option" has been opted for.

Exchange rate differences resulting from the settlement of monetary items or from the conversion of monetary items at rates other than those of the initial conversion, or conversion of the previous financial statements, are recorded under assets when the exchange rate difference relative to this element is also recorded under assets. Conversely, when a gain or loss is recorded in the income statement, the income statement also reports the relative currency difference.

## 3 - Financial assets valued at amortised cost

### Classification criteria

Classified in this category are financial assets held according to a business model whose objective is achieved by means of the receipt of cash flows contractually, i.e. financial assets associated with the Hold to Collect Business Model, whose contractual terms provide, on certain dates, for financial flows exclusively represented by payments of capital and interest on capital to be returned (so-called "SPPI test passed").
Furthermore, entered under this item are loans and receivables from banks (current accounts, security deposits, debt securities), receivables from customers (current accounts, advances on invoices loans, leasing transactions, factoring transactions, debt securities).

Also included in this category are the credits for transactions associated with the provision of services and financial services as defined by the T.U.B. and by the T.U.F.

According to the general rules provided for by IFRS 9, in relation to the reclassification of the financial assets, reclassifications to other categories of financial assets are not permitted, except in highly infrequent instances, when the entity modifies its business model for the management of financial assets.
If the entity reclassifies financial assets by moving them from the Amortised Cost category to that of FVOCI, its fair value is estimated at the date of the reclassification. The profits or losses resulting from a difference between the previous amortised cost of the asset and the fair value are recorded in the valuation reserves. The actual rate of interest and the valuation of expected losses on receivables are not adjusted as a result of reclassification.
If the entity reclassifies financial assets by moving them from the Amortised Cost t category o that of FVTPL, its fair value is estimated at the date of the reclassification. The profits or losses resulting from a difference between the previous amortised cost of the asset and the fair value are recorded in the income statement for the period.

### Recognition criteria

The initial entry of financial assets occurs at the date of settlement for debt securities and the date of delivery in the case of receivables. At the time of initial entry, assets are recorded at fair value including costs or proceeds of the transaction directly attributable to the instrument.
In particular, as regards receivables, the date of delivery normally coincides with the date of signing of the contract. If this coincidence does not occur, at the time of signing the contract, a commitment shall be made to release funds finalised on the date of disbursement of funding. The entry of credit occurs on the basis of the fair value of same, equal to the amount paid, or the subscription price, including cost/income directly attributable to the individual credit and determinable from the outset of the transaction, although cleared at a later date.

Costs are excluded that, while having the aforementioned characteristics, are subject to repayment by the debtor counterparty or are classified as normal internal costs of an administrative nature.

## Valuation criteria

After initial entry, the financial assets in question are measured at amortized cost, using the effective interest rate method. The actual interest rate is determined by calculating the rate that equals the present value of the future cash flows of the asset, for capital and interest to the amount delivered inclusive of cost/income attributed to the financial asset itself. This accounting method enables the distribution of the economic effect of cost/income directly attributable to a financial asset throughout its expected residual life.

The amortised cost method is not used for assets valued at historic cost, whose short duration suggests a negligible effect of the application of the rationale for discounting, for those without a defined deadline and for uncommitted revolving revoked credits.
The valuation criteria, as better shown in the present chapter in section 2 of Accounting Policies "Estimate of losses in the value of financial assets", are closely linked to the inclusion of the instruments in question in one of the three stages (stages of credit risk) provided for by IFRS 9, the last of which (stage 3) comprises impaired financial assets and the remainder (stages 1 and 2) performing financial assets.
The financial assets in question, if performing, are subject to valuation to define adjustments in value to be recorded in the financial statements, at the level of the individual creditworthiness ratio, according to the parameters of risk represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD), derived from models appropriately adjusted to take account of the forecasts of IFRS 9.
However, if, in addition to a significant increase in credit risk, objective evidence of an impairment loss is also found, the amount of the loss is measured as the difference between the carrying amount of the asset - classified as "impaired", like all the other relationships with the same counterparty - and the present value of the estimated future cash flows discounted at the original effective interest rate.
The amount of the loss, to be reported in the Income Statement, is defined on the basis of a process of analytical valuation or determined for homogeneous categories and then analytically attributed to each position and takes into account forward looking information and possible alternative scenarios for recovery.

Within the scope of impaired assets, the financial instruments to which the non-performing status was assigned, likely failure or past due/overlimit for more than ninety days in accordance with the rules of the Banca d'Italia, consistent with the IAS/IFRS legislation and European oversight. The cash flows provided for shall take into account the expected recovery times and the presumed realisable value of any guarantees.

## Derecognition criteria (write-offs)

The changes of a financial asset leading to the cancellation of same and to the entry of a new asset when they are "substantial". The valuation regarding the "substantiality" of the change must be carried out by considering both qualitative elements and quantitative elements. The analysis (qualitative-quantitative) aimed at defining the "substantiality" of the contractual changes made to a financial asset, will therefore have to take account of the purposes for which the changes have been made.

## Recognition criteria for income items

In the Income Statement, item "10. Interest income and similar income", reported under interest and the amount represented by the progressive release of discounting calculated at the time of entry of the value adjustment on financial instruments that are structured as loans and debt securities classified in item "40. Financial assets valued at amortised cost" under assets.

The value adjustments referring to this type of asset are reflected in the Income Statement under item "130. Adjustments/Write-backs of net value due to credit risk".
If the reasons for the impairment cease to exist subsequent to an event occurring after the recording of the impairment, the impairment is reversed to the income statement. Write-backs cannot exceed the amortised cost that the financial instrument would have had in the absence of previous corrections.
The reversals of impairment losses connected with an elapse of time are posted in the interest margin. When, in the course of the life of an instrument, the terms of the contract are subject to modification, it is necessary to check if the original asset shall continue to be recorded in the financial statements or if, on the contrary, the original instrument must be subject to derecognition from the financial statements (derecognition) and a new financial instrument should be recognised.

## 4 - Hedging Transactions

Risk hedging transactions are designed to neutralise potential exchange and interest rate losses. Hedging is subdivided into the following categories:

- hedging of the fair value of a given asset or liability that has as objective the preservation of the current value of an asset/financial liability in the event of interest rate changes;
- hedging of future cash flows attributable to a specific asset or liability, which has the aim of protecting the cash flows of a business/financial liability in the event of interest rate changes;
- hedging against the effects of an investment denominated in foreign currency.

The Banca Valsabbina avails itself of the possibility provided for in the introduction of IFRS 9, to continue to apply fully the forecasts of IAS 39 concerning "hedge accounting" for each type of hedging (both for the hedging specifications and for macro cover hedges).

## Recognition criteria

Financial derivatives hedging instruments are initially recorded and subsequently valued at fair value and classified in item 50 of the assets and 40 of liabilities "hedging derivatives".
A transaction qualifies for hedging if all the following conditions are met:
• at the outset of the hedging transaction there is formal designation and documentation of the hedging relationship, the nature of the risks hedged and the reasons for assuming the risk;
• the definition of the criteria for determining the effectiveness of the hedge;
• the expected hedging is highly effective and can be reliably valued and the valued is carried out with criteria of continuity.

## Valuation criteria

Determination of the fair value of derivatives is based on prices derived from regulated markets or supplied by qualified operators on models for the valuation of the options or on models for discounting of future cash flows. A hedge is regarded as highly effective if, from the outset and that during its currency, changes in the fair value or cash flows of the hedged item are almost completely offset by changes in fair value or cash flows of the hedging derivative, i.e. actual results remain within a range of between 80% and 125%.
The transactions are no longer considered hedging if:

- the hedging effected via the derivative ceases or is no longer highly effective;
- the derivative expires, is sold, terminated or exercised;
- the hedged item is sold, expired or is reimbursed;
- the definition of hedging is revoked.

The ineffective portion of the cover is given by the difference between the change in the fair value of the hedging instrument and the change in the fair value of the hedged item.
For the purposes of determination of the effectiveness of the cover prospective and retrospective tests are effected at least at each financial statements date.

## Derecognition criteria (write-offs)

The inclusion in the financial statements of hedging transactions is interrupted when they no longer meet the requirements of effectiveness, when they are withdrawn, when the hedging instrument or instrument hedged expires, is extinguished or sold.

## Recognition criteria for income items

Changes in the fair value of a hedging instruments, for cover effected at fair value, is recorded in the income statement under item 90 "net result of the hedging transactions". The changes in the fair value of hedged items, attributable to the risk hedged with the derivative instrument, are recorded in the income statement as a counter entry to the change of the accounting value of the hedged item.
If the hedging no longer meets the criteria to be accounted for as such or the derivative is terminated, including for the insolvency of the counterparty, the difference between the book value of the hedged item at the moment when cover ends and what would its book value if the hedge had never existed, in the case of interest-bearing financial instruments, is amortised in the income

statement, throughout the residual life of the original hedging; in the case of non-interest bearing financial instruments such difference is recorded directly in the income statement.

## 5 - Investments

### Recognition criteria
Investments are recorded in the financial statements at their purchase value.

### Classification criteria
The item includes investments in subsidiaries, associates and companies subject to joint control (joint venture) or subject to significant influence on the part of the Bank.

### Valuation criteria
Investments are valued at cost.
If there is evidence that the value of a share may have suffered a reduction, it proceeds to estimate the recoverable amount of the stake itself, including the value of the ultimate disposal of the investment and/or other evaluation elements, which compares with the book value of the investment. If this is less, the difference is charged to the income statement under the item "Profit (Loss) of associates".

If the reasons for the impairment cease to exist subsequent to an event occurring after the recognition of the impairment, the impairment is transferred to the income statement, under the same item as above, until the aforementioned adjustment.

### Derecognition criteria
Equity investments are derecognised on expiry of the contractual rights to the cash flows deriving from the assets or when the equity investment is sold with the substantial transfer of all the risks and benefits associated therewith.

### Recognition criteria for income items
In accordance with IAS 18, dividends are recognised when the right of shareholders to receive such payment is established and, after the date of taking of the decision by the Shareholders' Meeting of the company in which capital shares are held.

## 6 - Tangible assets

### Recognition criteria
Tangible assets are entered in the financial statements, the cost of which are reliably determinable and from which it is likely that future economic benefits will arise.
Tangible assets are recorded initially at purchase cost, inclusive of additional charges incurred for the purchase and the commissioning of the asset.

On the occasion of the first-time adoption of IAS/IFRS accounting policies the exemption provided by IFRS 1 Article 16 has been chosen, opting for the valuation of the property at fair value as deemed cost at the date of 1st January 2005.
After that date, the cost model is used for the valuation of the property.
The costs for extraordinary maintenance with an incremental nature are attributed to assets to which they relate. Ordinary maintenance costs are recorded directly in the income statement.
The assets acquired with financial leases are accounted for in accordance with IAS 17, that provides for the entry of the goods in assets, with a counter-entry in liabilities toward the lessor, and the calculation of depreciation over the estimated useful life of the asset. Fees paid are to be used for the reduction of the debt for the share capital and the interest expense in the financial item of the income statement.
Improvements and incremental costs incurred as a result of a lease on assets of third parties from which expect future benefits are entered under item 120 "Other Assets" when they do not have autonomous identifiability and severability.

## Classification criteria

Tangible assets include the buildings, land, installations, furniture and furnishings and other office equipment. It covers goods essential for the provision of services.
The value of the land concerning real estate units of property is deducted from that of manufactured and accounted for separately as fixed assets with which an indefinite useful life is associated. Therefore, land is not amortised, whilst buildings with a limited life are depreciated.

## Valuation criteria

After initial recognition, intangible assets are valued at cost, net of accumulated depreciation and any loss in value.
Depreciation is calculated on a systematic and constant basis, by means of technical and economic rates representing the residual useful life of the fixed assets. The exception is the land, not subjected to depreciation given the uncertainty of its useful life, and in consideration of the fact that its relative value is not normally intended to fall according to the passage of time.
At each balance sheet date or interim situation, if there is any indication that an asset may have suffered a loss in value, a comparison shall be made between the book value of the asset and its salvage value, equal to the lower of the fair value net of any costs of sale and the relative value of the use of the asset, understood as the present value of the future cash flows arising from the asset. Any adjustments are recorded in the income statement.

## Derecognition criteria (write-offs)

An intangible asset is eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

## Recognition criteria for income items

Impairment losses are recorded in the income statement under item 180 "Impairment/ write backs on tangible assets".
The depreciation of improvements and incremental expenses on third-party goods takes place on the basis of the contractual period of at least 5 years, in relation to physical degradation and to residual

possibilities of use. It is recognised in the income statement under item 200 "Other charges / operating income".

## 7 - Intangible assets

Intangible assets include software with long-term use, intangible assets linked to the valuation of relationships with customers (core deposit) and goodwill.

### Recognition and classification criteria

Intangible assets represented by software and licences for proprietary use are entered in the Financial Statements only if they meet the requirements of autonomous identifiability and separation, likely realisation of future economic benefits and trusted measurability of cost.

Core deposits were entered in the consolidated financial statements at the time of the acquisition of Credito Veronese and, on the occasion of incorporation, entered in the 2012 Financial Statements with the same criteria. Same were originally valued through updating of flows representing the profit margins during a period that expressed the residual duration, contractual or estimated, of the relationship existing at the time of merger.

Goodwill is represented by the difference, when positive, between the cost of acquisition incurred and the value of use as at the date of purchase of the goods and assets acquired in the context of a business merger.

### Valuation criteria

The intangible assets represented by software and licences are entered in the financial statements at cost net of depreciation and impairment. Depreciation is calculated on a systematic and constant basis, by means of technical and economic rates representing the residual useful life of the fixed assets. At the close of each financial year, the residual life is subject to valuation to verify its adequacy.

Intangible assets represented by core deposits are amortised in equal instalments over eight years, a period that approximates to the period of greatest significance of the future economic benefits expected from 30 April 2011, the date of acquisition of control of Credito Veronese.
Goodwill is not subject to depreciation in consideration of an indefinite useful life, but is subject to verification of the adequacy of the value recorded (impairment test) at least once a year, usually in the drafting of the annual Financial Statements and in any case on the occurrence of events that indicate that the asset is impaired. Any value adjustment made to goodwill, even in subsequent years, where reasons for it no longer apply, cannot be recovered.

### Derecognition criteria (write-offs)

An intangible asset is removed from the balance sheet on disposal or when its use permanently ceases.

## Recognition criteria for income items

Write-backs are recorded in the income statement under the item "190 Adjustments/write-backs on intangible assets".

## Negative goodwill

When, in a business merger, the net fair value of the identifiable assets, liabilities and contingent liabilities acquired exceeds the cost of the business combination, the acquirer:

- revises the identification and valuation of identifiable assets, liabilities and contingent liabilities of the acquired and determines the cost of the merger;
- immediately recognises in the income statement any excess remaining after the new valuation.

## 8 - Current and deferred taxation

The Items “tax assets” and “tax liabilities” in the balance sheet are recorded as credits or liabilities of a tax nature.
Current tax for the year is determined by applying the tax rates and the legislation in force. Sae are entered as liabilities, net of advances paid insofar as they have not been paid; same include tax not yet paid relating to previous years.

The items are entered as assets where the amount paid, by way of advance payment or deemed incurred, is in excess with respect to the amount due and the extent to which such credits are recoverable in future periods.

The deferred tax assets and liabilities are determined on the basis of the criterion of the "balance sheet liability method", taking into account the temporary differences (deductible or taxable) between the carrying amount of an asset or liability and its value recorded for tax purposes.
The inclusion of "Deferred tax assets" is affected if their recovery is considered likely. A future reduction of the tax base occurs where taxation is expected in relation to economic - civil law competence.

"Liabilities for deferred tax" are recorded in all cases in which the corresponding debt is likely to arise. Same represent a future increase in the tax base, leading to deferred taxation in relation to economic - civil law competence.
No deferred taxes have been allocated with respect to suspended tax reserves, since distributions are not provided for where such reserves exist.
The provision for income taxes is determined on the basis of a prudent forecast of the current tax burden, and that relative to the deferred tax assets and liabilities.

Tax assets and liabilities are usually accounted for as a counter entry in the income statement, except where they arise from transactions with effects on to equity, in which case they affect the calculation of the specific valuation reserves

## 9 - Provisions for risks and charges

Provisions for risks and charges include:

- retirement funds and similar obligations;
- provisions for risks and charges in respect of commitments and guarantees issued;
- other provisions.

The provisions for risks and charges in respect of commitments and guarantees issued are funded for credit risk concerning commitments to disburse funds and to issued guarantees that fall within the scope of application of the rules on impairment pursuant to IFRS 9. or such situations, in principle, the same mode of allocation is adopted between the three stages (stages of credit risk) and the calculation of the expected loss detailed with reference to financial assets valued at amortised cost or fair value with impact on overall profitability.
The aggregate amount also includes the provision for risks and charges constituted in the event of other types of commitments and guarantees which, by virtue of their specific features, do not fall within the scope of application of impairment pursuant to IFRS 9.

Provisions for risks and charges relate to costs of certain or probable existence where the amount of which has not been defined at the date of entry or as at the closing date of the financial year. The provision to the provisions for risks and charges is carried out exclusively when:
- there is a current obligation (legal or contractual) as a result of a past event;
- it is likely that the fulfilment of this obligation will be costly;
- a reliable estimate of the amount of the obligation.

The amount of a provision is the current value of the costs expected to be incurred to settle the obligation. When the time factor is significant, the provisions are discounted at current market rates. The effect of discounting is entered in the income statement, as is the increase in the provision due to the passage of time.

## 10 - Financial liabilities valued at amortised cost

The various forms of interbank funding with customers are recorded in the Financial Statements as items:

10 a) Financial liabilities valued at amortised cost: Payables to banks;
10 b) Financial liabilities valued at amortised cost: Payables to customers;
10 c) Financial liabilities valued at amortised cost; Outstanding securities.

These entries also include debts entered by the lessee under a finance lease.

## Recognition and classification criteria

The liabilities in question shall be entered in the Financial Statements at the time corresponding to the time of receipt of the sums collected or to the issuance of debt securities. The value at which they are initially entered is equal to relative fair value, normally equal to the consideration received or to issue price, inclusive of any costs/additional income directly attributable to the transaction and determinable from the outset, regardless of when they are cleared. All charges that are the subject of the reimbursement by a creditor counterparty or that are traceable to the internal costs of an administrative nature are not included in the value of the initial recognition.

## Valuation criteria

After initial entry, financial liabilities in the medium/long term are valued at amortised cost using the effective interest rate method. The short-term liabilities for which the time factor is not significant, are valued at cost.

## Derecognition criteria (write-offs)

Financial liabilities are eliminated from the financial statements when extinguished or expired. The repurchase of bonds issued entails the cancellation accounts themselves with consequent redefinition of debt for securities in circulation.

## Recognition criteria for income items

In the income statement under item "20. Interest payable and similar charges", the interest on financial instruments configured from "10. Financial assets valued at amortised cost" is recorded.
Any difference between the repurchase value and the corresponding book value of the liability in the case of own-issue securities repurchase is recorded in the income statement under item "100. c) Profit (Loss) on disposal or repurchase of financial liabilities".
The possible subsequent reallocation of own securities, the subject of the previous write-off, constitutes, in accounting terms, a new issue with consequent recognition of the new allocation price, without any effect on the income statement.

## 11 - Financial liabilities held for trading

A financial liability is defined as held for trading and therefore entered in the item above if:

- it is purchased or held mainly for sale or repurchase in the short term;
- it is included in a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and effective strategy aimed at obtaining profit in the short term;
- it is a derivative (except for a derivative that applies to a financial guarantee contract or is a designated and effective hedging instrument).

## Recognition and classification criteria

The Financial liabilities held for trading are recognised as at subscription or on date of issue with the value of first entry equal to cost, understood as the fair value of the instrument, without considering any costs or revenues of the transaction directly attributable to same. This category of liabilities, in particular, includes the negative value of derivative trading contracts, the negative value of any embedded derivatives present in complex contracts but not closely correlated to same and therefore subject to divestiture, and liabilities that arise from technical overdrafts generated from securities trading activities.

## Valuation criteria

After the initial recognition, the financial instruments concerned are valued at fair value with allocation of changes in value in the item "80. Net result of trading".

## Derecognition criteria (write-offs)

The Financial liabilities held for trading are eliminated from the financial statements when the contractual rights to the cash flows arising from the same expire or when the same are sold with substantial transfer of all the risks and rewards incidental to the ownership of the same.

## Recognition criteria for income items

The result of the sale of the Financial liabilities held for trading is charged to the income statement in the item "80. Net result of trading".

## 12 - Financial liabilities at fair value

A financial liability may be entered at the time of initial recognition, under "Financial liabilities designated at fair value", on the basis of the so-called Fair Value Option, recognised by IFRS 9, only when:

- it is a hybrid contract containing one or more embedded derivatives and the embedded derivative significantly modifies the cash flows that otherwise would be set out in the contract;
- the designation at fair value recognised in the Income Statement provides better information insofar as it eliminates, or considerably reduces, the inconsistency in the valuation.

## Recognition and classification criteria

Financial liabilities designated at fair value, entered in allegiance to the so-called Fair Value Option, are recognised at the date of issue. The value of first recognition is equal to the intended cost as the fair value of the instrument, without considering any costs or revenues of the transaction directly attributable to the same.

## Valuation criteria

After the initial recognition, the financial instruments concerned are valued at fair value with imputation of changes in value in the income statement, however, changes in the fair value that are attributable to the change of its creditworthiness should be recognised in the Prospectus of the overall profitability (equity).

## Derecognition criteria (write-offs)

Financial liabilities designated at fair value are erased from the Financial Statements when the contractual rights to the cash flows arising from the same expire or when the same are sold with substantial transfer of all the risks and rewards incidental to the ownership of the same.

## Recognition criteria for income items

The changes in value due to valuation after the initial recognition of financial instruments must be charged in the item "110. a) Net result of other financial assets and liabilities valued at fair value with impact on the income statement: financial assets and financial liabilities designated at fair value". With specific reference to the changes of the value related to your creditworthiness the same are recorded in the item "110. Valuation reserves" of equity unless the treatment of the effects of changes in the credit risk of the liability creates or amplifies an accounting asymmetry in the income statement; in this latter case, the changes are recognised in the aforementioned item of the income statement.

The result of the sale of the Financial liabilities held for trading is charged to the income statement in the item "110. a) Net result of other financial assets and liabilities are valued at fair value with impact on the income statement: financial assets and financial liabilities designated at fair value".

## 13 - Staff severance indemnity

In accordance with international accounting standards, staff severance indemnity is considered as "a benefit following the employment relationship" of the defined-benefit type, whose value is determined using methods of an actuarial type. Consequently, the valuation at the end of the year of the post in question is carried out according to the method of the benefits accrued by using the criterion of the unitary credit provided (Projected Unit Credit Method). This method provides for the updating of the projection of the disbursements in the future on the basis of historical, statistical and probabilistic analyses and the adoption of suitable bases demographic techniques. It allows the severance indemnity matured at a certain date to be calculated in an actuarial sense, distributing the

burden for all the years of estimated residual permanence of workers in be and not as a burden to be settled in the case in which the company ceases its activity at the time of the Financial Statements as provided for by the Italian legislation.
The valuation of staff severance indemnity is carried out by an independent actuary in accordance to the above methodology.

As a result of Law no. 296 of 27 December 2007, the accrued instalments until 31.12.2006 remain in the company, while the accrued instalments are subsequently to employee choice intended to forms of complementary pension scheme or to the Treasury fund of INPS. On these amounts, which are configured as a defined contribution plan no actuarial calculations were performed as the obligation of the Bank in respect of the employee ceases with the payment of the shares accrued.

Actuarial gains and losses that arise due to the effect of changes or adjustments of the preceding assumptions, including the effect of changes in the discount rate, involve a re-measurement of debt for severance indemnity. They are charged to equity to the valuation reserve "Useful/actuarial losses relating to retirement benefit plans defined-benefit" and their charging to the income statement is no longer permitted.

Law 190/2014 (Law of Stability 2015) introduced the possibility for a worker to receive directly, via pay cheque, the severance indemnity quota gained during the month; in this case the allocation of the cost to the income statement takes place directly in the month of delivery.

## 14 - Other information

## Other assets

This item comprises tasks which cannot be traced in the other asset items of the financial statements. It also includes the costs for improvements on assets of third parties, consisting essentially in the restructuring costs of local rent; its depreciation is entered under the item "200. Other operating income and expenses".

## Contractual changes in financial assets

During the life of a financial asset (credits) contractual conditions originating may be the subject of a subsequent amendment by will of the parties to the contract. When the terms of the contract are subject to modification it is necessary to check if there are the requirements to ensure that the original activity should continue to be recognised in the balance sheet or if, on the contrary, the original instrument should be subject to cancellation by the Financial Statements ( derecognition ) and then you should proceed to detect a new financial instrument.

Among other conditions the cancellation of financial assets measured at amortised cost occurs in case there is an amendment to the contract of "substantial type" (par 3.2.6 IFRS9).

In order to determine if the contractual changes coat or less substantial character is defined to consider the purposes for which they were made; in particular:

- renegotiations of a commercial nature. They are aimed at preventing the relationship with the customer from being transferred to other financial intermediary; in this case, all the amendments aimed at adapting the onerousness of debt to market conditions are included. It is believed that in any case the bank makes a renegotiation in order to avoid losing its customer that renegotiation should be regarded as substantial provided that the relationship is extinguished and transferred to other intermediary. In the renegotiations of a commercial character the customer has no symptoms of financial difficulty. Considered as "substantial" are also those renegotiations for which the relationship number running with the customer, post contract modification, does not change; derecognition is not carried out formally but rather substantially.

- renegotiations made on the occasion of measures of forbearance. In these cases, the customer pays in financial difficulties or may pay in financial difficulties if the measure was not granted; through these measures to grant the bank seeks to maximise the recovery of the original credit. The risks/benefits underlying the contract after the change has not recorded substantial changes and therefore there is no derecognition. It lies in the particular case described in para. "5.4.3 IFRS9 Modification of the contractual cash flows" for which you must observe the accounting process of "Modification accounting"; this process involves detecting a income statement of the difference between the carrying amount and the present value of the cash flows discounted modified the original interest rate (item 140. Profits/losses from contractual changes without cancellations). This differential is writing with counterpart on the assets side of the financial statements and then amortised over the remaining contractual term.

## Repurchase agreements and securities lending

The transactions of "repos" that include the obligation for the transferee to resale/repurchase at the end of the activities which are the subject of the transaction (e.g., securities) and the transactions of "securities lending" in which the guarantee is represented by cash that falls into the full availability of the bearer shall be assimilated to carry-overs. Therefore, the amounts received and paid to appear in the financial statements as receivables and payables. In particular, the aforesaid transactions of "repos" and "debt securities" provided are recognized in the financial statements as debts for the amount received ready, while those of use are recognised as credit for the amount paid to ready.
These transactions do not cause movement of the securities portfolio. Consistently, the cost of the provided and the income of the use, constituted by the coupons accrued on the licenses themselves and from the differential between the spot price and the price in the long term, are recognised on an accrual basis in the income statement items relating to interest.

## Assets and liabilities in foreign currency

The assets and liabilities in foreign currency are accounted for at the time of settlement of related transactions.
Foreign currency transactions are recorded at the time of initial recognition, in the currency of account, by applying to the foreign currency amount the exchange rate in force on the date of the transaction.
At each financial statement date, the stakes in foreign currency are valued as follows:

• monetary items are converted at the exchange rate at the date of closure;

• non-monetary items valued at historic cost are converted to the exchange rate in force on the date of the transaction.

• non-monetary items valued at fair value are converted using the exchange rates in force as at closure.

Exchange rate differences arising on the settlement of monetary items or on converting monetary items at rates different from those of the initial conversion, or conversion of the previous Financial Statements, are recognised in the income statement for the period in which they arise. When a gain or loss related to a non-monetary item are recognised in equity, the exchange difference relative to this element is recognised also under equity. Conversely, when a gain or loss is recognised in the income statement, the income statement also reports the relative currency difference.

## Treasury Shares

Treasury shares are recorded as a reduction in net equity. No gain or loss arising from the purchase, sale, emission or extinction of these instruments is recorded in the income statement. Any amount paid or received for these instruments is recognised directly in equity.
Gains or losses arising from their subsequent sale are recognised as movements in equity.

## Securitisations

All securitisation transactions in place were carried out after 1 January 2004.
The transferred assets are not deleted from the financial statements where there is a substantial retention of risks and benefits, even if formally transferred pro-solute to a vehicle company. This occurs, for example, if the bank subscribes to the tranche of junior securities or similar exposures, as bears the risk of the initial losses and also benefits from the efficiency of the transaction.
Similar criteria of representation based on the prevalence of substance over form, are applied to the recognition of economic powers.

## *A.3 - Information on transfers between portfolios of financial assets*

In the course of the financial year 2018 were not made reclassifications of the portfolio of activities, as governed by IFRS 9.

### *A.3.1 Financial assets reclassified: change in business model, financial statements value and interest receivable*

As at 31/12/2018, there are financial assets, governed by the 01/01/2018 by IFRS 9, subject to reclassification from one portfolio to another.

### *A.3.2 Financial assets reclassified: change in business model, fair value and impact on overall profitability*

The tables are not compiled because, in the course of the financial year 2018, there were no reclassifications of financial assets.

### *A.3.3 Financial assets reclassified: change in business model and effective interest rate*

The tables are not compiled because, in the course of the financial year 2018, there were no reclassifications of financial assets.

## *A.4 - Information on fair value*

The European Commission approved, in the month of December 2012, with regulation (EU) no. 1255/2012, the new principle IFRS 13 "Fair Value Measurement", in force since 1 January 2013.
IFRS 13 defines the fair value as: "The price that we perceive it for the sale of an asset that you would pay for the transfer of a liability in a regular transaction between market operators as at the valuation date."

In the determination of fair value, the IFRS 13 provides a hierarchy of techniques for determining this value in order to maximise the criteria of reliability and verifiability (IFRS 13 para. (72).
The concept of "hierarchy of fair value or fair value Hierarchy (hereinafter also referred to as "FVH") provides for the classification of valuation at fair value on the basis of three different levels (level 1, Level 2 and Level 3) in descending order of the observability of the inputs used for the estimate of fair value.

FVH provides for the following levels:
1. Quotations are derived from active markets (Level 1): the fair value is given by the prices quoted on active markets for assets and liabilities are identical to those which were the subject of valuation (IFRS 13 para. (76).
An active market is a market characterised by a volume and a frequency of trade such as to provide information on the price on an ongoing basis (IFRS 13 Appendix A).
2. Assessment methods based on parameters of observable market (Level 2): the fair value is determined from observable inputs to the activity subject to evaluation directly or indirectly (IFRS 13 para. (81).
The input level 2 include (IFRS 13 para. 82):
- prices listed in active markets of comparable instruments to that subject to valuation;
- prices of listing in non-active markets of instruments that are identical or comparable to that subject to valuation;
- input, other than prices, that are observable (for example: interest rates, yield curves, volatility, etc.);
- input derived or corroborated from observable market data.
3. Assessment methods based on market parameters that are not observable (Level 3): the fair value is level 3 if the inputs used in the techniques of evaluation of fair value are not observable on the market (IFRS 13 para. 86).
In the use of input level 3 it is necessary to consider that the objective of the evaluation is to determine an exit price (transfer price) for the participant to the market that holds the financial instrument. The input of level 3 must reflect the assumptions of the Bank, regarding the assumptions that would be made by market participants in allocating a price the instrument (IFRS 13 para. 87).

The input of level 3 must be developed on the basis of the best available data, also on the basis of inside information of the Bank.

Consequently, the internal information of the bank must be correct if there is, without excessive cost or effort, evidence that market participants will use different assumptions (IFRS 13 para. 89).
The Fair Value Hierarchy attaches the highest priority to the use of input level 1 and minimum priority to the use of input level 3 (IFRS 13 para. 72). In general, when for the valuation of a given asset or liability input belonging to different levels is used, the entire valuation is classified at the same level of the hierarchy in which it is classified as the input of the lowest level where considered significant for the determination of fair value in its entirety as described in IFRS 13 para. 73.
A valuation of fair value, developed using the technique of the present value, could be classified in level 2 or 3 depending on the input are significant for the entire valuation and the level of such input (IFRS 13 para. 74).
The valuation regarding the significance of the input, which determines the classification under level 2 rather than in level 3 requires the expression of a judgement by the evaluator that takes account of factors specific to the asset or liability.

For financial instruments valued in the balance sheet at fair value, the Board of Directors of Banca Valsabbina, with the collaboration of external professionals, approved a "Fair Value" Policy that attaches the highest priority to prices quoted on active markets and the lowest priority to the use of input that is not observable, as more discretionary, in line with the hierarchy of fair value represented above.
Specifically, this policy defines:
- the rules for the identification of market data, selection/hierarchy of sources of information and configurations of price necessary to enhance financial instruments contributed on active markets and classified at level 1 of the hierarchy of fair value ("Mark-to-Market Policy");
- the valuation techniques and the relative input parameters in all cases in which it is not possible to adopt the Mark-to-Market Policy ("Mark to Model Policy" for the level 2 or level 3 of the hierarchy).

**Mark-to-Market Policy**
In determining the fair value, the Bank uses, whenever available, information based on market data obtained from independent sources, as considered the best evidence of fair value. In this case, the fair value is the market price of the same instrument subject to valuation, i.e. without modifications or recompositions of the same instrument, which can be deduced from the prices quoted by an active market (and classified in level 1 of the hierarchy of fair value). A market is deemed to be active when transactions occur with a frequency and with sufficient volumes to provide useful information for the determination of price on an ongoing basis (IFRS 13 Appendix A).
The following are usually considered active markets:
- the regulated markets of securities and derivatives, with the exception of the market of the Luxembourg stock exchange;
- some electronic circuits of OTC trading, if certain conditions are satisfied based on the presence of a certain number of contributors with proposals executables and characterized by a bid-ask spreads, i.e. the difference between the price at which the counterparty undertakes to sell securities (ask

price and the price at which undertakes to buy (bid-ask), contained within a given tolerance threshold;
- the CIU shares secondary market, expressed by official NAV (Net Asset Value), on the basis of which the SGR issuer shall ensure timely liquidation of quotas. It particularly concerns harmonised open CIUs, characterised, by type of investment, by high levels of transparency and liquidity.

**Mark-to-Model Policy**
If the "Mark-to-Market Policy" does not apply, due to the absence of prices directly observable on the markets considered active, it is necessary to make use of valuation techniques that maximise the use of the information available on the market, on the basis of the following valuation approaches: recent transactions, transactions in similar instruments, methods of asset valuation, discounting of future cash flows.

Specifically:
- debt securities are valued on the basis of the methodology of the actualisation of the expected cash flows, suitably corrected to take account of the issuer risk;
- equity securities that are not quoted are valued with reference to direct transactions on the same security or on similar securities observed in a reasonable period of time with respect to the date of the valuation, the method of market multiples of comparable companies and in the alternative methods of financial, income and asset valuation;
- investments in CIUs, other than harmonised open ones, are value on the basis of the NAV made available by the fund administrator or by a management company. Such investments typically include private equity funds, real estate funds and hedge funds.

## *A.4.1 Levels of fair value 2 and 3: valuation techniques and inputs used*

In the absence of prices listed in active markets the financial instruments must be classified in levels 2 or 3.

The classification in the level 2 rather than in level 3 is determined on the basis of the observability on the markets of significant input used for the purposes of the determination of the fair value. A financial instrument must be classified in its entirety in a single level; therefore, if in the valuation technique are used input belonging to different levels, the entire evaluation must be classified at the level of the hierarchy in which it is classified as the input of the lowest level, if it is considered significant for the determination of fair value in its entirety.
In cases where the weight of the data is not observable is predominant with respect to the overall recognition, the level assigned is "3".

### *Fair value determined on the basis of input level 2*
The following are normally considered as Level 2 types of investment:
- equity securities that are not traded on an active market, valued:
    - by means of the technique of multiples of the market by reference to a selected sample of comparable companies in relation to the subject of the valuation;

- on the basis of the prices of recent transactions;
- assuming price indications provided by the counterparty issuer where necessary adjusted to take account of counterparty risk and/or liquidity (for example, price approved by the Board of Directors/shareholders' meeting for the shares of popular unlisted banks, the share value communicated by the management company to the closed-end funds reserved to institutional investors, the surrender value determined in conformity with the regulation of emission for insurance contracts);

- debt securities, not listed on an active market for which the inputs, including credit spreads, are retrieved from market sources (for example, interest rates and curves of the observable yields at intervals commonly quoted, implied volatilities and credit spreads);
- funds characterised by significant levels of transparency and liquidity, valued on the basis of the NAV provided by the management company/fund administrator, published weekly and/or monthly.

## *Fair value determined on the basis of input level 3*

As a rule, the following financial instruments are considered level 3:

- hedge funds characterised by significant levels of illiquidity and for which it is considered that the process of the valuation of the equity of the Fund requires, significantly, a series of assumptions and estimates. The measurement at fair value is determined on the basis of the NAV, adjusted where necessary to take account the poor liquidity of the investment, i.e. of the time interval between the date of the request for reimbursement and the actual reimbursement, as well as to take account of any commissions to exit from the investment;
- real estate funds assessed on the basis of the latest NAV available;
- illiquid equities for which no recent or comparable transactions can be observed, normally valued on the basis of the asset model;
- illiquid capital securities not traded in an active market, for which the fair value is not determinable in a trusted measure in accordance with the methodologies most commonly used (firstly, the discounted cash flow analysis) valued at cost, adjusted where appropriate to take account of any significant reductions in value;
- debt securities characterised by complex financial structures for which, as a rule, publicly sources that are not available are used; it concerns quotations that are not binding and also not supported by evidence of the market;
- debt securities issued by entities in financial difficulties for which the management must use their own judgement in the definition of "recovery rate", there are no significant prices observable on the market.

## *A.4.2 Processes and sensitivity of the valuations*

The valuation methodologies referred to above are periodically implemented to take account of the change of the observable elements (e.g. rates, market prices) and of any significant change of credit risk and the market of financial activity evaluated which requires the change of the valuation technique.

## *A.4.5 Fair value hierarchy*

The Bank classifies the valuations to the fair value of financial assets and financial liabilities on the basis of a hierarchy of levels that reflects the significance of the inputs used in valuations, the criteria of which have previously been exposed.

## *A.4.4 Other Information*

Within the scope of the financial assets and financial liabilities, the IAS standards also include loans to banks and customers and liabilities to banks and customers or represented by securities.
In the case of bonds and government bonds, regardless of the accounting portfolio and the hierarchy of FV, objective evidence of loss is recorded when there is the insolvency in the payment of capital shares/interests, there are significant delays in the payment of capital shares/interest or there is the granting of moratoria and contemporary renegotiations at rates lower than those paid by the market.
For the debt in the medium-long term, represented by securities and for which we have opted for the application of the fair value option, fair value is determined by discounting the residual Contractual flows using the curve of rates "zero coupon" obtained through the method of the "bootstrapping", by the curve of the market rates.
For the debt in the medium-long term represented by securities valued at amortised cost and the subject of the hedge for interest rate risk, the value of the Financial Statements is adequate to effect of the cover to the fair value attributable to the hedged risk actualizing the relevant flows.
For derivatives contracts traded on regulated markets fair value is assumed as the market price on the last day of quotation of the exercise.
For derivatives contracts over the counter fair value is assumed as the market value at the reference date determined according to the following procedures in relation to the type of contract:

- for contracts on interest rates the market value is represented by the so-called "replacement cost", determined by discounting the differences, as at the provided dates of regulation, between flows calculated at the rates of contract and expected flows calculated at market rates, objectively determined, currents at the end of the financial year for equal residual maturity;
- for option contracts on securities and other values the market value is determined by reference to models of pricing recognised.

## *Quantitative information*

## *A.4.5 Fair value hierarchy*

### *A.4.5.1 Financial assets and liabilities valued at fair value on a recurrent basis: breakdown by fair value levels*

| Financial assets/liabilities measured at fair value | Total 31-12-2018 | | |
|---|---|---|---|
| | L 1 | L 2 | L 3 |

| | | | |
|---|---|---|---|
| 1. Financial assets valued at fair value with a corresponding asset item in the income statement. | 24,510 | 3,978 | 252,756 |
| a) Financial assets held for trading | - | 75 | - |
| b) Financial assets designated at fair value | - | - | 9,577 |
| c) Other financial assets compulsorily valued at fair value | 24,510 | 3,903 | 243,179 |
| 2. Financial assets valued at fair value with impact on overall profitability | 276,580 | 6,390 | 15,228 |
| 3. Hedging derivatives | - | - | - |
| 4. Property, plant and equipment | - | - | - |
| 5. Intangible assets | - | - | - |
| **Total** | **301,090** | **10,368** | **267,984** |
| 1, Financial liabilities held for trading | - | 63 | - |
| 2. Financial liabilities valued at *fair value* | - | - | - |
| 3. Hedging derivatives | - | - | - |
| **Total** | **-** | **63** | **-** |

***Key:***
L1 = level 1 L2 = level 2 L3 = level 3

n the FV Level 2 of "Financial assets at FV with impact on the income statement compulsorily valued at fair value " shares issued by Cedacri S.p.A. are classified for €3,903 thousand, shares valued using the criterion of the last fair value available; in the specific case, in December 2017, the Italian Strategic Fund acquired 27% of the shares of Cedacri from various financial intermediaries and this price therefore used for the purposes of valuation.
In the FV Level 2 of "Financial assets at FVOCI", Ark S.g.r. shares are classified, valued for a total of €6,390 thousand using the price derived from similar securities traded on the market of Borsa Italiana.

In the FV level 3 of the portfolio "Financial assets at FV with impact on the income statement compulsorily valued at fair value", for an amount of €243,179 thousand, the securities listed below are included:

- bonds issued by vehicles in the event of the purchase of credits toward the public administration and subscribed by the bank; in particular it is of securities issued by the vehicle company ATLAS SPV (€10,094 thousand), from the vehicle Valsabbina investments (€148,561 thousand) and by newly formed companies - in the month of December 2018- vehicles Castore (€24 million) and Polluce (€6 million). The value of the securities represents, in essence, the value attributed to the underlying loans, credits and securities shown in the accounts of the company vehicle. The securities are entered in this portfolio alone do not exceed test SPPI for lack of contractual flows of certain interests;
- shares such as Satispay and Vivibanca, interests described in the report on the management, for which the valuation is maintained at a cost, in adherence to the policy,
- CIUs securities from individual amount not material for a total of €1,355 thousand, among which there is the Fund Atlas for a residual €1,012 thousand;

- real estate common investment fund shares valued for €44.5 million based on price indications provided by the counterparty issuer (Relations 30/06/2018);
- other bonds and equities for an insignificant amount.

The movement of these securities is analytically described in table " Detail of financial assets at fair value on a recurring basis (Level 3) - Portfolio Other financial assets compulsorily valued at fair value with impact on the Income Statement".

In the FV level 3 of the portfolio "Financial assets at FV with impact on overall profitability", for an amount of €15,228 thousand, the equities listed below are included:
- the shareholding in Banca d'Italia for €15 million, equal to an interest of 0.20%;
- other shares with an intangible individual amount for €228 thousand.

In the item "Financial assets at FV with impact on the income statement designated at fair value" two insurance policies are recognised, policies already existing as at 31/12/2017.

## *A.4.5.2 Annual changes of financial assets valued at fair value on a recurring basis (level 3)*

| | **Financial assets valued at fair value with impact on the income statement.** | | | | **Financial assets valued at fair value with impact on overall profitability** | **Hedging derivatives** | **Tangible assets** | **Intangible fixed assets** |
|---|---|---|---|---|---|---|---|---|
| | **Total** | of which: a) financial assets held for trading | of which: b) financial assets at fair value | of which: c) other financial assets comp. valued at FV | | | | |
| **1. Opening** | **144,960** | **-** | **9,380** | **135,580** | **15,058** | **-** | **-** | **-** |
| **2. Increases** | **266,440** | **-** | **197** | **266,243** | **170** | **-** | **-** | **-** |
| 2.1 Purchases | 266,007 | - | - | 266,007 | 170 | - | - | - |
| 2.2 Revenue | 227 | - | 197 | 30 | - | - | - | - |
| 2.2.1 Income Statement | 227 | - | 197 | 30 | - | - | - | - |
| - of which capital | - | - | - | - | - | - | - | - |
| 2.2.2 Shareholders' | - | - | - | - | - | - | - | - |
| 2.3 Transfers from other levels | - | - | - | - | - | - | - | - |
| 2.4 Other upward changes | 206 | - | - | 206 | - | - | - | - |
| **3. Decreases** | **158,644** | **-** | **-** | **158,644** | **-** | **-** | **-** | **-** |
| 3.1 Sales | - | - | - | - | - | - | - | - |
| 3.2 | 155,267 | - | - | 155,267 | - | - | - | - |
| 3.3 Losses | 3,370 | - | - | 3,370 | - | - | - | - |
| 3.3.1 Income Statement | 3,370 | - | - | 3,370 | - | - | - | - |
| - of which capital | - | - | - | - | - | - | - | - |
| 3.3.2 Shareholders' | - | - | - | - | - | - | - | - |
| 3.4 Transfers to other levels | - | - | - | - | - | - | - | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 3.5 Other downward changes | 7 | - | - | 7 | - | - | - | - |
| **4. Closing** | **252,756** | **-** | **9,577** | **243,179** | **15,228** | **-** | **-** | **-** |

| | Detail of the financial assets at fair value on a recurring basis (Level 3) - Portfolio: Other financial assets comp. valued at fair value with impact on the Income Statement | | | | | | | | | | | | | | | | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Bonds | | | | | Assets | | | Mutual funds | | | | | | | | |
| | VALSABBINA PA | ATLAS SPV | CASTORE | POLLUCE | OTHER BONDS | SATISPAY | VIVIBANCA | F.I.T.D. VOLUNTARY SCHEME | NON-REAL ESTATE FUNDS | LEOPARDI - REAL ESTATE FUND | BANK ASSET I | BANK ASSET IV | BANK ASSET V | BANK ASSET VI | FININT FENICE | NAMIRA DISTR ASS | |
| **1. Opening balances** | **86,620** | **-** | **-** | **-** | **797** | **-** | **-** | **104** | **610** | **335** | **899** | **6,926** | **982** | **11,099** | **21,491** | **5,717** | **135,580** |
| **2. Increases** | **211,758** | **15,272** | **24,635** | **6,032** | **3,742** | **2,000** | **1,650** | **-** | **745** | **-** | **-** | **-** | **-** | **-** | **400** | **9** | **266,243** |
| 2.1 Purchases | 211,606 | 15,272 | 24,616 | 6,000 | 3,739 | 2,000 | 1,650 | - | 724 | - | - | - | - | - | 400 | - | 266,007 |
| 2.2 Revenue charged to: | - | - | - | - | - | - | - | - | 21 | - | - | - | - | - | - | 9 | 30 |
| 2.2.1 Income Statement | - | - | - | - | - | - | - | - | 21 | - | - | - | - | - | - | 9 | 30 |
| - of which: Capital gains | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.2.2 Shareholders' equity | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.3 Transfers from other levels | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.4 Other upward changes | 152 | - | 19 | 32 | 3 | - | - | - | - | - | - | - | - | - | - | - | 206 |
| **3. Decreases** | **149,817** | **5,178** | **-** | **-** | **279** | **-** | **-** | **-** | **-** | **157** | **137** | **577** | **61** | **859** | **1,579** | **-** | **158,644** |
| 3.1 Sales | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 3.2 Reimbursement | 149,813 | 5,178 | - | - | 276 | - | - | - | - | - | - | - | - | - | - | - | 155,267 |
| 3.3 Losses charged to: | - | - | - | - | - | - | - | - | - | 157 | 137 | 577 | 61 | 859 | 1,579 | - | 3,370 |
| 3.3.1 Income Statement | - | - | - | - | - | - | - | - | - | 157 | 137 | 577 | 61 | 859 | 1,579 | - | 3,370 |
| - of which Capital Losses | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 3.3.2 Shareholders' equity | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 3.4 Transfers to other levels | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 3.5 Other downward changes | 4 | - | - | - | 3 | - | - | - | - | - | - | - | - | - | - | - | 7 |
| **4) Closing inventory** | **148,561** | **10,094** | **24,635** | **6,032** | **4,260** | **2,000** | **1,650** | **104** | **1,355** | **178** | **762** | **6,349** | **921** | **10,240** | **20,312** | **5,726** | **243,179** |

* All securities characterised by an initial existence were entered in the portfolio pursuant to IAS39 AFS 31/12/2017, except Valsabbina PA, which was entered under Receivables from s customers

### *A.4.5.3 Annual changes of financial liabilities valued at fair value on a recurring basis (level3)*

The Bank has not issued financial liabilities at fair value.

### *A.4.5.1 Financial assets and liabilities valued at fair value on a recurrent basis: breakdown by fair value levels*

| **Assets/liabilities not measured at fair value or measured at fair value on a non-recurrent basis** | **31-12-2018** | | | |
|---|---|---|---|---|
| | VB | L1 | L2 | L3 |
| 1. Financial assets valued at amortised cost | 4,165,872 | 825,308 | - | 3,283,466 |
| 2. Property plant and equipment held for investment purposes | - | - | - | - |
| 3. Non-current assets and groups of assets held for sale | - | - | - | - |
| **Total** | **4,165,872** | **825,308** | **-** | **3,283,466** |
| 1, Financial liabilities valued at amortised cost | 4,484,197 | 35,122 | - | 4,447,012 |
| 4. Liabilities relating to assets held for sale | - | - | - | - |
| **Total** | **4,484,197** | **35,122** | **-** | **4,447,012** |

### *A.5 Information on so-called "day one profit/loss"*

The section is not compiled as there were no existing transactions of this type.

# *Part B: Information on the Balance Sheet*

# *Assets*

## *Section 1 - Cash and cash equivalents - Item 10*

The subject of recognition in this section are stocks of currencies with legal course and the free deposits at Banca d'Italia.

### *1.1 Cash and cash equivalents: breakdown*

| Items / values | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| a) Cash | 17,580 | |
| B) On-demand deposits with central banks | - | |
| **Total** | **17,580** | |

The item "Cash" comprises the stocks of metal coins and banknotes in the cash registries of subsidiaries, ATM and the centralised cash registries. Foreign banknotes amounted to €288 thousand. At the end of the year there are no free deposits at Banca d'Italia. The Compulsory Reserve is entered under item "40 Receivables from banks".

## *Section 2 - Financial assets valued at fair value with impact on the income statement - Item 20*

The following may merge into this item:

- Debt instruments
  - that have not passed the SPPI test;
  - that have not passed the benchmark tests where required.
- Equity instruments
  - that are held for trading (Other business model).
- All instruments purchased only for trading.
- Instruments designated at fair value: at the time of initial recognition the entity can designate irrevocably the financial asset as valued at fair value recognised in profit or loss for the financial year if doing so eliminates or significantly reduces an inconsistency in the valuation or recognition (sometimes referred to as "Accounting asymmetry") that otherwise would result from the valuation of assets or liabilities or the recognition of gains and losses related to different bases.

This is a portfolio valued at fair value.

The term "level", item the different columns of the tables set out below, represents the different mode of valuation of financial assets with use for level 1 of market values for level 2 of different sources external direct (prices) or indirect (derived from the prices), for level 3 of internal assessments or the cost.
Complete information on the level of fair value is reported at the bottom under accounting policies: "Information on fair value".

## *2.1 Financial assets held for trading: commodities breakdown*

| Items / values | Total 31-12-2018 | | | Total 31-12-2017 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **A Cash assets** | | | | | | |
| 1. Debt instruments | - | - | - | | | |
| 1.1 Structured instruments | - | - | - | | | |
| 1.2 Other debt instruments | - | - | - | | | |
| 2. Equity instruments | - | - | - | | | |
| 3. O.I.C.R. shares | - | - | - | | | |
| 4. Loans | - | - | - | | | |
| 4.1 Repurchase agreements | - | - | - | | | |
| 4.2) Other | - | - | - | | | |
| **Total A** | - | - | - | | | |
| **B Derivative instruments** | | | | | | |
| 1. Financial derivatives | | 75 | - | | | |
| 1.1 for trading | | 75 | - | | | |
| 1.2 linked to the *fair value* option | - | - | - | | | |
| 1.3 other | - | - | - | | | |
| 2. Credit derivatives | - | - | - | | | |
| 2.1 for trading | - | - | - | | | |
| 2.2 linked to the *fair value* option | - | - | - | | | |
| 2.3 other | - | - | - | | | |
| **Total B** | - | **75** | - | | | |
| **Total (A+B)** | - | - | - | | | |

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

"Derivative" financial assets for trading break down as follows:

- with Level 2 for €70 thousand from foreign exchange forward transactions, the value of which is the counterpart to the item 40 of the liability "Financial liabilities held for trading". The financial statements amount (intrinsic value) is the expression of a notional value of transactions equal to €3,692 thousand;
- also with level 2 for €5 thousand from the intrinsic value reported to hedge transactions in non-speculative currency carried out by the bank, with notional value of €437 thousand.

## *2.2 Financial assets held for trading: breakdown by borrower/issuer/counterparty*

| Items / values | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| **A. Cash assets** | | |
| **1, Debt instruments** | - | |
| c) Central Banks | - | |
| b) Public Administrations | - | |
| c) Banks | - | |
| d) Other financial companies | - | |
| of which insurance companies | - | |
| e) Non-financial companies | - | |
| **2. Equity instruments** | - | |
| a) Banks | - | |
| b) Other financial companies | - | |
| of which: insurance companies | - | |
| c) non-financial corporations | - | |
| d) Other issuers | - | |
| **3. O.I.C.R. shares** | - | |
| **4. Loans** | - | |
| c) Central Banks | - | |
| b) Public Administrations | - | |
| c) Banks | - | |
| d) Other financial companies | - | |
| of which insurance companies | - | |
| e) Non-financial companies | - | |
| f) Households | - | |
| **Total A** | - | |
| **B. Derivative instruments** | **75** | |
| a) Central Counterparties | - | |
| b) Other | 75 | |
| **Total B** | **75** | |
| **Total (A+B)** | **75** | |

## *2.3 Financial assets designated at fair value: commodities breakdown*

| Items / values | Total 31-12-2018 | | | Total 31-12-2017 | | |
|---|---|---|---|---|---|---|
| | L1 | L 2 | L 3 | L1 | L 2 | L 3 |
| **1. Debt instruments** | - | - | - | | | |
| 1.1 Structured instruments | - | - | - | | | |
| 1.2 Other debt instruments | - | - | - | | | |
| **2. Loans** | - | - | **9,577** | | | |
| 2.1 Structured | - | - | - | | | |
| 2.2 Other | - | - | 9,577 | | | |
| **Total** | - | - | **9,577** | | | |

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

Financial assets designated at fair value are constituted by two insurance policies held with the insurance companies ZURICH and HDI.

## *2.4 Financial assets designated at fair value: breakdown by borrower/issuer*

| Items / values | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| 1. **Debt instruments** | - | |
| a) Central Banks | - | |
| b) Public Administrations | - | |
| c) Banks | - | |
| d) Other financial companies | - | |
| of which: insurance companies | - | |
| e) Non-financial companies | - | |
| 2. **Loans** | **9,577** | |
| a) Central Banks | - | |
| b) Public Administrations | - | |
| c) Banks | - | |
| d) Other financial companies | 9,577 | |
| of which: insurance companies | 9,577 | |
| e) Non-financial companies | - | |
| f) Households | - | |
| **Total** | **9,577** | |

## *2.5 Other financial assets compulsorily valued at fair value: commodities breakdown*

| Items / values | Total 31-12-2018 | | | Total 31-12-2017 | | |
|---|---|---|---|---|---|---|
| | L1 | L 2 | L 3 | L1 | L 2 | L 3 |
| **1. Debt instruments** | **1,168** | - | **193,583** | | | |
| 1.1 Structured instruments | - | - | - | | | |
| 1.2 Other debt instruments | 1,168 | - | 193,583 | | | |
| **2. Equity instruments** | **2,448** | **3,903** | **3,753** | | | |
| **3. O.I.C.R. shares** | **20,894** | - | **45,843** | | | |
| **4) Loans** | - | - | - | | | |
| 4.1 Repurchase agreements | - | - | - | | | |
| 4.2 Other | - | - | - | | | |
| **Total** | **24,510** | **3,903** | **243,179** | | | |
| | | | | | | |

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

In the portfolio of other financial assets compulsorily valued at fair value the following are recorded:

- Government bonds and bonds (banking book) not held for trading;
- mutual investment funds shares (O.I.C.R.);

- equity securities including some interests held for long-term investment, the list of which is given in the report on transactions.

For the contents of the portfolio, please refer to what has been described specifically in the "Report on transactions".

### *2.6 Other financial assets compulsorily valued at fair value: breakdown by debtors/issuers*

| Items / values | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| **1. Equity instruments** | **10,105** | |
| of which: banks | 1,754 | |
| of which: other financial companies | 489 | |
| of which: non-financial companies | 7,862 | |
| **2. Debt instruments** | **194,750** | |
| a) Central Banks | - | |
| b) Public Administrations | - | |
| c) Banks | - | |
| d) Other financial companies | 170,115 | |
| of which: insurance companies | - | |
| e) Non-financial companies | 24,635 | |
| **3. O.I.C.R. shares** | **66,737** | |
| **4) Loans** | **-** | |
| a) Central Banks | - | |
| b) Public Administrations | - | |
| c) Banks | - | |
| d) Other financial companies | - | |
| of which: insurance companies | - | |
| e) Non-financial companies | - | |
| f) Households | - | |
| **Total** | **271,592** | |

## *Section 3 - Financial assets valued at fair value with impact on overall profitability - Item 30*

This section is intended to record financial assets valued at fair value with impact on overall profitability.

The following may merge into this portfolio:

- Debt instruments:
  - that have passed the SPPI test;
  - that have passed the benchmark tests where required;
  - that are held to collect the cash flows and for sale (business model HTCS).

This is a portfolio at amortised cost valued at fair value with recycling (the transfer of the equity reserve to the income statement in the event of the outputs of the security is provided for).
The recognitions of fair value do not go under the income statement, but to equity reserve.

This portfolio may also include tools of non-trading equity with the specific feature that, in these cases, it is possible to enter, in the income statement, only dividends, whilst any proceeds from sale and the valuations of fair value should be entered in equity without any recycling in the income statement in the event of sale. The reserve thus formed never runs out.
Finally, it is specified that the tools of equity classified initially in the portfolio FVOCI can no longer be moved to another portfolio.

The term "level", item the different columns of the tables set out below, represents the different mode of valuation of financial assets with use for level 1 of market values for level 2 of different sources external direct (prices) or indirect (derived from the prices), for level 3 of internal assessments or the cost.
Complete information on the level of fair value is reported at the bottom under accounting policies: "Information on fair value".

## *3.1 Financial assets valued at fair value with impact on overall profitability: commodities breakdown*

| **Items / values** | **Total 31-12-2018** | | | **Total 31-12-2017** | | |
|---|---|---|---|---|---|---|
| | **L1** | **L 2** | **L 3** | **L1** | **L 2** | **L 3** |
| **1. Debt instruments** | **275,921** | **-** | **-** | | | |
| 1.1 Structured instruments | 2,269 | - | - | | | |
| 1.2 Other debt instruments | 273,652 | - | - | | | |
| **2. Equity instruments** | **659** | **6,390** | **15,228** | | | |
| **3. Loans** | **-** | **-** | **-** | | | |
| **Total** | **276,580** | **6,390** | **15,228** | | | |

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

For the contents of the portfolio, please refer to what has been described specifically in the "Report on transactions".

## *3.2 Financial assets valued at fair value with impact on overall profitability: breakdown by debtors/issuers*

| Items / values | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| **1, Debt instruments** | **275,921** | |
| a) Central Banks | - | |
| b) Public Administrations | 191,765 | |
| c) Banks | 24,111 | |
| d) Other financial companies | 20,318 | |
| of which: insurance companies | 187 | |
| e) Non-financial companies | 39,727 | |
| **2. Equity instruments** | **22,277** | |
| a) Banks | 15,659 | |
| b) Other issuers | 6,419 | |
| - other financial assets | - | |
| of which: insurance companies | - | |
| - non-financial companies | 199 | |
| - other | - | |
| **3. Loans** | - | |
| a) Central Banks | - | |
| b) Public Administrations | - | |
| c) Banks | - | |
| d) Other financial companies | - | |
| of which: insurance companies | - | |
| e) Non-financial companies | - | |
| f) Households | - | |
| **Total** | **298,198** | |

## *3.3 Financial assets valued at fair value with impact on overall profitability: gross value and overall value adjustments*

| | Gross value | | | | Overall value adjustments | | | Write-off partial overall(*) |
|---|---|---|---|---|---|---|---|---|
| | First stage | of which tools with low credit risk | Second stage | Third stage | First stage | Second stage | Third stage | |
| Debt instruments | 275,783 | 275,783 | 703 | - | (556) | (9) | - | - |
| Loans | - | - | - | - | - | - | - | - |
| **Total 31-12-2018** | **275,783** | **275,783** | **703** | - | **(556)** | **(9)** | - | - |
| **Total 31-12-2017** | | | | | | | | |
| of which: acquired or originated impaired financial assets impaired | - | - | - | - | - | - | - | - |

(*) Value to be shown for information purposes only

he principle IFRS 9 introduces for debt instruments valued at amortised cost and at fair value detected at equity (FVOCI) a new model of impairment based on the concept of expected loss in place of the current incurred loss , with the objective of recognising, in the income statement, losses with greater timeliness. The principle provides that, for the purposes of valuation of creditworthiness, financial instruments should be allocated in three different stages:

***Stage 1*:** for exposures which have not undergone, with respect to the moment of delivery or of purchase, an impairment in the credit quality or which involve the date a credit risk negligible;

***Stage 2*:** for exposures whose quality of original credit has impaired significantly and whose credit risk is not negligible, although not yet classifiable as impaired;

***Stage 3:*** for exposures whose credit risk is increased to the point that the instrument is considered to be *impaired*, i.e. classified among the impaired; this stage also includes the financial instruments in default.

## *Section 4 – Financial assets valued at amortised cost - Item 40*

The following may merge into this portfolio:

- Financial assets (debt securities and loans):
  - that have passed the SPPI test;
  - that have passed the benchmark tests where required;
  - that are held to collect cash flows (business model HTC).

This is a portfolio at amortised cost not valued at fair value.

The term "level", item the different columns of the tables set out below, represents the different mode of valuation of financial assets with use for level 1 of market values for level 2 of different sources external direct (prices) or indirect (derived from the prices), for level 3 of internal assessments or the cost.
Complete information on the level of fair value is reported at the bottom under accounting policies: "Information on fair value".

### *4.1 Financial assets valued at amortised cost: commodities breakdown of receivables from banks*

| Type of transaction/value | Total 31-12-2018 | | | | | | Total 31-12-2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance sheet value | | | Fair value | | | Balance sheet value | | | Fair value | | |
| | First and second stage | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 | First and second stage | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 |
| **A. Receivables from Central Banks** | **18,805** | - | - | - | - | - | | | | | | |
| 1. Term deposits | - | - | - | - | - | - | | | | | | |
| 2. Minimum reserves | 18,805 | - | - | - | - | - | | | | | | |
| 3. Repurchase agreements | - | - | - | - | - | - | | | | | | |
| 4. Other | - | - | - | - | - | - | | | | | | |
| **B. Receivables from banks** | **188,593** | - | - | - | - | - | | | | | | |
| **1. Loans** | **184,945** | - | - | - | - | - | | | | | | |
| 1.1 Current accounts and on-demand deposits | 5,147 | - | - | - | - | - | | | | | | |
| 1.2. Term deposits | 179,447 | - | - | - | - | - | | | | | | |
| 1.3. Other financing: | 352 | - | - | - | - | - | | | | | | |
| - Repurchase agreements (assets) | - | - | - | - | - | - | | | | | | |
| - Financial leasing | - | - | - | - | - | - | | | | | | |
| - Other | 352 | - | - | - | - | - | | | | | | |
| **2. Debt instruments** | **3,647** | - | - | - | - | **3,655** | | | | | | |
| 2.1 Structured instruments | - | - | - | - | - | - | | | | | | |
| 2.2 Other debt instruments | 3,647 | - | - | - | - | 3,655 | | | | | | |
| **Total** | **207,398** | - | - | - | - | **207,406** | | | | | | |

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

Receivables from Central Banks include only the balance of the mandatory reserve, amounting to €18,805 thousand.

Receivables from banks amounted to €207.4 million, comprising a security of debt issued by Bank and signed for €3.7 million. The combination results in an increase compared to the €114.3 million recorded as at 31/12/2017 due to the greater number of deposits signed, deposits characterised almost all maturities for the first quarter of 2019.

## *4.2 Financial Assets valued at amortised cost: commodities breakdown of receivables from customers*

| Type of transaction/value | Total 31-12-2018 | | | | | | Total 31-12-2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance sheet value | | | Fair value | | | Balance sheet value | | | Fair value | | |
| | First and second stage | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 | First and second stage | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 |
| **1. Loans** | **2,843,366** | **224,761** | **6,204** | **-** | **-** | **3,224,132** | | | | | | |
| 1.1. Current accounts | 451,197 | 38,509 | 1,125 | - | - | - | | | | | | |
| 1.2. Repurchase agreements (assets) | - | - | - | - | - | - | | | | | | |
| 1.3. Mortgage loans: | 2,000,518 | 181,473 | 5,065 | - | - | - | | | | | | |
| 1.4. Credit cards, personal loans and salary-backed loans | 311 | 100 | 2 | - | - | - | | | | | | |
| 1.5. Financial leasing | - | - | - | - | - | - | | | | | | |
| 1.6. Factoring | - | - | - | - | - | - | | | | | | |
| 1.7. Other financing | 391,340 | 4,679 | 12 | - | - | - | | | | | | |
| **2. Debt instruments** | **890,347** | **-** | **-** | **825,308** | **-** | **7,933** | | | | | | |
| 2.1. - structured instruments | 2,127 | - | - | 1,831 | - | 302 | | | | | | |
| 2.2. Other debt instruments | 888,220 | - | - | 823,477 | - | 7,631 | | | | | | |
| **Total** | **3,733,713** | **224,761** | **6,204** | **825,308** | **-** | **3,232,065** | | | | | | |

Receivables from customers are shown net of value adjustments.
The Financial Statements law provides that customer loans are shown on separate columns separated by transactions in first and second stage (performing) and third stage (impaired), on the basis of their technical form.
Impaired exposures comprise receivables classified under non-performing, likely failures and impaired overdue receivables, as better detailed in Part E of these Notes to the Financial Statements: Section 1 - Credit risk
In the other funds, treasury transactions with central counterparties are included for €30 million, as at 31/12/2017 the balance of these transactions was equal to €60 million.

For the contents of the portfolio, please refer to what has been described specifically in the "Report on transactions".

## *4.3 Financial leasing*

The section is not compiled because the Bank, as at 31/12/2018, has no existing transactions of this type, as in the previous year.

### *4.4 Financial assets valued at amortised cost: breakdown by debtors/issuers of receivables from customers*

| Type of transaction/value | Total 31-12-2018 | | | Total 31-12-2017 | | |
|---|---|---|---|---|---|---|
| | First and second stage | Third stage | of which: impaired assets acquired or originated | First and second stage | Third stage | of which: impaired assets acquired or originated |
| **1. Debt instruments** | **890,347** | - | - | | | |
| a) Public Administrations | 877,099 | - | - | | | |
| b) Other financial companies | 4,395 | - | - | | | |
| of which: insurance companies | - | - | - | | | |
| c) Non-financial companies | 8,853 | - | - | | | |
| **2. Funding from:** | **2,843,366** | **224,761** | **6,204** | | | |
| a) Public Administrations | 18,509 | - | - | | | |
| b) Other financial companies | 298,720 | 445 | 40 | | | |
| of which: insurance companies | - | - | - | | | |
| c) Non-financial companies | 1,685,490 | 148,576 | 3,773 | | | |
| d) Households | 840,647 | 75,740 | 2,391 | | | |
| **Total** | **3,733,713** | **224,761** | **6,204** | | | |

The distribution of receivables by debtors / issuers is obtained with the classification criteria laid down by the Banca d'Italia.

### *4.5 Financial assets valued at amortised cost: gross value and overall value adjustments*

| | Gross value | | | | Overall value adjustments | | | Write-off partial overall (*) |
|---|---|---|---|---|---|---|---|---|
| | First stage | of which tools with low credit risk | Second stage | Third stage | First stage | Second stage | Third stage | |
| Debt instruments | 895,754 | 895,754 | - | - | (1,759) | - | - | - |
| Loans | 2,786,714 | - | 287,186 | 430,110 | (14,620) | (12,164) | (205,349) | (27,184) |
| **Total 31-12-2018** | **3,682,468** | **895,754** | **287,186** | **430,110** | **(16,379)** | **(12,164)** | **(205,349)** | **(27,184)** |
| **Total 31-12-2017** | | | | | | | | |
| of which: acquired or originated impaired financial assets impaired | - | - | 759 | 6,782 | - | (20) | (1,317) | (1,156) |

(*) Value to be shown for information purposes only

## *Section 5 – Hedging derivatives - Item 50*

The section is not compiled because the Bank, as at 31/12/2018, has no existing transactions of this type, as in the previous year.

## *Section 6 - Adjustment of the value of financial assets subject to generic hedging - Item 60*

The section is not compiled because the Bank, as at 31/12/2018, has no existing transactions of this type, as in the previous year.

## *Section 7 – Equity investments - Item 70*

This section includes equity investments in subsidiaries, controlled jointly and the shareholdings in companies subject to significant influence.

## *7.1 Equity investments: information on participatory relationships*

| Company names | Registered Office | Executive Offices | % Shareholding | % Vote availability |
|---|---|---|---|---|
| **A. Companies controlled exclusively** | | | | |
| 1. Valsabbina Real Estate S.R.L. | Brescia | Brescia | 100.00%. | - |
| **B. Companies controlled jointly** | - | - | - | - |
| **C. Undertakings subject to significant influence** | - | - | - | - |
| 1. Polis Fondi Immobiliare di Banche popolari SGR p.A. | Milan | Milan | 9.80%. | - |

## *7.2 Significant shareholdings: financial statements, value fair vale and dividends received*

| Company names | Balance sheet value | Fair value | Dividends received |
|---|---|---|---|
| **A. Companies controlled exclusively** | | | |
| 1. Valsabbina Real Estate S.R.L. | 237 | - | - |
| **B. Companies controlled jointly** | - | - | - |
| **C. Undertakings subject to significant influence** | - | - | - |
| **Total** | 237 | - | - |

Valsabbina Real Estate is 100% controlled; the consolidated financial statements are not drawn up due to the poor significance and importance of the values of the subsidiary with respect to those of the parent company, in application of the "Framework for the preparation and presentation of the financial statements' (so-called Framework), which constitutes the conceptual model at the base of the IAS.
The total financial statements of the subsidiary (€5,153 thousand) is lower than the limits envisaged by the supervisory instructions for reporting on a consolidated basis (financial statement assets lower than €10 million).
The financial statement charts of the Company are attached to the financial statements of the Institute.

# *7.3 Significant shareholdings: accounting information*

| | | | | |
|---|---|---|---|---|
| **Comprehensive income (3) = (1) + (2)** | **(342)** | (342) | - | - |
| **Other comprehensive income, net of tax (2)** | - | - | - | - |
| **Profit (Loss) for the year (1)** | **(342)** | (342) | - | - |
| **Profit (Loss) of groups of assets under divestments net of tax** | - | - | - | - |
| **Profit (Loss) from current transactions net of tax** | **(342)** | (342) | - | - |
| **Profit (Loss) from current transactions gross of tax** | **(414)** | (414) | - | - |
| **Value corrections and adjustments on tangible and intangible assets** | - | - | - | - |
| **Interest margin** | - | - | - | - |
| **Total revenues** | **952** | 952 | - | - |
| **Non-financial liabilities** | **67** | 67 | - | - |
| **Financial liabilities** | **4,843** | 4,843 | - | - |
| **Non-financial assets** | **5,153** | 5,153 | - | - |
| **Financial assets** | - | - | - | - |
| **Cash and cash equivalents** | - | - | - | - |
| **Company names** | **A. Companies controlled exclusively** | Valsabbina Real Estate s.r.l | **B. Companies controlled jointly** | **C. Undertakings subject to significant influence** |

The data reported in the table are relative to the financial statements as at 31/12/2018; the net equity of the company inclusive of the operating result amounted to €242 thousand

## *7.4 Non-significant equity investments: accounting information*

| Company names | A. Companies controlled exclusively | B. Companies controlled jointly | C. Undertakings subject to significant influence |
|---|---|---|---|
| **Balance sheet value of equity investments** | - | - | 1,014 |
| **Total assets** | - | - | 11,233 |
| **Total liabilities** | - | - | 11,233 |
| **Total revenues** | - | - | 7,537 |
| **Profit (Loss) from current transactions net of tax** | - | - | 484 |
| **Profit (Loss) of groups of assets held for sale net of tax** | - | - | - |
| **Profit (Loss) for the year (1)** | - | - | 484 |
| **Other comprehensive income, net of tax (2)** | - | - | (134) |
| **Comprehensive income (3) = (1) + (2)** | - | - | 350 |

The values shown refer to the financial statements as at 31/12/2017.
In the row of Undertakings subject to significant influence, the stake held by the Institute in the company Polis S.G.R. is entered; the stake was acquired in the course of 2013 (50,960 Polis Fondi Immobiliare Funds S.G.R. shares, equal to 9.80% of the share capital) for €1,205 thousand with the main purpose of participating in the management of closed real estate funds to which were buildings were generated by the subsidiary Valsabbina Real Estate.
By virtue of the social pacts the interest was classified among equity investments subject to significant influence.

## *7.5 Equity investments: annual changes*

| | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| **A. Opening balance** | 1,121 | |
| **B. Increases** | - | |
| B.1 Purchases | - | |
| B.2 Value adjustments | - | |
| B.3 Revaluations | - | |
| B.4 Other changes | 470 | |
| **C. Decreases** | **340** | |
| C.1 Sales | - | |
| C.1 Value adjustments | 340 | |
| C.3 Writedowns | - | |
| C.4 Other changes | - | |
| **D. Closing inventories** | **1,251** | |
| **E. Total revaluations** | - | |
| **F. Total adjustments** | **340** | |

During the financial year, Banca Valsabbina paid the investee Real Estate €470,000 to hedge losses; simultaneously, it proceeded to devalue the equity investment recorded in the financial statements for €340 thousand.

## *7.6 Commitments relating to equity investments in jointly-controlled subsidiaries*

There are no equity investments in subsidiaries jointly controlled with other subjects.

## *7.7 Commitments relating to equity investments in companies subject to significant influence*

Currently, there are no commitments with the company Polis S.g.r.

## *7.8 Significant Restrictions*

There are no cases of significant restriction indicated in IFRS 12 paragraph 22 (b) and (c).

## *7.9 Additional information*

Valsabbina Real Estate was provided with a line of credit of €15 million, used at the end of the year for €4,843 thousand, for future transactions falling under this case for which the company was formed.
For more information regarding the assets of the subsidiary, please refer to the specific paragraph in the "Report on Operations".

# *Section 8 – Property, plant and equipment – Item 80*

This item includes tangible assets (property, plant, equipment, furniture and other tangible assets of functional use) owned or acquired under financial leasing.

## *8.1 Property and equipment used in transactions: breakdown of assets measured at cost*

| Assets/Values | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| **1 Property assets** | **29,930** | |
| a) land | 2,801 | |
| b) buildings | 24,104 | |
| c) furniture | 624 | |
| d) electrical systems | 321 | |
| e) other | 2,080 | |
| **2 Assets acquired under financial lease** | - | |
| a) land | - | |
| b) buildings | - | |
| c) furniture | - | |
| d) electrical systems | - | |
| e) other | - | |
| **Total** | **29,930** | |
| of which: obtained through the enforcement of the guarantees received | - | |

The buildings of properties are almost entirely used in the exercise of banking activities.

## *8.2 Property, plant and equipment used in transactions: breakdown of assets valued at cost*

There are no assets held for investment purposes.

## *8.3 Property, plant and equipment used in transactions: breakdown of revalued assets*

There are no revalued assets held for functional use.

## *8.4 Property, plant and equipment held for investment purposes: breakdown of assets valued at fair value*

There are not tangible assets held for investment purposes.

## *8.5 Inventories of tangible assets governed by IAS 2: breakdown*

There are no revalued assets held for investment purposes.

## *8.6 Property, plant and equipment for functional use: annual changes*

| | Land | Buildings | Furniture | Electrical systems | Other | Total |
|---|---|---|---|---|---|---|
| **A. Gross opening inventories** | **2,597** | **31,186** | **7,168** | **3,153** | **8,583** | **52,687** |
| A.1 Net total value reductions | - | 7,386 | 6,657 | 2,709 | 6,701 | **23,453** |
| **A.2 Net opening inventories** | **2,597** | **23,800** | **511** | **444** | **1,882** | **29,234** |
| B. **Increases:** | **204** | **1,114** | **329** | **84** | **936** | **2,668** |
| B.1 Purchases | 204 | 1,114 | 265 | 84 | 800 | 2,468 |
| B.2 Capitalised improvement costs | - | - | - | - | - | - |
| B.3 Value adjustments | - | - | - | - | - | - |
| B.3 *Fair value* positive changes | - | - | - | - | - | - |
| charged to | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| B.5 Exchange rate gains | - | - | - | - | - | - |
| B.6 Transfers from property held for investment purposes | - | - | - | - | - | - |
| B.7 Other changes | - | - | 64 | - | 136 | 200 |
| C. **Decreases:** | - | **810** | **216** | **207** | **739** | **1,972** |
| C.1 Sales | - | 7 | - | - | 23 | 30 |
| C.2 Amortisation | - | 760 | 216 | 207 | 716 | 1,899 |
| C.3 Value adjustments from | - | - | - | - | - | - |
| impairment charged to | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| C.4 *Fair value* negative changes | - | - | - | - | - | - |
| charged to | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| B.5 Exchange rate losses | - | - | - | - | - | - |
| C.6 Transfers to: | - | - | - | - | - | - |
| a) property, plant and equipment held for investment purposes | - | - | - | - | - | - |
| b) non-current assets and groups of assets held for sale | - | - | - | - | - | - |
| C.7 Other changes | - | 43 | - | - | - | 43 |
| **D. Net closing inventories** | **2,801** | **24,104** | **624** | **321** | **2,080** | **29,930** |
| D.1 Net total value reductions | - | 8,146 | 6,873 | 2,916 | 7,370 | 25,305 |
| **D.2 Gross closing inventories** | **2,801** | **32,250** | **7,497** | **3,237** | **9,450** | **55,235** |
| E. Valuation at cost | - | - | - | - | - | - |

The item tangible assets amounted to €29,930 thousand with an increase of €696 thousand compared with the previous year, with an imbalance between purchases for €2,664 thousand, depreciation for €1,899 thousand, net transfers for €30,000 and other changes for €157 thousand.

Purchases entered in the columns of the table "furniture, electronic equipment and other" are related to the purchase of furniture, equipment, electronic machines for the office, alarm systems and other minor categories, both for headquarters and for branch offices.
Depreciation is calculated on all tangible assets, with the exclusion of land, in relation to the estimated useful life of the same as follows:

- Real estate 33 - 50 years;
- Furniture and furnishings 7 years;
- Vehicles 4 years;
- Armoured counters 5 years;
- Electronic equipment 4 years;
- Miscellaneous machines and equipment 5 years;
- Goods with gross value less than €516 are subject to depreciation equal to 100% in the year of acquisition.

In the case of the purchase of real estate, without any indication in the act of the separate value pertaining to the underlying ground, one proceeds to give to this category of 20% of the initial cost and the residue 80% under the item buildings.

### *8.7 Property, plant and equipment held for investment purposes: annual changes*
There are no assets held for investment purposes and therefore the tables shall not be compiled.

### *8.8 Inventories of tangible assets governed by IAS 2: annual changes*
There are no tangible assets held for investment purposes.

### *8.9 Commitments for purchases of tangible assets*
There are no commitments for purchases of tangible assets.

## *Section 9 – Intangible assets – Item 90*
This section includes intangible assets as defined in IAS 38.

### *9. Intangible assets: breakdown by asset type*

| Assets/Values | Total 31-12-2018 | | Total 31-12-2017 | |
|---|---|---|---|---|
| | Defined term | Undefined term | Defined term | Undefined term |
| **A.1 Goodwill** | **-** | **8,458** | | |
| **A.2 Other intangible assets** | **999** | **-** | | |
| A.2.1 Assets valued at cost: | 999 | - | | |
| a) Internally generated intangible assets | - | - | | |
| b) Other assets | 999 | - | | |
| A.2.2 Assets valued at fair value: | - | - | | |
| a) Internally generated intangible assets | - | - | | |
| b) Other assets | - | - | | |
| **Total** | **999** | **8,458** | | |

Intangible assets with a defined length relate to €855 thousand to the costs incurred for the purchase of EDP programmes, including those provided with specific billing from our computer outsourcer;

these costs are depreciated annually on the basis of the useful life itself, typically in 3 years. The valuation criteria used is the cost for all classes of intangible assets.

The intangible assets of indefinite duration are constituted:
- for €6,476 thousand from goodwill relating to the acquisition of Credito Veronese;
- for €1,982 thousand from the residual goodwill, accounted for €4,220 thousand with the incorporation of Cassa Rurale di Storo which occurred in 2000, deducted depreciation for €2,238 thousand carried out from 2000 to 2004.

In accordance with international accounting standards IAS, a systematic depreciation is no longer performed, but, at least annually, a check whether the goodwill allocated to a specific CGU (Cash Generating Unit - generating unit of the chest) has suffered reductions in value durable (impairment test) is required. Under IAS 36, an activity is impaired when its carrying amount exceeds its recoverable amount intended as the higher of its fair value less costs to sell and its value in use.

Banca Valsabbina has followed, over time, a territorial development strategy which included a programme of growth in neighbouring areas through the opening of new branches or through the acquisition of existing structures and initiated. This context includes transactions for purchase of Cassa Rurale di Storo merged by incorporation in the year 2000, Credito Veronese acquired between 2011 and 2012 and subsequently the company branch of 7 subsidiaries former Hypo Alpe Adria Bank.
As a result of the acquisitions of Cassa Rurale di Storo and Credito Veronese, emerging in the assets of the Bank, were goodwill and specific intangible assets, which, in accordance with IAS36, must be subjected to impairment test.
Over the years, the process of integration of the networks of branches acquired and incorporated into the bank continued, reviewing and integrating the organisational and territorial structure; this context included the consolidation of a structured model for geographical areas. From a strategic point of view, management and reporting is therefore no longer a relevant perimeter referring to the former Cassa di Risparmio di Storo and former Credito Veronese, but rather the wider geographical areas in which the branches once belonging to the same have converged.
For the above reasons, the geographical areas correspond, in general terms, to the Cash Generating Unit (CGU) of the Bank and each of them constitutes the smallest group of assets that generates cash inflows that are independent and, moreover, the minimum level at which the processes of planning and internal reporting are managed by the Bank.
In summary, the implementation process of the network with acquired branches from incorporations of Cassa Rurale di Storo and Credito Veronese, as well as the normal process of territorial expansion, have led to have homogeneous areas characterised by a perimeter that is different from the one identifiable at the time of the initial acquisitions. Acquired branches with the Credito Veronese transaction have merged into the new "Area North East", formed by including also some branches combined with the Bank following the transaction Hypo Alpe Adria Bank S.p.A.
The four branches acquired with the Cassa Rurale di Storo instead are converged in the "Area Valsabbia and Valtrompia".
These CGUs were defined in the year 2017 and the test of impairment test was also performed in the past financial year and having to reference these entities.

As mentioned above, the accounting principle indicates to devalue the goodwill when the net book value of the CGU is greater than the recoverable value, where in the definition of recoverable amount is considered to favour the estimation of the value of use with respect to fair value. The characteristics of the value in use is a method of valuation which is well suited to the characteristics of the banking sector, in addition to being aligned with the practice that has developed in the field. Furthermore, the need to calculate both the value of use and fair value no longer applies when one of the two is greater than the carrying amount of the asset, given that this condition excludes that the same has suffered an impairment loss.

The value of use of the CGU was determined by discounting the cash flows forecasting, which in the case of banking companies correspond to the values of the capital available after you have met the requirements of capitalisation imposed by the regulation of the sector (Excess Capital Method or Dividend Discount Method - DDM).
The development of DDM provides the estimation of the projections of cash flows available, of the discount rate and the rate of growth (g) in the long term.
The cash flows available for the period 2019-2023 were estimated on the basis of economic projections financial-processed by Management.
The discount rate has been estimated at cost of capital on the basis of the Capital Asset Pricing Model (CAPM) which results in a rate equal to 9.04%. The model expresses a linear relation, in conditions of equilibrium of the market between the performance of an investment and its systematic risk. The performance of an investment is calculated as the sum of the interest rate risk free, and the premium for the risk attributed to it according to the following formula:
$Ke = rf + \beta \times (rm - rf)$ where:
• rf is the performance of an activity with zero risk (free risk rate);
• $\beta$ is the index of volatility of the investment;
• (rm - rf) is the risk premium.
The parameters used were:
- Risk-free interest rate 2.61% (average value of the yields of 10-year government bonds. The average value of the returns in a time interval of observation of twelve months was considered)
- Beta: 1.17% average beta recognised for a sample of listed Italian banks
- Risk Premium: 5.50% estimate of market premium given by the difference between the return of a diversified portfolio composed of all the investment risks are available on the market and the efficiency of a security free of risk.
The rate of growth (g) was assumed to be equal to 1.5%, substantially in line with the rate of inflation expectation.
In order to assess the extent of the change of the values obtained with respect to the parameters used subsequent sensitivity analyses were carried out, including an analysis developed considering changes in the discount rate "KE" and the rate of growth in the medium-long term "g" of ±25 bps.

The CGU Area North East has a goodwill equal to 6.5 million and Core Deposit (enrolled in intangible assets) for €0.1 million net of taxation; both assets were subjected to impairment test, even though the core deposits are subjected to regular amortisation process.
The value of the estimated usage is equal to €36.9 million compared with an instrumental capital - minimum requirement of equity- of €27.5 million; the theoretical goodwill is equal to €9.4 million, superior to €6.6 million in the carrying amount of intangible assets entered.
The sensitivity analysis has provided a range of estimates of the value of goodwill attributable to the CGU of between €7.7 million and €11.3 million; therefore, partly by varying the parameters used, it is revealed that the carrying amount of intangible assets is substantially confirmed.

The CGU Valsabbia and Valtrompia presents goodwill equal to €2 million; that goodwill is residual with respect to that initial €4.2 million, partly amortised.
The value of the estimated usage for this area is equal to € 2.9 million compared with an instrumental capital - minimum requirement of equity- of €41.4 million, which corresponds to goodwill of €11.5 million, exceeds the carrying amount of intangible assets entered.

The sensitivity analysis has provided a range of estimates of the value of goodwill attributable to the CGU of between €9.5 million and €13.7 million; therefore, partly by varying the parameters used, it is revealed that the carrying amount of intangible assets is substantially confirmed.

On the basis of the results of the analyses carried out, amounts were not included in the income statement representing value adjustments on intangible assets with indefinite duration.

## *9.2 Intangible assets: annual changes*

| | Goodwill | Other intangible assets: generated internally | | Other intangible assets: other | | Total |
|---|---|---|---|---|---|---|
| | | DEF | UNDEF | DEF | UNDEF | |
| **A. Opening balance** | **8,458** | - | - | **4,595** | - | **13,053** |
| A.1 Reduction net total value | - | - | - | 3,234 | - | 3,234 |
| A.2 Net opening inventories | 8,458 | - | - | 1,361 | - | 9,819 |
| **B. Increases** | - | - | - | **558** | - | **558** |
| B.1 Purchases | - | - | - | 504 | - | 504 |
| B.2 Increments of internal intangible assets | - | - | - | | - | - |
| B.3 Value adjustments | - | - | - | | - | - |
| B.3 Positive changes in fair value: | - | - | - | | - | - |
| - shareholders' equity | - | - | - | | - | - |
| - income statement | - | - | - | | - | - |
| B.5 Positive exchange rate differences | - | - | - | | - | - |
| B.6 Other changes | - | - | - | 54 | - | **54** |
| **C. Decreases** | - | - | - | **919** | - | **919** |
| C.1 Sales | - | - | - | | - | - |
| C.1 Value adjustments | - | - | - | 919 | - | 919 |
| - Depreciation | - | - | - | 919 | - | 919 |
| - Writedowns: | - | - | - | | - | - |
| + shareholders' equity | - | - | - | | - | - |
| + income statement | - | - | - | | - | - |
| C.4 Negative changes in fair value: | - | - | - | | - | - |
| - shareholders' equity | - | - | - | | - | - |
| - income statement | - | - | - | | - | - |
| C4. Transfers to non-current assets held for sale | - | - | - | | - | - |
| C.5 Negative exchange rate differences | - | - | - | | - | - |
| C.6 Other changes | - | - | - | | - | - |
| **D. Net closing inventories** | **8,458** | - | - | **999** | - | **9,458** |
| D.1 Adjustments of net total values | - | - | - | 3,859 | - | 3,858 |
| **E Gross closing inventories** | **8,458** | - | - | **4,857** | - | **13,316** |
| F. Valuation at cost | - | - | - | - | - | |

***Key***
DEF= defined term
UNDEF= undefined term

### *9.3 Intangible assets: other information*

As regards to intangible assets (IAS 38, paragraphs 122 and 124), it should be noted that:
- there are no intangible assets constituted under guarantee of debts;
- there are no commitments for the purchase of intangible assets;
- there are no intangible assets acquired with financial leasing or operating contracts or or by way of a government grant;
- there are no revalued intangible assets recorded at fair value.

## *Section 10 - Tax assets and tax liabilities - Item 100 under assets and Item 60 under liabilities*

This section lists the tax assets (current and anticipated) and the tax liabilities (current and deferred), without compensation between deferred tax assets and liabilities for deferred tax, respectively recognised under entries 100 under assets and 60 of liability.

The deferred tax assets are recognised on the basis of the probability of their future recovery.
The rates used for the recognition of deferred tax assets and liabilities are equal to 27.50% for the IRES and 5.56% for the IRAP tax rates in force also for the year 2018; the law of stability 2016 (legislative Decree 147/2015) has estimated that with effect from 01/01/2017 the ordinary rate Ires has decreased to 24%, but at the same time for credit and financial institutions was introduced an additional IRES equal to 3.50%. As a consequence of this the, IRES rate to be used for the calculation of deferred tax assets to be recovered is 27.50%.

On the shares under the investment regime, exemption is computed in accordance with the regulations in force, the IRES on 5% of any capital gains and the IRAP tax at the normal rate.

Law 190 of 23/12/2014 (Law of Stability 2015) has provided for the deductibility of costs of personnel indefinitely from taxable profit IRAP of companies starting from the financial year 2015.

Current assets, amounting to €9,286 thousand, represent the surplus of advances for IRES/IRAP tax for the years 2015 and 2016 in relation to the tax burden in the final balance for these years and the shares of surpluses of "aid to economic growth" relating to the years 2016/2017/2018 convertible into tax credits.

With reference to the movement of deferred tax assets occurring during the year, the partial use is highlighted of the IRES tax loss for the year 2017 in compensation with the IRES tax base for 2018 and the conversion of prepaid tax (L.214/2011) relating to the IRES tax loss for 2017 and the negative value of the net production of relevance to IRAP, transformed, in the course of the year, into tax credit.

The effects of tax in the income statement, entered under the item "270 income tax for the year the current transactions", are equal to €813 thousand; such as the imbalance between current tax for €1,061 thousand, positive effects from recognition and derecognition of tax assets for €327 thousand and negative effects related deferred tax for €79 thousand.

In the determination of the tax burden for the year, taken into consideration were factors arising from the first application of IFRS9, components not transferred to the income statement and mainly resulting from the reclassification of securities in certain portfolios (realignment of tax) and by deduction pro quota of writedowns debts arising from the adoption of the model of expected losses.

In particular, the Budget Law 2019 no. 145 under paragraph 1067 has provided that 'the components of income arising solely from the adoption of the model of detection of the fund to cover losses for expected losses on loans entered in the Financial Statements in the first application of IFRS9 are deductible from taxable income of the tax on the income of the company for the 10% of their amount in the tax period of first-time adoption of IFRS9 and for the remaining 90% in equal instalments over the next nine tax periods". In paragraph 1068, the same concept is translated to the taxable amount of the IRAP tax. The Bank has therefore deducted, from the taxable bases IRES and IRAP for 2018, 10% of these components; it is to be noted that for the remaining part of the deductible taxable in the future, amounting to approximately €54 million, the bank has failed to register credits for tax. It is recalled that the accounting transition process to IFRS9 was described in the part reserved for the accounting policies.

It is pointed out that the bank maintains, with the subsidiary Valsabbina Real Estate, a contract for the group tax election for IRES purposes.

## *10.1 Pre-paid tax assets: breakdown*

| Items | Total 31-12-2018 | | Total 31-12-2017 | |
|---|---|---|---|---|
| | L. 214/2011 | Other | L. 214/2011 | Other |
| **As a counterpart to the income statement:** | | | | |
| Writedowns of receivables deductible in equal | 42,173 | - | | |
| - from previous years | 42,173 | - | | |
| - from current year | - | - | | |
| Goodwill exemption and other elements from incorporation | 1,798 | - | | |
| Goodwill exemption from consolidated | 2,897 | - | | |
| Tax losses | - | 3,802 | | |
| Provisions for risks and charges | - | 600 | | |
| Provision for guarantees | - | 281 | | |
| Financial assets | - | 171 | | |
| Administrative expenditure and other items | - | 1,054 | | |
| **Total as a counterpart to the income** | **46,868** | **5,908** | | |
| **As a counterpart to shareholders equity** | | | | |
| **Securities** | - | **2,496** | | |
| - bonds | - | 2,476 | | |
| - shares | - | 20 | | |
| **Actuarial effect on benefits to employees** | - | **68** | | |
| **Total counterpart to shareholders equity** | - | **2,564** | | |
| **Total** | **46,868** | **8,472** | | |

The deferred tax assets "under Law 214/2011" are those entered in relation to writedowns of receivables not yet deducted and the value of goodwill and other intangible assets whose negative components are deductible in the successive tax periods. They allow, in the case of recognition, civil or tax loss to be transformed into tax credit immediately usable, with benefits also of vigilance. On the basis of the law of stability n.147/2013, in the same circumstances, the same possibility was extended also to IRAP tax, in the presence of a balance sheet closed at a loss or a negative net value of production (IRAP loss declaration).

Decree Law 83/2015 has estimated that, with effect from 01/01/2016, writedowns and losses on loans and advances to customers entered in the Financial Statements become fully deductible in the year in which they are recognised, in place of the deductibility in five exercises introduced by Law 147/2013; for the year 2015, a transitional regime was provided for which 75% of losses/writedowns were deductible. For the remaining 25%, as yet to be recovered as at 31/12/2014, a plan of deduction to value from the year 2016 until 2025 was provided for, according to a variable distribution from 5% to 12% of taxable profits; however, according to the Financial Statements law 2019 issued on 31/12/2018, the deductible proportion in the course of the year 2018 provided by the plan was moved to the year 2026.

In the course of the year, as provided for by Article 2, paragraphs 55 to 59 of the Decree Law of 29 December 2010 n. 225 converted by Law 26/2/2011 n.10, and subsequent amendments, having closed the Financial Statements 2017 with a loss for the year, deferred tax assets entered in the balance sheet relating to writedowns of receivables not yet deducted from taxable income within the meaning of paragraph 3 Article 106 TUIR were transformed into tax credit, as were those relating to the value of goodwill and other intangible assets, whose negative components are deductible in more periods of tax for the purposes of tax on income. The conversion became effective from the date of approval of the Financial Statements by the shareholders' meeting and operated for an amount of €706 thousand.

The amount of such tax "referred to the law 214/2011" is equal to €46,868 thousand and comprises:
- the amount of such tax "referred to the law 214/2011" is equal to €46,868 thousand and comprises: €15,287 thousand formed until the year 2012, €23,605 thousand relating to the years 2013 and 2014 and €3,281 thousand relating to 2015. These taxes will be recovered to a varying extent depending on the year, from 2019 to 2026;
- €1,798 thousand derive from the freeing of elements resulting from the incorporation of Credito Veronese, of which €1,523 thousand relate to the goodwill arising from the balance sheet at 31/12/2012, as foreseen by Article 186 of the TUIR and €275 thousand relate to "other elements from incorporation", i.e. to the Core Deposit and at Fair Value credits, for which there is a temporary misalignment of a year between the time of charging to the Financial Statements and the exercise of the tax recovery;
- €2,896 thousand derive from the realignment for tax purposes of goodwill and other intangible assets entered in an autonomous manner in the consolidated financial statements 2011 as foreseen by Article 23 of Decree Law n. 98/2011 and by Article 20 of Decree Law n. 201/2011.

The deferred tax assets offsetting shareholders' equity amounted to €2,564 thousand: €2,496 thousand relate to the losses attributed to the negative reserves of valuation (the amount derives from the application of the rate provided on total gross negative reserves for €7,842 thousand) and €68 thousand relate to actuarial difference recorded under severance indemnity.

## *10.2 Deferred tax liabilities: breakdown*

| Items | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| **As a counterpart to the income statement:** | | |
| - on various capital gains | - | |
| - on buildings valuation at the revalued cost | - | |
| - on the land depreciation fund | 181 | |
| - on default interest | - | |
| - on goodwill amortisation | 585 | |
| - on uncollected dividends | - | |
| - on payments to S.V. F.I.T.D. | 34 | |
| - on valuation of financial instruments | 23 | |
| - on financial instrument exchange rates | 40 | |
| - from reclassified securities for IFRS9 | 186 | |
| **Total as a counterpart to the income** | **1,049** | |
| **As a counterpart to shareholders equity** | | |
| FVOCI financing assets | 331 | |
| - bonds | 17 | |
| - shares | 314 | |
| **Total to offset shareholders equity** | **331** | |
| **Total** | **1,380** | |

The amount of the deferred tax offsetting the income statement recorded a decrease due mainly to the collection of arrears interest.
Deferred tax offsetting net equity amounted to €331 thousand and are related to the reserves positive valuation of securities available for sale equal to a gross amount of €4,561 thousand.
Liabilities for deferred tax on reserves of monetary revaluation constituted in suspension of the tax were not recognised because it is believed that the possibility that the assumption of taxation (the distribution of the same) is realised is very remote.

## *10.3 Change in pre-paid taxes (to offset to the income statement)*

| | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| **1. Initial amount** | **59,780** | |
| **2. Increases** | **1,276** | |
| 2.1 Pre-paid taxes recognised in the financial year | - | |
| a) relating to previous years | - | |
| b) due to changes in accounting criteria | - | |
| c) write-backs | - | |
| d) other | 1,276 | |
| 2.2 New taxes or increases in tax rates | - | |
| 2.3 Other increases | - | |
| **3. Decreases** | **8,280** | |
| 3.1 Pre-paid taxes cancelled during the financial year | 1,532 | |
| a) reversals | 1,532 | |
| b) writedowns due to unrecoverability | - | |
| c) change in accounting criteria | - | |
| d) other | - | |
| 3.2 Reductions in tax rates | - | |
| 3.3 Other decreases: | 6,748 | |
| a) transformation into tax assets under Italian Law no.214/2011 | 5,119 | |
| b) other | 1,629 | |
| **4) Closing balance** | **52,776** | |

## *10.3bis Changes in deferred tax assets referred to in L.214/2011*

| | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| **1. Initial amount** | **51,984** | |
| **2. Increases** | **275** | |
| **3. Decreases** | **5,391** | |
| 3.1 Transfers | 272 | |
| 3.2 Transformations into tax credits | 5,119 | |
| a) resulting from operating losses | 706 | |
| b) resulting from tax losses | 4,413 | |
| 3.3 Other decreases | - | |
| **4. Closing balance** | **46,868** | |

The decrease in deferred tax assets can be attributed in part to the transformation of the advance current taxation for €4,413 concerning the tax loss for IRES and IRAP transformable into tax credit under L. 214/2011 and in part to the conversion into tax credit of deferred tax assets entered in the Financial Statements for operating loss, as mentioned above, the conversion is effective from the date of approval of the Financial Statements by the shareholders' meeting and has operated for an amount to €706 thousand.

## *10.4 Changes in deferred tax liabilities (offset in the income statement)*

| | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| **1. Initial amount** | **1,055** | |
| **2. Increases** | **283** | |
| 2.1 Deferred tax liabilities recognised in the financial year | - | |
| a) relating to previous years | - | |
| b) due to changes in accounting criteria | 186 | |
| c) Other | 97 | |
| 2.2 New taxes or increases in tax rates | - | |
| 2.3 Other increases | - | |
| **3. Decreases** | - | |
| 3.1 Deferred tax liabilities cancelled in the financial year | - | |
| a) transfers | 289 | |
| b) due to changes in accounting criteria | - | |
| c) other | - | |
| 3.2 Reductions in tax rates | - | |
| 3.3 Other decreases | - | |
| **4. Closing balance** | **1,049** | |

## *10.5 Change in deferred taxes (offsetting shareholders' equity)*

| | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| **1. Initial amount** | **5,221** | |
| **2. Increases** | **2,142** | |
| 2.1 Pre-paid taxes recognised in the financial year | 2,142 | |
| a) relating to previous years | - | |
| b) due to changes in accounting criteria | - | |
| c) other | 2,142 | |
| 2.2 New taxes or increases in tax rates | - | |
| 2.3 Other increases | - | |
| **3. Decreases** | **4,799** | |
| 3.1 Pre-paid taxes cancelled during the financial year | 4,593 | |
| a) transfers | 1,075 | |
| b) writedowns due to unrecoverability | - | |
| c) due to the change in accounting criteria | 3,472 | |
| d) other | 46 | |
| 3.2 Reductions in tax rates | - | |
| 3.3 Other decreases | 206 | |

| | | |
|---|---|---|
| **4) Closing balance** | **2,564** | |

### *10.6 Changes in deferred taxes (offsetting shareholders' equity)*

| | **Total 31-12-2018** | **Total 31-12-2017** |
|---|---|---|
| **1. Initial amount** | **749** | |
| **2. Increases** | **72** | |
| 2.1 Deferred tax liabilities recognised in the financial year | 72 | |
| a) relating to previous years | - | |
| b) due to changes in accounting criteria | 54 | |
| c) other | 18 | |
| 2.2 New taxes or increases in tax rates | - | |
| 2.3 Other increases | - | |
| **3. Decreases** | **490** | |
| 3.1 Deferred taxes cancelled in the financial year | 490 | |
| a) transfers | 65 | |
| b) due to changes in accounting criteria | 263 | |
| c) other | 162 | |
| 3.2 Reductions in tax rates | - | |
| 3.3 Other decreases | - | |
| **4. Closing balance** | **331** | |

## *Section 11 - Non-current assets and groups of assets held for sale and associated liabilities - Item 110 under assets and Item 70 under liabilities*

As at the date of the financial statements there are no non-current assets and liabilities held for sale.

## *Section 12 – Other assets - Item 120*

### *12.1 Other assets: breakdown*

| **Items** | **Total 31 -12 -2018-** | **Total 31-12-2017** |
|---|---|---|
| Receivables due to direct taxes for previous years and accrued interest | 122 | |
| Withholdings deducted | 326 | |
| Receivables from the tax authorities for prepaid taxes | 8,614 | |
| Current account cheques in euro and foreign currency drawn on the bank and on third parties | 49 | |
| Security deposits for own account | 90 | |
| Operations in securities pending definitive allocation | 975 | |
| Subcontracting cheques | 5 | |
| Miscellaneous utilities to charge/SDD/Other items | 20,102 | |
| Unpaid cheques | - | |
| Bancomat and Credit Card withdrawals | 956 | |
| Transfers and charges to be made | 3,368 | |

| | | |
|---|---|---|
| Pre-paid expenses | 3,393 | |
| Costs for third-party goods improvements | 856 | |
| **Total** | **38,856** | |

The receivables due from the tax authorities for prepaid taxes relate to the advances paid for the stamp duty, for the substitute tax on mortgages and on capital gains.

# Liabilities

## Section 1 - Financial liabilities valued at amortised cost - Item 10

In item 10 under liabilities there are various forms of interbanking provisions and with customers.

The item breaks down into:

**10 a)** Financial liabilities valued at amortised cost: Payables to banks;
**10 b)** Financial liabilities valued at amortised cost: Payables to customers;
**10 c)** Financial liabilities valued at amortised cost: Outstanding securities.

These aggregates, if any, also include the debts recorded by the lessee under a finance lease.

The term "level", item the different columns of the tables set out below, represents the different mode of valuation of financial assets with use for level 1 of market values for level 2 of different sources external direct (prices) or indirect (derived from the prices), for level 3 of internal assessments or the cost.
Complete information on the level of fair value is reported at the bottom under accounting policies: "Information on fair value".

### 1.1 Financial liabilities valued at amortised cost: commodities breakdown of payables to banks

| Type of transaction/value | Total 31-12-2018 | | | | Total 31-12-2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Book value | Fair value | | | Book value | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. Payables to central banks** | **834,156** | - | - | - | | | | |
| **2. Amounts due to banks** | **406,963** | - | - | - | | | | |
| 2.1 Current accounts and on-demand deposits | 8,010 | - | - | - | | | | |
| 2.2 Term deposits | - | - | - | - | | | | |
| 2.3 Loans | 398,953 | - | - | - | | | | |
| 2.3.1 Repos - Liabilities | 398,953 | - | - | - | | | | |
| 2.3.2 Other | - | - | - | - | | | | |
| 2.4 Payables for commitments of repurchase of own capital instruments | - | - | - | - | | | | |
| 2.5 Other payables | - | - | - | - | | | | |
| **Total** | **1,241,119** | - | - | **1,242,046** | | | | |

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

The amount of the liabilities to banks as at 31/12/2018 was equal to €1,241.1 million with respect to the balance of €687.3 million that was recorded at the end of the last financial year.

The combination is composed of debts toward the ECB for a nominal €690 million related to the TLTROII programme; such transactions, already represented in the combination of the last financial year, mature in June 2020 for €250 million, December 2020 for €150 million and March 2021 for €290 million. In view of these payable loans, the bank receives interest receivables of 0.40%, a rate recognised until maturity.
Compared with 31/12/2017, there are also transactions of Pct liabilities for an amount of €400 million, transactions maintained with primary banking counterparties and with maximum maturity February 2019; finally, a financing by the ECB for €150 million already expired in the first days of January.

## *1.2 Financial liabilities valued at amortised cost: commodities breakdown of payable to customers*

| Type of transaction/value | Total 31-12-2018 | | | | Total 31-12-2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Book value | Fair value | | | Book value | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| 1 Current accounts and on-demand deposits | 2,277,305 | - | - | - | | | | |
| 2 Term deposits | 668,927 | - | - | - | | | | |
| 3 Loans | - | - | - | - | | | | |
| 3.1 Repurchase agreement liabilities | - | - | - | - | | | | |
| 3.2 Other | - | - | - | - | | | | |
| 4 Payables for commitments of repurchase of own capital instruments | - | - | - | - | | | | |
| 5 Other payables | 464 | - | - | - | | | | |
| **Total** | **2,946,696** | **-** | **-** | **2,946,696** | | | | |

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

The current accounts and free deposits comprise:

| | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| Current accounts in euro | 2,242,326 | |
| Savings deposits | 29,693 | |
| Current accounts in currency | 5,286 | |
| **Total** | **2,277,305** | |

The deposits are constituted by Time Deposit, i.e. fixed deposits with a maturity of up to 7 years.

## *1.3 Financial liabilities valued at amortised cost: commodities breakdown of outstanding securities*

| Type of security/Value | Total 31-12-2018 | | | | Total 31-12-2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Book value | Fair value | | | Book value | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **A. Securities** | **296,383** | **222,341** | **-** | **71,051** | | | | |
| 1. bonds | 273,730 | 222,341 | - | 48,398 | | | | |
| 1.1 structured | - | - | - | - | | | | |
| 1.2 other | 273,730 | 222,341 | - | 48,398 | | | | |
| 2. Other securities | 22,653 | - | - | 22,653 | | | | |
| 2.1 structured | - | - | - | - | | | | |
| 2.2 other | 22,653 | - | - | 22,653 | | | | |
| **Total** | **296,383** | **222,341** | **-** | **71,051** | | | | |

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

The bonds are inclusive of the flat rate in the course and are net of bonds repurchased, which, on the basis of IAS accounting principles must be elided; the criterion of registration used for the balance sheet value is that of the amortised cost.
They include subordinated bonds for a balance sheet value equal to €61,222 thousand.
The shown value in column level 1 of FV is related to loans bonds quoted on the market HI-MTF while the shown value in column level 3 of FV is relative to the debenture loans are not traded and was obtained through the updating of the flows on the basis of the average rate of a basket of bank bonds triple B.
For unlisted bonds issued by the bank the valuation, useful for trade, is carried out by an external service provider.
In other securities, certificates of deposit in the medium-long term are entered.

## *1.4 Detail of debts/subordinated bonds*

| Items | Balance sheet value | |
|---|---|---|
| | Total 31-12-2018 | Total 31-12-2017 |
| Subordinated bonds issued and in circulation | 61,222 | |
| **Total** | **61,222** | |

The subordinated bonds are constituted by the following securities:
-IT0004982481 issued on 30/12/2013 for €25 million, fixed rate 4.50% and expiring 30/12/2019, with reimbursement of 20% per year since 30/12/2015, nominal residues €5 million net of reimbursements and repurchases;
-IT0004982481 issued on 30/12/2013 for €25 million, fixed rate 4.50% and expiring 30/12/2019, with reimbursement of 20% per year since 30/12/2015, nominal residues €5 million net of reimbursements and repurchases;
-IT0005014706 issued on 2/05/2014 for €25.432 thousand, fixed rate 4.00% and expiring 02/05/2022, with reimbursement of 20% per year since 02-05-2018, nominal residues €20.3 million net of repurchases;

-IT000508520 issued on 10/02/2015 for €35 million, fixed rate 4.50% and expiring 10/02/2021, with reimbursement of 20% per year since 02-05-2018, nominal residues €20.3 million net of repurchases;
-IT0005204257 issued on 15/07/2016 for €15 million, fixed rate 4.00% and expiring 15/07/2022, nominal residues €15 million.

### *1.5 Detail of structured debt*

The section is not compiled because the Bank, as at 31/12/2018, has no existing transactions of this type, as in the previous year.

### *1.6 Financial lease payables*

The section is not compiled because the Bank, as at 31/12/2018, has no existing transactions of this type, as in the previous year.

## *Section 2 – Financial liabilities from trading – Item 20*

### *2.1 Financial liabilities from trading: commodities breakdown*

| Type of transaction/value | Total 31-12-2018 | | | | | Total 31-12-2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | VN | Fair value | | | Fair value | VN | Fair value | | | Fair value |
| | | L1 | L2 | L3 | | | L1 | L2 | L3 | |
| **A.Cash liabilities** | - | - | - | - | - | | | | | |
| 1. Amounts due to banks | - | - | - | - | - | | | | | |
| 2. Amounts due to customers | - | - | - | - | - | | | | | |
| 3. Debt instruments | - | - | - | - | - | | | | | |
| 3.1 Bonds | - | - | - | - | - | | | | | |
| 3.1.1 Structured | - | - | - | - | - | | | | | |
| 3.1.2 Other bonds | - | - | - | - | - | | | | | |
| 3.2 Other securities | - | - | - | - | - | | | | | |
| 3.2.1 Structured | - | - | - | - | - | | | | | |
| 3.2.2 Other | - | - | - | - | - | | | | | |
| **TOTAL A** | - | - | - | - | - | | | | | |
| **B.Derivatives** | - | - | - | - | - | | | | | |
| 1. Financial derivatives | - | - | 62 | - | - | | | | | |
| 1.1 From trading | - | - | - | - | - | | | | | |
| 1.2 Linked to the *fair value* option | - | - | - | - | - | | | | | |
| 1.3) Other | - | - | - | - | - | | | | | |
| 2. Credit derivatives | - | - | - | - | - | | | | | |
| 2.1 From trading | - | - | - | - | - | | | | | |
| 2.2 Linked to the *fair value* option | - | - | - | - | - | | | | | |
| 2.3) Other | - | - | - | - | - | | | | | |
| **TOTAL B** | - | - | **62** | - | - | | | | | |
| **TOTAL A+B** | - | - | **62** | - | - | | | | | |

**Key:**
L1=Level 1
L2=Level 2
L3=Level 3
Fair value*= Fair value calculated excluding changes in value due to the change in the creditworthiness of the issuer with respect to the date of issue

The amount of €62,000 (level 2) breaks down:

- for €60 thousand from speculative forward transactions in currency, whose value is offset under item 20 of the asset "Financial assets held for trading". The financial statements amount (intrinsic value) is the expression of a notional value of transactions equal to €2,751 thousand;
- for €2 thousand from the intrinsic value reported to hedge foreign currency transactions carried out by the Bank, with notional value of €772 thousand.

In the absence of transactions, the tables are not compiled:

2.2 Detail of item 20 "Financial liabilities held for trading": subordinated liabilities;
2.3 Detail of item 20 "Financial liabilities held for trading": structured debt.

## *Section 3 - Financial liabilities designated at fair value - Item 30*

In the absence of transactions, the following tables are not compiled:

3.1 Financial liabilities designated at fair value: commodities breakdown;
3.2 Detail of "Financial liabilities designated at fair value": subordinated liabilities.

## *Section 4 – Hedging derivatives - Item 40*

As at 31/12/2018, the Bank has no hedging derivatives as it had as at 31/12/2017. The following tables are therefore not compiled:

4.1 Hedging derivatives: breakdown by type of hedge and by hierarchical level;
4.2 Hedging derivatives: breakdown by portfolios hedged and by type of hedge.

## *Section 5 - Adjustment of the value of the financial liabilities subject to generic hedging - Item 50*

The Bank has no liabilities in place subject to generic hedging (macro hedging) from interest rate risk. The following tables are therefore not compiled:

5.1 Adjustment of the value of the financial liabilities hedged: breakdown by portfolios hedged.

## *Section 6 – Tax liabilities – Item 60*

See section 100 under assets

The breakdown, as well as changes in liabilities for current and deferred taxes, are illustrated in part B - Section 100 Assets of these Notes to the Financial Statements.

With reference to the tax situation of the Bank, it should be noted that the years up to 2013 are fiscally defined.

## *Section 7 - Liabilities associated with assets held for sale - Item 70*

As at the date of the financial statements, there are no liabilities associated with assets held for sale.

## *Section 8 – Other liabilities – Item 80*

### *8.1 Other liabilities: breakdown*

| Items | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| Tax deductions and contributions related to staff | 2,773 | |
| Amounts to be paid to staff and relative contributions | 3,811 | |
| Taxes to be paid to the tax authorities | 1,213 | |
| Taxes to be paid to the tax authorities on behalf of third parties | 3,101 | |
| Dividends not yet collected | 1 | |
| Transfers to be made | 16,802 | |
| Bancomat and Credit Card withdrawals | 331 | |
| Company to be incorporated for payment of share capital | 7 | |
| Payment for withdrawal, recalling effects and cheques and MAV collections | 1,291 | |
| Currency discrepancies on portfolio transactions | 41,888 | |
| Payables to suppliers | 6,616 | |
| Deferred income and accruals | 325 | |
| Charitable Fund | - | |
| Other items | 3,569 | |
| **Total** | **81,728** | |

In the "amounts to paid to staff, including related contributions", variable items are allocated, including contributions and accrued holidays, relating to the management of the staff.

The "currency discrepancies on portfolio transactions" represent the imbalance between the "debt adjustments" and "credit adjustments" of the portfolio except in good order and after collection, the detail of which is shown in the appropriate table of the Other Information in part B of this supplementary note.

# *Section 9 – Staff severance indemnity – Item 90*

## *9.1 Staff severance indemnity: annual changes*

| | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| **A. Opening balance** | **5,158** | |
| **B. Increases** | **1,740** | |
| B.1 Accrual for the year | 1,740 | |
| B.2 Other changes | - | |
| **C. Decreases** | **2,010** | |
| C.1 Payments made | 202 | |
| C.2 Other changes | 1,808 | |
| **D. Closing inventories** | **4,888** | |
| **Total** | **4,888** | |

In the "increase" on line provisions are entered the costs attributable to the valuation of the fund present in the company, to the fields of competence of the Treasury fund and the supplementary funds as well as the relative cost to the severance indemnity recognised directly in pay cheque. In other downward changes, the major items are represented by the amount repaid to the Treasury fund and the supplementary funds in addition to the changes of actuarial IAS (that have an impact on in equity reserves).

The consistency of the EWRS fund 31/12/2018 calculated in accordance with national legislation amounts to €4,640 thousand, €248 thousand lower than that of the Financial Statements; in 2017, the same was €4,754 thousand, down €404 thousand compared to the Financial Statements. The financial parameters used for the process of discounting, listed below are in fact substantially unchanged with respect to the last financial year.

IAS 19 "Employee Benefits" imposes to the recognition of actuarial changes offsetting the equity and can no longer be recorded in the income statement.
The actuary has done the calculation on the basis of the following financial assumptions:
- The annual rate of discounting 1.57% (determined, consistently with para. 83 of IAS 19, with reference to the curve of the average yields that springs from the IBOXX index Eurozone Corporates AA with duration 10+ detected 31/12/2018, rate considered as the best expression of yields of companies of prime quality),
- annual inflation rate 1.50%,
- annual severance indemnity increase rate TFR 2.625%

The actuarial change is shown in part "D - Overall profitability."

# *Section 10 – Provisions for risks and charges – Item 100*

## *6.5.10.1Provisions for risks and charges: breakdown*

| Items / values | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| 1. Funds for credit risk related to commitments and financial guarantees issued | 1,021 | |
| 2. Funds on other commitments and other guarantees issued | - | |
| 3. Provisions for company retirement benefits | - | |
| 4. Other provisions for risks and charges | 2,160 | |
| 4.1 legal and tax disputes | 2,124 | |
| 4.2 staff costs | - | |
| 4.3 other | 36 | |
| **Total** | **3,181** | |

## *10.2 Provisions for risks and charges: annual changes*

| | Funds on other commitments and other guarantees issued | Provisions for post-employment benefits | Other provisions for risks and charges | Total |
|---|---|---|---|---|
| **A. Opening balance** | - | - | 2,195 | 2,195 |
| **B. Increases** | **1,493** | **-** | **355** | **1,848** |
| B.1 Accrual for the year | - | - | - | - |
| B.2 Change due to the passage | - | - | - | - |
| of time | - | - | - | - |
| B.3 Changes due to changes | - | - | - | - |
| in the discount rate | - | - | - | - |
| B.4 Other changes | 1,493 | - | - | 1,493 |
| **C. Decreases** | **472** | **-** | **390** | **862** |
| C.1 Use during the year | 472 | - | 186 | 658 |
| C.2 Changes due to changes | - | - | - | - |
| in the discount rate | - | - | - | - |
| C.3 Other changes | - | - | 204 | 204 |
| **D. Closing inventories** | **1,021** | **-** | **2,160** | **3,181** |

It is pointed out that, at the time of first time adoption of the principle IFRS9, €899 thousand was transferred from the item "other liabilities" under the item "funds on other commitments and other guarantees issued", also by virtue of the new principle mentioned above; values were adjusted for a further €594 thousand.

### *10.3 Provisions for credit risk related to commitments and financial guarantees issued*

| | ***Provisions for credit risk related to commitments and financial guarantees issued*** | | | |
|---|---|---|---|---|
| | **First stage** | **Second stage** | **Third stage** | **Total** |
| 1, Commitments to disburse funds | 84 | 22 | - | 106 |
| 2. Financial Guarantees issued | 174 | 258 | 483 | 915 |
| **Total** | 258 | 280 | 483 | 1,021 |

### *10.4 Provisions on other commitments and other guarantees issued*
The Bank has not entered in the financial statements of other funds with this nature.

### *10.5 Retirement provisions to defined benefits*
The Bank has not entered in the financial statements funds with this nature.

### *10.6 Other provisions for risks and charges - other provisions*
The fund for litigation includes provisions in the event of disputes to claw back actions on overdue positions or already paid at loss or other disputes that arise in the course of the ordinary business. The Bank will make provisions for these reasons when, in agreement with its lawyers, considers it likely that should be made a payment and the amount thereof can be reasonably estimated.

## *Section 11 – Reimbursable assets - Item 120*
The Bank has not issued reimbursable assets. The related tables are not compiled.

## *Section 12 – Equity – Items 110, 130, 140, 150, 160, 170 and 180*

### *12.1 "Capital" and "Treasury shares": breakdown*

Share capital, fully paid and subscribed, is composed of 35,516,827 shares with a nominal €3.00 each for a total of €106,550 thousand.

## *12.2 Capital - Number of shares: Annual changes*

| Items/Types | Ordinary | Other |
|---|---|---|
| **A. Existing shares at the beginning of the financial year** | **35,516,827** | - |
| - Fully released | 35,516,827 | - |
| - Not entirely released | - | - |
| A.1 Treasury shares (-) | (961,555) | - |
| **A.2 Shares in circulation: opening inventory** | **34,555,272** | - |
| **B. Increases** | - | - |
| B.1 New issues | - | - |
| - payment: | - | - |
| - transactions of business combinations | - | - |
| - conversion of bonds | - | - |
| - exercise of warrants | - | - |
| - other | - | - |
| - free: | - | - |
| - in favour of employees | - | - |
| - in favour of directors | - | - |
| - other | - | - |
| B.2 Sale of treasury shares | - | - |
| B.3 Other changes | - | - |
| **C. Decreases** | **128,599** | - |
| C.1 Annulment | - | - |
| C.2 Purchase of treasury shares | 128,599 | - |
| C.3 Transfer transactions of enterprises | - | - |
| C.4 Other changes | - | - |
| **D. Shares in circulation: final inventories** | **34,426,673** | - |
| D.1 Treasury shares (+) | 1,090,154 | - |
| D.2 existing shares at the end of the financial year | 35,516,827 | - |
| - Fully released | 35,516,827 | - |
| - Not entirely released | - | - |

During the financial year, approximately 129,000 shares were purchased, bringing the total treasury shares in the portfolio to 1,090,000 for a countervalue of €8,840 thousand (item 170 "treasury shares" under liabilities).

## *12.3 Capital - Other information*

At the time, the following revaluation reserves were transferred to the share capital:
- Law 2-12-1975 no. 576 for €88,000, monetary revaluation reserve;
- Law 19-3- 1983 no. 72 for €2,067 thousand, monetary revaluation reserve;
- Law 30-12-1991 no. 413 for €1,375 thousand, monetary revaluation reserve;
- Italian Legislative Decree no. 38 28-2-2005, (application of IAS in Italy) for €7,955 thousand.

## *12.4 Profit reserves: other information*

Item 140, liabilities reflects negative reserves for €12,501 thousand: €9,409 thousand are negative profit reserves, while "Other reserves" records negative reserves by the merger of Credito Veronese for €3,092 thousand.
Further information on the changes can be found in the statement of changes in equity and in part F of these notes.
Pursuant to Article 2427, paragraph 7-bis of the Italian Civil Code, the breakdown of equity, according to the origin and the degree of availability and spreadability of the various items, is the following:

| Items | Amount | Possibility of use | Share Available | Tax constraint | Uses made during the three previous years | |
|---|---|---|---|---|---|---|
| | | | | | to hedge losses | For other reasons |
| **A) CAPITAL** | | | | | | |
| - Share Capital (1) | 106,550 | - | 90,531 | 16,019 | no use | no use |
| **B) CAPITAL RESERVE** | | | | | | no use |
| - Share premium reserve (2) | 230,299 | ABC | 230,299 | - | no use | no use |
| **C) PROFIT RESERVE** | | | | | | no use |
| - Legal reserve (3) | 24,195 | B | - | - | no use | no use |
| - Extraordinary reserve | 20,023 | ABC | 20,023 | - | no use | no use |
| - Reserve for the purchase of treasury | 12,014 | ABC | 3,174 | - | no use | no use |
| - Other reserves (6) | (65,641) | - | - | - | no use | no use |
| **(D) OTHER RESERVES** | | | | | no use | no use |
| - Differences due to merger | (3,092) | | | - | no use | no use |
| - Valuation reserves IAS (5) | 108 | AB | - | - | no use | no use |
| **E) TREASURY SHARES** | | | | | | |
| - Treasury shares | (8,840) | - | - | - | - | - |
| **TOTAL** | | | | | | |
| - Net profit for the year 2018 | 15,186 | - | - | - | - | - |
| **TOTAL ASSETS** | **330,802** | - | - | **-** | - | - |

Key:
A: for capital increase - B: to hedge losses - C: for distribution to Shareholders.
Notes:
1) The share capital is subject, in the case of distribution, to a tax constraints equal to the imputation of reserves of monetary revaluation for the period for €11,485 thousand as specified in point 12.3 in addition to €4,534 thousand equal to the difference between the amount stamped in 2013 of more values recognised for buildings of €5,398 thousand and the substitute tax of 16% €864 thousand.
2) On the basis of Article 2431 of the Italian Civil Code the "Reserve surcharge actions" can be entirely distributed being the legal reserve more than one fifth of the share capital, equal to €21,310 thousand.
3) On the basis of Article 24 of the TUB, Legislative Decree no. 385 of 01.09.1993, Volksbanken must allocate at least ten per cent of net annual profits to the legal reserve.
4) The reserve is available for excess with respect to the amount of own shares in portfolio, which are equal to €8,840 thousand as at 31/12/2018.
5) The reserve is unavailable pursuant to Article 6 of Legislative Decree No. 38/2005 (introduction of IAS accounting principles).
6) The entry is mainly composed of a negative reserve equal to €66,456 thousand recognised at the time of first time adoption of IFRS 9.

## *12.5 Capital instruments: Breakdown and annual changes*

The Bank has not issued equity instruments mentioned in paragraph 80.A and 136.A of IAS 1.

### 12.6 Other information

The Board of Directors proposes the allocation of a dividend of €0.15 per share for a total amount of €5,327 thousand.

# Other information

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

| | The nominal value on commitments and financial guarantees issued | | | TOTAL 31-12-2018 | TOTAL 31-12-2017 |
|---|---|---|---|---|---|
| | First stage | Second stage | Third stage | | |
| **Commitments to disburse funds** | **1,074,701** | **21,589** | **8,167** | **1,104,457** | |
| a) Central Banks | - | - | - | - | |
| b) Public Administrations | 4,183 | - | - | 4,183 | |
| c) Banks | 312 | - | - | 312 | |
| d) Other financial companies | 34,406 | - | - | 34,457 | |
| e) Non-financial companies | 973,266 | 15,552 | 7,918 | 996,736 | |
| f) Households | 62,534 | 5,986 | 249 | 68,769 | |
| **Financial Guarantees issued** | - | - | - | - | |
| a) Central Banks | - | - | - | - | |
| b) Public Administrations | 1,259 | - | - | 1,259 | |
| c) Banks | 135 | - | - | 135 | |
| d) Other financial companies | 402 | - | 98 | 500 | |
| e) Non-financial companies | 70,162 | 6,028 | 1,408 | 77,598 | |
| f) Households | 6,543 | 309 | 329 | 7,181 | |

## 3. Assets used to guarantee own liabilities and commitments

| Portfolios | Amount 31-12-2018 | Amount 31-12-2017 |
|---|---|---|
| 1. Financial assets valued at fair value with impact on the income statement. | - | |
| 2. Financial assets at *fair value* with impact on overall profitability | 85,691 | |
| 3. Financial assets valued at amortised cost | 843,338 | |
| 4) Tangible assets<br>of which: tangible assets which constitute inventories | - | |

The amounts mentioned above relate to property titles granted to third parties by way of a guarantee; each amount refers to the specific portfolio used.

## 4. Information on operational leasing

The Bank does not carry out leasing transactions.

## *5. Asset management and trading on behalf of third parties*

| | Amount |
|---|---|
| ***1, Execution of orders on behalf of customers*** | - |
| a) Purchases | - |
| 1. regulated | - |
| 2. unregulated | - |
| b) Sales | - |
| 1. regulated | - |
| 2. unregulated | - |
| ***2. Individual management of portfolios*** | - |
| ***3. Safekeeping and administration of securities*** | 9,406,993 |
| a) Deposit third-party securities: connected with the conduct of the custodian bank (excluding the management of portfolios) | - |
| 1. Securities issued by the bank drawn up by the financial statements | - |
| 2. other securities | - |
| b) deposit third-party securities (excluding portfolio management): Other | 1,323,397 |
| 1. Securities issued by the bank drawn up by the financial statements | 356,364 |
| 2. other securities | 967,033 |
| c) third-party securities deposited with third parties | 1,290,886 |
| d) property securities deposited with third parties | 6,792,710 |
| ***4) Other transactions*** | - |

## *6. Collection of debts on behalf of third parties: debt and credit adjustment*

The table provides details of the differences resulting from the elimination of the lots of assets relating to portfolio received except in good order and after collection with those of the liabilities relating to the originator with date Regulation subsequent to closing of the Financial Statements. In accordance with the Supervisory instructions, the financial statements must include, according to the value of the sign, under "other assets" or "other liabilities" only the imbalance of the lots relating to portfolio, indicating in the Notes, the individual components.
The imbalance between the sum of the "adjustment credits" constituted by the active batches for RI.BA, bills, r.i.d, etc. accepted except in good order and after collection by customers and banks and the sum of the "adjustments have" represented by liability lots of transferors, is equal to €35,838 thousand and is entered in item 80 "other liabilities" of liabilities.
Points a.1 and b.1 show the amount of the items, with date of regulation in the year 2019, made to the current accounts of correspondent banks during 2018 and relating to remittances of collection effects. These transactions were reversed from the individual accounts of relevance and charged to the original voices of portfolio effects (received at the collection by banks or effects sent to the bank proceeds).

| *Items* | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| a) "Debt" adjustments | **600,717** | 525,958 |
| 1, Current accounts | 39,356 | 7,159 |
| 2. Portfolio | 557,174 | 515,898 |
| 3. Cash | 417 | 544 |
| 4) Other Accounts | 3,770 | 2,357 |
| b) "Credit" adjustments | **636,555** | 541,926 |
| 1, Current accounts | 36,877 | 13,222 |
| 2. Transferor effects and documents | 595,573 | 524,933 |
| 3. Other Accounts | 4,105 | 3,771 |
| **Currency discrepancies on portfolio transactions** | **35,838** | **15,968** |

# Part C – Information on the income statement

## Section 1 – Interest - Items 10 and 20

The interest recognised in item "10. Interest receivable and similar income" include the accrued interest on financial instruments that are configured by loans and debt securities classified in item "20 Financial assets valued at fair value with impact on the income statement" of the assets; recognised are interests and the amount represented by the progressive release of discounting calculated at the time of registration of the value adjustment on financial instruments that are configured by loans and debt securities classified in item "30. Financial assets valued at fair value with impact on overall profitability" of the assets and recognised are interests and the amount represented by the progressive release of discounting calculated at the time of registration of the value adjustment on financial instruments that are configured by loans and debt securities classified in item "40. Financial assets valued at amortised cost" of equity assets.

Whilst in the income statement under item "20. Interest payable and similar charges" the interest on financial instruments included in the item "10. Financial assets valued at amortised cost" is recorded.

### 1.1 Interest receivable and similar income: breakdown

| Items / technical forms | Debt instruments | Loans | Other transactions | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|---|---|---|
| 1. Financial assets valued at *fair value* with impact on the income statement: | **3,111** | **-** | **-** | **3,111** | |
| 1.1 Financial assets held for trading | **-** | **-** | **-** | **-** | |
| 1.2 Financial assets designated at fair value | **-** | **-** | **-** | **-** | |
| 1.3 Other financial assets compulsorily valued at fair value | 3,111 | **-** | **-** | 3,111 | |
| 2. Financial assets valued at fair value *with impact on overall profitability* | **2,193** | **-** | **-** | **2,193** | |
| 3. Financial assets valued at amortised cost: | **6,004** | **79,237** | **-** | **85,241** | |
| 3.1 Receivables from banks | 47 | 547 | **-** | 594 | |
| 3.2 Receivables from customers | 5,957 | 78,690 | **-** | 84,647 | |
| 4) Hedging derivatives | **-** | **-** | **3** | **3** | |
| 5. Other assets | **-** | **-** | **117** | **117** | |
| 6. Financial liabilities | **-** | **-** | **-** | **3,669** | |
| **Total** | **11,308** | **79,237** | **120** | **94,334** | |
| of which: interest receivable on impaired assets | - | 12,340 | - | 12,340 | |

In the subitem 3.1 "Receivables from banks" the following are included:

| Interest receivable on receivables from banks for: | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| - deposit bound to minimum reserves | - | |
| - current accounts for services rendered | 13 | |
| - deposits and PcT assets | 534 | |
| - issuance of cheques | - | |
| - debt securities | 47 | |
| **Total** | **594** | |

In the subitem 3.2 "Receivables from customers" the following are included:

| Interest receivables on receivables from customers for: | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| - current accounts | 24,413 | |
| - mortgage loans | 27,940 | |
| - Import export advances | 1,526 | |
| - other credit transactions | 17,094 | |
| - default interest collected | 2,417 | |
| - return of impaired discount rate | 5,300 | |
| - securities entered under receivables from customers | 5,957 | |
| **Total** | **84,647** | |

In subitem 6."Financial liabilities" are entered as provided for by the legislation, the interests negative on harvesting transactions maintained with some institutional intermediaries (ECB for TLTRO II funding, Cash, Compensation and Guarantee for the interbank market NewMic and banks for transactions of liability PCT).

On non-performing positions in the year interest on arrears is accrued for €646 thousand, integrally devalued, whilst item 10 recognises only interest collected for €1,752 thousand. For the other positions in the state of performing and impaired other than non-performing, entered in the income statement were interests on arrears totalling €665,000; moreover, as a result of the 5th update of Circular 262/2005 interest assets as at 31 December 2018 include €5,300 thousand of interest commensurate to the passage of time in the framework of the valuation of impaired loans (return of the discount).
For positions that were in a state of impaired as at 31/12/2018 included in the consolidated income statement are interests other than those of default, accrued throughout the year, for €4,623 thousand, thus determined:
- Overdue €839 thousand;
- Non-payments likely €3,430 thousand;
- Bad debts €354 thousand.

## *1.2 Interest receivable and similar income: other information*

### *1.2.1 Interest receivable on financial assets in foreign currency*

| Interest receivables on receivables from customers for: | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| Interest receivable on financial assets in foreign currency | 867 | |

### *1.2.2 Interest receivables on financial leasing transactions*

The Bank has not recorded, as at 31/12/2018, Interest receivables on financial leasing transactions.

## *1.3 Interest payable and similar charges: breakdown*

| Items / technical forms | Payables | Securities | Other transactions | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|---|---|---|
| 1. Financial liabilities valued at amortised cost | **(11,091)** | **(12,188)** | - | **(23,279)** | |
| 1.1 Payables to central banks | - | - | - | **-** | |
| 1.2 Payables to banks | (9) | - | - | (9) | |
| 1.3 Payable to customers | (11,082) | - | - | (11,082) | |
| 1.4 Outstanding securities | - | (12,188) | - | (12,188) | |
| 2. Financial liabilities held for trading | - | - | - | - | |
| 3. Financial liabilities designated at fair value | - | - | - | - | |
| 4. Other liabilities and funds | - | - | - | - | |
| 5. Hedging derivatives | - | - | - | - | |
| 6. Financial assets | - | - | - | **(27)** | |
| **Total** | **(11,091)** | **(12,188)** | **-** | **(23,306)** | |

In the subitem 1.2. "Payables to banks", column "Payables", the following are included:

| Interest expense for payables to banks: | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| - current accounts | (2) | |
| - currency deposits | (2) | |
| - loans received | (5) | |
| **Total** | **(9)** | |

In the subitem 1.3. "Payables to Customers", column "Payables" the following are included:

| Interest expense on payables to customers: | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| - current accounts | (6,302) | |
| - savings deposits and time deposit | (4,689) | |
| - repo transactions | - | |
| - NewMIC market loans | - | |
| - deposits and currency accounts | (91) | |
| **Total** | **(11,082)** | |

In the subitem 1.4 "Securities in circulation", the amount of €12,188 thousand comprises interest on bonds issued for €11,570 thousand and interest on certificates of deposit for €618 thousand.

## *1.4 Interest expense and similar charges: other information*

### *1.4.1 Interest expense on liabilities in foreign currency*

| *Items / values* | Total 31 -12 -2018- | Total 31-12-2017 |
|---|---|---|
| Interest expense on liabilities in foreign currency | (93) | |

### *1.4.2 Interest expense on financial leasing transactions*

The Bank has not recorded, as at 31/12/2018, Interest receivables on financial leasing transactions.

# *Section 2 – Commissions – Items 40 and 50*

These items include income and charges relating to the services that the Bank lends to its customers and to those received from third parties. Not included in these entries are the recoveries of expenditure classified under other operating income.

## *2.1 Commissions income: breakdown*

| Type of service/Value | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| a) issued guarantees | 982 | |
| b) credit derivatives | - | |
| c) management, brokerage and consulting services: | 14,548 | |
| 1. trading of financial instruments | - | |
| 2. currency trading | 456 | |
| 3. individual management of portfolios | - | |
| 4. safekeeping and administration of securities | 249 | |
| 5. depositary bank | - | |
| 6. placing of securities | 6,345 | |
| 7. receipt and transmission of orders | 862 | |
| 8. consultancy activities | 93 | |
| 8.1. in terms of investments | 93 | |
| 8.2 in terms of financial structure | - | |
| 9. distribution of third-party services: | 6,543 | |
| 9.1. portfolio management | - | |
| 9.1.1. individual | - | |
| 9.1.2. collective | - | |
| 9.2. insurance products | 6,320 | |
| 9.3. other Products | 223 | |
| d) collection and payment services | 6,205 | |
| e) servicing services for securitisation transactions | 480 | |
| f) services for factoring transactions | - | |
| g) collection and lottery exercise | - | |
| h) multilateral trading facilities management | - | |
| i) keeping and management of current accounts | 8,541 | |
| j) other services | 5,629 | |

| | | |
|---|---|---|
| Total | 36,385 | |

In the item j) other services commissions relating to credit cards, use ATM/POS and fees related to funding and related services to current accounts are included.

## *2.2 Commissions income: distribution channels of products and services*

| Channels/Values | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| **a) at own branches:** | **12,888** | |
| 1. portfolio management | - | |
| 2. placing of securities | 6,345 | |
| 3. third-party services and products | 6,543 | |
| **b) off-site offer:** | - | |
| 1. portfolio management | - | |
| 2. placing of securities | - | |
| 3. third-party services and products | - | |
| **c) other distribution channels:** | - | |
| 1. portfolio management | - | |
| 2. placing of securities | - | |
| 3. third-party services and products | - | |

## *2.3 Commissions expense: breakdown*

| Services/Values | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| a) guarantees received | (50) | |
| b) credit derivatives | - | |
| c) management and brokerage services: | (1,084) | |
| 1. trading of financial instruments | - | |
| 2. currency trading | - | |
| 3. portfolio management | (947) | |
| 3.1 own | (947) | |
| 3.2 delegated by third parties | - | |
| 4. safekeeping and administration of securities | (137) | |
| 5. placement of financial instruments | - | |
| 6. off-site offer of financial instruments, products and services | - | |
| d) collection and payment services | (1,416) | |
| e) other services | (2,504) | |
| **Total** | **(5,054)** | |

In the “management and brokerage services – proprietary portfolio management” the fees payable due to the managers of the proprietary UCIs portfolio.

# *Section 3 - Dividends and similar income - Item 70*

## *3.1 - Dividends and similar income: composition*

| Items/Income | Total 31-12-2018 | | Total 31-12-2017 | |
|---|---|---|---|---|
| | Dividends | Similar Income | Dividends | Similar Income |
| A. Financial assets held for trading | - | - | | |
| B. financial assets compulsorily valued at fair value | 319 | 63 | | |
| C. Financial assets valued at fair value *with impact on overall profitability* | 1,083 | - | | |
| D. Equity investments | 45 | - | | |
| **Total** | **1,447** | **63** | | |

Mainly concerns dividends collected on equity securities recorded in the portfolio under “Financial assets valued at fair value with an impact on comprehensive income”.

## *Section 4 – Net trading income – Item 80*

The item includes:

a) the balance between the profits and losses of the transactions classified in "Financial assets held for trading" and in "Financial liabilities held for trading", including the results of the valuations of these transactions;

b) the balance between the profits and losses of the financial transactions, other than those designated at fair value through profit or loss and from those of hedging, denominated in foreign currencies, including the results of the valuations of these transactions.

### *4.1 Net trading income: breakdown*

| **Transactions / income items** | **Capital gains (A)** | **Profits from trading (B)** | **Capital losses (C)** | **Losses from trading (D)** | **Net result [ (A+B) - (C+D)]** |
|---|---|---|---|---|---|
| **1. Financial assets from trading** | **-** | **557** | **-** | **(8)** | **549** |
| 1.1 Debt instruments | - | 1 | - | (1) | - |
| 1.2 Equity securities | - | - | - | - | - |
| 1.3 O.I.C.R. shares | - | - | - | - | - |
| 1.4 Loans | - | - | - | - | - |
| 1.5 Other | - | 556 | - | (7) | **548** |
| **2. Financial liabilities from trading** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Debt instruments | - | - | - | - | **-** |
| 2.2 Payables | - | - | - | - | **-** |
| 2.3 Other | - | - | - | - | **-** |
| **3. Financial assets and liabilities: exchange rate differences** | - | - | - | - | **202** |
| **4. Derivative instruments** | **-** | **-** | **-** | **-** | **-** |
| 4.1 Financial derivatives: | - | - | - | - | **-** |
| - On debt instruments and interest rates | - | - | - | - | - |
| - On equity instruments and share indices | - | - | - | - | - |
| - On currency and gold | - | - | - | - | - |
| - Other | - | - | - | - | - |
| 4.2 Credit derivatives | - | - | - | - | - |
| *of which: natural hedges connected with the* fair value option | - | - | - | - | - |
| **Total** | **-** | **557** | **-** | **(8)** | **751** |

The subitem "1.5 Financial assets from trading: Other" includes gains and losses resulting from the trading of currencies.

# *Section 5 – Net profit (loss) from hedging – Item 90*

### *5.1 Net profit (loss) from hedging: hedging*

In recent years, the Bank has not carried out any hedging transactions; the table belonging to the section is therefore not completed.

# Section 6 – Profit (loss) from sale/repurchase – Item 100

This section indicates the positive or negative balances of profit and losses realised with the sale of financial assets or liabilities other than those from trading and those designated at fair value.

## *6.1 Profit (losses) from sale/repurchase: breakdown*

| Items/Income items | Total 31-12-2018 | | | Total 31-12-2017 | | |
|---|---|---|---|---|---|---|
| | Profit | Losses | Net result | Profit | Losses | Net result |
| **A. Financial assets** | | | | | | |
| **1, Financial assets valued at amortised cost:** | **5,684** | **(5,640)** | **44** | | | |
| 1.1 Receivables from banks | - | - | - | | | |
| 1.2 Receivables from customers | 5,684 | (5,640) | 44 | | | |
| **2. Financial assets valued at fair value with impact on overall profitability** | **6,414** | **(24)** | **6,390** | | | |
| 2.1 Debt instruments | 6,414 | (24) | 6,390 | | | |
| 2.2 Loans | - | - | - | | | |
| **Total assets (A)** | **12,098** | **(5,664)** | **6,434** | | | |
| **B. Financial liabilities valued at amortised cost** | | | | | | |
| 4. Amounts due to banks | - | - | - | | | |
| 4. Amounts due to customers | - | - | - | | | |
| 4. Outstanding securities | 30 | (228) | (198) | | | |
| **Total liabilities (B)** | **30** | **(228)** | **(198)** | | | |

The overall positive result of the sale/repurchase amounts to €6,236 thousand compared with €13,907 thousand in 2017.

It consists, for €44 thousand, of the net profit recorded on the disposal of certain financial assets carried at amortised cost (net result achieved as a result of losses on sale loans equal to €2,022 million and earnings from the sale debt securities to customers at amortised cost for €2,066 million), to €6,390 thousand from the total profit resulting from the sale of securities in the portfolio of financial assets at fair value with impact on overall profitability, in prevalence State bonds, and €198 thousand from the losses on the repurchase of our bonds at a price on average higher than that of accounting entry at amortised cost.

# *Section 7 - Profit (loss) of financial assets and liabilities valued at fair value - Item 110*

The section recognises the amount resulting from the valuation of financial assets at fair value held by the Bank and classified in item 20b and 20c under assets.

## *7.1 Net change in the value of other financial assets and liabilities are valued at fair value with impact on the income statement: breakdown of financial assets and financial liabilities designated at fair value*

In the course of the financial year 2016 insurance policies for the total amount of €9 million were taken out; the difference in valuation between 31/12/2018 and the previous financial year shall be entered in this item of the income statement.

| Transactions / income items | Capital gains (A) | Profits from realisation (B) | Capital losses (C) | Losses from realisation (D) | Net result[ (A+B) - (C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets** | **197** | - | - | - | **197** |
| 1.1 Debt instruments | - | - | - | - | - |
| 1.2 Loans | 197 | - | - | - | **197** |
| **2. Financial liabilities** | - | - | - | - | - |
| 2.1 Outstanding securities | - | - | - | - | |
| 2.2 Payables to banks | - | - | - | - | |
| 2.3 Payable to customers | - | - | - | - | |
| **3. Financial assets and liabilities in foreign currency: exchange rate differences** | - | - | - | - | - |
| **Total** | **197** | **-** | **-** | **-** | **-** |

## *7.2 Net change in the value of other financial assets and liabilities are valued at fair value with impact on the income statement: breakdown of other financial assets must be valued at fair value*

| Transactions / income items | Capital gains (A) | Profits from realisation (B) | Capital losses (C) | Losses from realisation (D) | Net result[ (A+B) - (C+D)] |
|---|---|---|---|---|---|
| **3. Financial assets** | **149** | **1,538** | **(6,188)** | **(1,215)** | **(5,716)** |
| 1.1 Debt instruments | - | 79 | (49) | (83) | (52) |
| 1.2 Equity instruments | 82 | 224 | (240) | (455) | (388) |
| 1.3 O.I.C.R. shares | 67 | 1,235 | (5,899) | (677) | (5,275) |
| 1.4 Loans | - | - | - | - | - |
| **2. Financial assets in foreign currency: exchange rate differences** | - | - | - | - | 166 |
| **Total** | **149** | **1,538** | **(6,188)** | **(1,215)** | **(5,550)** |

The net result arising from the transactions for the purchase and the valuation of the securities included in the portfolio of financial assets must be valued at fair value is 31/12/2018 -€5.5 million compared to -€7.3 million in 2017.

## *Section 8 - Adjustments/write-backs of net value due to credit risk - Item 130*

Reported here are the balances of value adjustments and the write-backs associated with the impairment of financial assets valued at amortised cost and to FVOCI.

### *8.1 Adjustments of net value due to credit risk associated with financial assets valued at amortised cost: breakdown*

The breakdown of net value adjustments due to impairment of credits is as follows:

| Transactions/Income items | Value adjustments (1) | | | Write-backs (2) | | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|---|---|---|---|---|
| | First and second stage | Third stage | | First and second stage | Third stage | | |
| | | Write-off | Other | | | | |
| **A Receivables from banks** | **(28)** | **-** | **-** | **153** | **-** | **125** | |
| - loans | (28) | - | - | - | - | (28) | |
| - debt securities | - | - | - | 153 | | 153 | |
| of which: impaired acquired or originated loans | - | - | - | - | - | - | |
| **B. Receivables from customers** | **(1,970)** | **(4,217)** | **(23,616)** | **588** | **14,894** | **(14,321)** | |
| - loans | (386) | (4,217) | (23,616) | 588 | 14,894 | (12,737) | |
| - debt securities | (1,584) | - | - | - | - | (1,584) | |
| of which: impaired acquired or originated loans | - | - | - | - | - | - | |
| **Total** | **(1,998)** | **(4,217)** | **(23,616)** | **741** | **14,894** | **(14,196)** | |

**Notes:**

*The column "first and second stage" recognises adjustments /write-back pertaining to performing financial assets, whilst column "Third stage" recognises the write-backs/impairment losses relating to impaired financial assets.*

Value adjustments in correspondence of the column "first and second stage" are those pertaining to the year and mainly derive from lump-sum writedowns applied to credits for funding from banks for €28,000, from the adjustment for impairment by creditworthiness of the debt securities to customers at amortised cost for €1,584 thousand, as foreseen by the new IFRS 9, and losses on loans for financing to customers for €386 thousand.

Value adjustments, in correspondence with the column "Write-off", are those pertaining to the year that derive from extinctive events while those in correspondence of the column "Other" correspond to the amount charged to the income statement as a result of writedowns analytical of impaired loans, adjustments inclusive of the effect of discounting future cash flows of cash estimated that feed the specific write-down funds.

Value adjustments, in correspondence with the column "Write-off", are those pertaining to the year that derive from extinctive events while those in correspondence of the column "Other" correspond to the amount charged to the income statement as a result of writedowns analytical of impaired loans, adjustments inclusive of the effect of discounting future cash flows of cash estimated that feed the specific write-down funds.
The write-backs in correspondence with the column "Third stage", are those pertaining to the year and mainly derive from write-backs applied to loans for financing to customers.

### *8.2 Adjustments of net value due to credit risk associated with financial assets valued at fair value with impact on overall profitability: breakdown*

| **Transactions/Income items** | **Value adjustments (1)** | | | **Write-backs (2)** | | **Total 31-12-2018** | **Total 31-12-2017** |
|---|---|---|---|---|---|---|---|
| | **First and second stage** | **Third stage** | | **First and second stage** | **Third stage** | | |
| | | **Write-off** | **Other** | | | | |
| **A Debt instruments** | (79) | - | - | - | - | **(79)** | |
| **B. Loans** | - | - | - | - | - | - | |
| - From customers | - | - | - | - | - | - | |
| - From banks | - | - | - | - | - | - | |
| of which: impaired financial assets acquired or originated | - | - | - | - | - | - | |
| **Total** | (79) | - | - | - | - | **(79)** | |

***Key***
A = From interest B = Other write-backs

The amount equal to €79 thousand refers to the adjustment due impairment from creditworthiness of FVOCI debt securities.

## *Section 9 – Profit/loss from contractual changes without write-offs - Item 140*

### *9.1 Profit(loss) from contractual changes: breakdown*

Item 140, which, as at 31/12/2018 shows a loss of €248 thousand, provided for by the introduction of the new accounting standard IFRS 9, highlights the difference between the carrying value and the present value of the cash flows changed and discounted at the original interest rate.

# *Section 10 - Administrative expense – Item 160*

This section details the "Staff costs" and "other administrative expenses" recorded in the year.

## *10.1 Staff Costs: breakdown*

| Type of expense/Value | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| 1) Employees | **(41,110)** | |
| a) wages and salaries | (28,986) | |
| b) national insurance costs | (7,837) | |
| c) severance indemnity | (484) | |
| d) pension and similar costs | - | |
| e) accruals to the provision for severance indemnity | (92) | |
| f) accruals to the provision for pensions and similar costs: | - | |
| - for defined contributions | - | |
| - for defined benefits | - | |
| g) payments to external pension funds: | (2,280) | |
| - for defined contributions | (2,280) | |
| - for defined benefits | - | |
| h) costs resulting from share-based payments | - | |
| i) other employee benefits | (1,431) | |
| 2) Other staff | (407) | |
| 3) Directors and statutory auditors | (951) | |
| 4) Retired staff | - | |
| 5) Recovery of expenses for employees seconded to other companies | - | |
| 6) Reimbursement of expenses for employees of third Parties seconded to the company | - | |
| **Total** | **(42,468)** | |

The total amount of staff costs as at 31/12/2018 equal to €42,468 thousand is increased compared to 2017 (€36,421 thousand) in correlation to wage dynamics and the contractual shots, as well as to the change in the workforce.
At the end of 2018, the corporate workforce reached the total number of 596 units, versus the 561 units at the end of 2017 and, therefore, with a net increase of 35 resources. Specifically, 54 hires and 19 terminations were recorded. This necessary reinforcement in the workforce available enables a comparison with the demands of a sales network of 70 branches and central structures that are particularly specialised and efficient.

The subitem “c) severance pay" includes amounts allocated to the INPS Treasury Fund, in application of the provisions introduced by the social security reform referred to in Legislative Decree No. 252/2005 and Law n. 296/2006, as well as the sums on a monthly pay cheque to employees who have opted for this alternative introduced by Law 190/2014.
The subitem "e) provision for severance indemnity - employees" includes the revaluation of the severance indemnity that remained in the company (EWRS fund) and the non-actuarial component of the IAS valuations.

The subitem g) comprises the quotas relating to additional treatment of pension paid by the Bank to the supplementary funds in via mandatory (quotas relating to the severance indemnity) and optional.

Subitem 2) "other staff", equal to €407 thousand, includes the expenses relating to atypical work contracts, including those for contracts of "temporary work for €295 thousand.

Item 3) "Directors and Auditors" comprises:
- the remuneration, gross of tax and contributions, to the Board of Statutory Auditors for €251 thousand;
- the remuneration, inclusive of VAT and contributions where due, to the members of the board of directors for €700,000.

## *10.2 Average number of employees by category*

| | Items | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|---|
| ° | **Employees:** | **556** | |
| | a) managers | 9 | |
| | b) middle managers | 234 | |
| | c) remaining employees | 313 | |
| ° | **Other staff** | **16** | |

The precise number of employees at the end of the year is the following:

| Precise number of employees | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| Employees | 585 | |
| of which part time | 18 | |
| supplied | 11 | |
| Other staff | 12 | |

It should be noted that the precise number is indicated without a 50% weighting of employees who are not full-time.
Other staff includes 10 directors plus 2 external collaborators.

## *10.3 Company retirement provisions with defined benefits: revenues and costs*

There are no company retirement provisions with defined benefits.

## *10.4 Other employee benefits*

The item includes various charges, as detailed below:

| *Type of expense / value* | Total 31-12-2017 | Total 31-12-2017 |
|---|---|---|
| Luncheon vouchers | 662 | |
| Insurance premiums | 490 | |
| Training expenses | 164 | |
| Early resignation incentive | 69 | |
| Other | 46 | |

| | | |
|---|---|---|
| **Total** | **1,431** | |

### *10.5 Other administrative expenses: breakdown*

Administrative expenses other than staff costs totalled, at the end of the financial year, €40,490 thousand; the table below shows the comparison with the previous period:

| Type of expense/Value | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| Contributions to the resolution fund and to the deposit guarantee system | (3,392) | |
| Telephone, post and data transmission costs | (1,932) | |
| Maintenance expenditure on tangible assets | (1,887) | |
| Rent expense on real estate | (2,314) | |
| Costs of supervision, transport and storage of valuables | (872) | |
| Shipping costs | (284) | |
| Valuations and real estate acts | (293) | |
| Regulatory and procedural advice | (1,088) | |
| Services and other consulting | (679) | |
| Costs for the supply of material for office use | (517) | |
| Expenses for electricity and heating | (701) | |
| Advertising and promotion expenses | (1,236) | |
| Legal fees | (2,416) | |
| Insurance premiums | (3,074) | |
| Expenditure on information and printouts | (2,438) | |
| Data processing centre | (6,154) | |
| Indirect taxes and duties | (7,506) | |
| Cleaning costs | (612) | |
| Annual subscriptions | (563) | |
| Contributions for treasury service and various associations | (16) | |
| Processing bills, cheques and documents from third parties | (469) | |
| Condominium costs and maintenance of properties for rent | (101) | |
| Subscriptions and advertisements in newspapers and magazines | (207) | |
| Purchase of promotional materials | (136) | |
| Cost of the service for contracts of administration | (25) | |
| Expenses for travel and transfer of staff in service | (467) | |
| Securitisation administrative expenses | (652) | |
| Various minors and expenditure for meetings | (459) | |
| **Total** | **(40,490)** | |

Administrative expenditure, analytically detailed in Table, amounted to €40.5 million with an increase of €3.8 million compared to the previous year equal to €36.7 million.

In particular, the increase is due for €1,035 thousand to compulsory contributions to funds for a resolution and a guarantee of depositors, for €339 thousand legal costs, for €569 thousand to expenditure relating to new securitisation transactions carried out in 2018 and for insurance

premiums for €768 thousand; the increase in the cost of the latter still find positive reply in active committees.
In the breakdown of the administrative expenditure is also the item of "indirect tax and tax", an item that includes, in addition to stamp duty paid for the account of clients, other tax are the responsibility of the Bank such as Imu, Tasi, Tari, municipal tax, stamp duties and various connected with the activity of credit recovery. The prevailing amount relates to stamp duty (€6,559 thousand versus €6,424 thousand in 2017). The amount of the related recovery is entered under the item "200 Other income and expenses".

## *Section 11 – Net provisions for risks and charges - Item 170*

The present item figure the balance, positive or negative, between accruals and any reallocations in the income statement of funds deemed exuberant, with regard to the funds referred to in subitem a) "commitments and guarantees issued" and (c) 'Other provisions for risks and charges" of item 100 "Provisions for risks and charges" of the liability side of the balance sheet.

### *11.1 - Net provisions for credit risk related to commitments to deliver funds and financial guarantees issued: breakdown*

| Items | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| Analytical writedowns for endorsement credits | (73) | |
| Guarantees issued and commitments | 24 | |
| Revaluation endorsement credits for collective | 520 | |
| **Total** | **471** | |

### *11.2 - Net Provisions relating to other commitments and other guarantees issued: breakdown*

The Bank has not recorded, as at 31/12/2018, provisions for other commitments and other guarantees issued.

### *11.3 - Net provisions to other provisions for risks and charges: breakdown*

| Items | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| The provision for legal disputes, anatocism and securities as well as for bankruptcy rescission actions | (355) | |
| Re-entry in the income statement due to definition of disputes arising in the course of the ordinary activities | 204 | |
| **Total** | **(151)** | |

## *Section 12 – Net value adjustments/write-backs on property, plant and equipment – Item 180*

The section shows the balance between value adjustments and value write-backs relating to tangible assets held for functional use, including those relating to assets acquired in leasing.

### 12.1 – Net value adjustments on property, plant and equipment

| Asset/Income item | Amortisation (a) | Impairment value adjustments (b) | Write-backs (c) | Net result (a + b - c) |
|---|---|---|---|---|
| **A. Tangible assets** | | | | |
| A.1 Owned assets | (1,899) | - | - | (1,899) |
| - For functional use | (1,899) | - | - | (1,899) |
| - For investment | - | - | - | - |
| - Inventories | - | - | - | - |
| A.2 Purchased through finance leases | - | - | - | - |
| - For functional use | - | - | - | - |
| - For investment | - | - | - | - |
| **Total** | **(1,899)** | **-** | **-** | **(1,899)** |

Depreciation pertaining to financial year 2018 totalled €1,899 thousand. Reference is also made the table 8.6 of Section 8 of the balance sheet - Assets "Tangible Assets".

Specifically, depreciation is divided as follows:
• on buildings €760 thousand;
• on furniture and fittings €216 thousand;
• on Electronic Systems €207 thousand;
• on the remaining assets €716 thousand.
As at 31/12/2018, there are no assets classified as held for sale in accordance with IFRS 5.

## Section 13 – Net value adjustments/write-backs on intangible assets – Item 190

The section shows the balance between value adjustments and write-back relating to intangible assets other than goodwill, including those relating to the assets acquired in leasing and assets granted in operating leases.

### 13.1 – Net value adjustments on intangible assets – breakdown

| Asset/Income item | Amortisation (a) | Impairment value adjustments (b) | Write-backs (c) | Net result (a + b - c) |
|---|---|---|---|---|
| **A. Intangible fixed assets** | | | | |
| A.1 Owned assets | (919) | - | - | (919) |
| - Generated internally by the company | - | - | - | - |
| - Other | (919) | - | - | (919) |
| A.2 Purchased through finance leases | - | - | - | - |
| **Total** | **(919)** | **-** | **-** | **(919)** |

Value adjustments relate to the amortisation of intangible assets with a defined useful life and acquired externally.
Intangible assets are better described in Section 9 of the Balance Sheet - Assets "Intangible assets" of these notes.

## Section 14 - Other operating income and expense - Item 200

This item includes costs and income not attributable to the other items that make up item 280, "Profit (Loss) from continuing transactions after tax".

### 14.1 Other operating expenses: breakdown

Below provides the breakdown of other operating charges.

| Type of expense / value | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| Contingent liabilities | (215) | |
| Costs for improvements and third-party goods expenses | (253) | |
| Other | (62) | |
| **Total** | **(530)** | |

In the item "costs for improvements and expenditure on goods of third parties" are entered depreciation of improvements to goods of third parties, in particular structural works necessary for setting up branches in the lease.
The item "Other" is substantially composed of expenditure for legal transactions and similar pertaining to the year.

### *14.2 Other operating income: breakdown*

Below provides the breakdown of other operating income.

| Type of expense / value | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| Active rentals on buildings | (77) | |
| Recovery imposed by customers | (6,531) | |
| Recovery of insurance premiums from customers | (1,094) | |
| Recovery of expenses on deposits and current accounts | (79) | |
| Services provided to other group companies | (20) | |
| Recoveries on legal expenses | (2,057) | |
| Contingent assets | (111) | |
| Fast investigation commissions | (1,396) | |
| Recovery of auto expenses | (1) | |
| **Total** | **(11,366)** | |

The recovery of taxes and charges for €6,531 thousand concerns the stamp duty on current accounts and deposits of securities; such recovery is related to the amount entered in the administrative expenditure (see table "10.5 Other administrative expenditure").
In the item "Recovery of legal expenses" are entered recoveries relating to legal expenses relating to specific activities of recovery toward the positions to suffering and charged back to the same (both expenditure for professional advice that for tax).
The Committees of Inquiry Fast are classified here as required by the legislation of the financial statements of the Banca d'Italia.
Services rendered to the companies of the group are constituted by the services provided to Valsabbina Real Estate S.r.l.

## *Section 15 – Profit (loss) from investments - Item 220*

### *15.1 Profit (Loss) from investments: breakdown*

| Income item/ Values | Total 31-12-2018 | Total 31-12-2018 |
|---|---|---|
| **A. Proceeds** | - | |
| 2. Revaluations | - | |
| 2. Gains on disposal | - | |
| 2. Write-backs | - | |
| 2. Other income | - | |
| **B. Charges** | **(340)** | |
| 1. Write-downs | (340) | |
| 2. Impairment value adjustments | - | |
| 3. Losses from sales | - | |
| 4. Other charges | - | |
| **Net result** | **(340)** | |

The item includes value adjustments made on the shareholding in the subsidiary Valsabbina Real Estate S.r.l. (€340 thousand).

## *Section 16 - Net result of the fair value valuation of tangible and intangible assets - Item 230*

The section is not compiled as this did not apply during the year in question under these items.

## *Section 17 - Goodwill value adjustments - Item 240*

The section is not compiled as this did not apply during the year in question under these items.

## *Section 18 – Profit (Loss) on disposal of investments - Item 250*

### *18.1 Profit (loss) on disposal of investments: breakdown*

| Income item/Values | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| **A. Real Estate** | (7) | |
| - Gains on disposal | - | |
| - Losses on disposal | (7) | |
| **B. Other assets** | (15) | |
| - Gains on disposal | 1 | |
| - Losses on disposal | (16) | |
| **Net result** | **(22)** | |

## *Section 19 - Income tax on continuing transactions - Item 270*

This item includes the tax burden - equal to the balance between current taxes and deferred tax - relative to the income of the year.

### *19.1 Income tax on continuing transactions: breakdown*

Below is a breakdown of pre-paid tax recognised during the year:

Current taxes were recognised on the basis of the tax legislation and the tax rates in force (27.50 % for IRES, 5.57 % for IRAP); these taxes are calculated on the basis of the taxable amount of tax pertaining to the year.

| | Income items/Values | Total 31-12-2018 | Total 31-12-2018 |
|---|---|---|---|
| 1. | Current taxes (-) | (1,061) | |
| 2. | Changes in current taxes of previous years (+/-) | - | |
| 3. | Reduction of current taxes for the year (+) | - | |
| 3.bis | Reduction in current taxes the year for tax credits under Italian Law 214/2011 (+) | - | |
| 4. | Changes in pre-paid taxes (+/-) | 327 | |
| 5. | Changes in deferred taxes (+/-) | (79) | |
| 6. | Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5) | **(813)** | |

Current tax impact on the income statement for a total of €1,061 thousand. Taxes therefore assume overall negative sign (COST) in accordance with the positive result gross.

## *19.2 Reconciliation of theoretical tax charge to actual tax charge*

In the prospectus that follows is put in evidence the reconciliation the effective tax burden (5.08%, with negative sign) with respect to the theoretical calculated on the net profit from continuing transactions before tax (item 270 of the income statement).

| Corporate Tax | Taxable | Ires 27.5% | % Incidence |
|---|---|---|---|
| | | | |
| **Earnings before tax (theoretical tax)** | **15,999** | **(4,400)** | **(27.50%)** |
| **Permanent increases** | | | |
| - non-deductibility devaluation of real estate securities | 340 | (94) | (0.58%) |
| - other non-deductible charges | 1,434 | (394) | (2.47%) |
| **Permanent decreases** | | | |
| - dividends | (728) | 200 | 1.25%. |
| - increase in assets (a.c.e.) | (1,368) | 376 | 2.35%. |
| - deductions from the sale of equity investments in pex | (13,108) | 3,605 | 22.53%. |
| - other changes | (150) | 41 | 0.26%. |
| **Actual IRES tax charge** | **-** | **(665)** | **(4.16%)** |
| | | | |
| **IRAP [Regional Income Tax]** | **Taxable** | **IRAP 5.56%** | **% Incidence** |
| | | | |
| **Earnings before tax (theoretical tax)** | **15,999** | **(890)** | **(5.56%)** |
| **Permanent increases** | | | |
| - other charges not deductible (10% overheads and other | 9,275 | (516) | (3.22%) |
| **Permanent decreases** | | | |
| - dividends | (723) | 40 | 0.25%. |
| - recovery of IRAP tax on devaluation past from | (7,096) | 395 | 2.47%. |

| | | | |
|---|---|---|---|
| - deductions first time adoption IFRS 9 | (13,166) | 732 | 4.58%. |
| - other changes | (1,634) | 91 | 0.57%. |
| **Actual IRAP tax charge** | | **(148)** | **(0.92%)** |
| **Total tax burden actual IRES and IRAP** | | **(813)** | **(5.08%)** |

## *Section 20 - Profit (loss) of groups of assets held for sale net of tax - Item 290*

The section is not compiled because there are no assets so classified.

## *Section 21 - Other information*

The section is not compiled the section since it is considered that the information provided above is complete.

## *Section 22 - Profit per share*

The new international standards (IAS 33) require to publish the indicator of yield: "earning per share" (commonly known as "*EPS - earning per share*"), in the two formulations:

• "Basic EPS", calculated by dividing the net profit by the weighted average number of ordinary shares in circulation;

• "Diluted EPS", calculated by dividing the net profit by the weighted average number of shares outstanding, taking also into account the classes of instruments with dilutive effects.

### *22.1 Average number of ordinary shares under diluted capital*

There are no ordinary shares of future issuance with dilution effects on capital.

### *22.2 Other information*

| Items | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|
| Profit/ loss for the year | 15,186,011 | |
| Ordinary Shares (weighted average) | 34,482,036 | |
| **Profit per share** | **0.440** | |

In accordance with paragraphs 19-20 of IAS 33, for the calculation of the profit/loss basis for action the number of ordinary shares in circulation must be equal to the weighted average for the number of days in which the shares were in circulation, then net of treasury shares repurchased.

# *Part D - Overall profitability*

Issue of additional information required to present in addition to the net profit of the year also the other income items are not recognized in the income statement (it concerns, in essence, the changes of the revaluation reserves of equity).
In addition to the prospectus of overall profitability reported after the diagrams of the financial statements, the following details are provided.

ANALYTICAL **STATEMENT OF OVERALL PROFITABILITY**
(in thousands of euro)

| **Items** | **31-12-2018** | **31-12-2017** |
|---|---|---|
| **10. Profit (loss) for the year** | **15,186** | **-** |
| **Other items of comprehensive income which will not be reclassified to profit or loss** | **93** | **-** |
| 70. Defined benefit plans | 139 | - |
| 100. Income taxes relating to the other income items without classification in the income statement | (46) | - |
| **Other items of comprehensive income which will be reclassified to profit or loss** | **(4,314)** | **-** |
| 150. Financial assets (other than equity securities) valued at fair value and impact on overall profitability: | (3,318) | - |
| a) changes in fair value | (6,449) | - |
| b) transfer to income statement | 3,131 | - |
| - Adjustments for credit risk | 79 | - |
| - profits/losses on sales | 3,052 | - |
| 170. Share of revaluation reserves of shareholdings valued as net worth/assets | (2,272) | - |
| a) changes in fair value | (2,272) | - |
| 170. Income taxes relating to the other income items with reversal in the income statement | **1,276** | **-** |
| **190. Total of other income items** | **(4,221)** | **-** |
| **190. Comprehensive income (10 +190)** | **10,965** | **-** |

Relating to items 150 and 170, the detail of changes in fair value and of the reversal in the profit and loss deriving from profits/losses from realisation accounted for in 2018 is as follows:

| | **Gross amount** | **Income Tax** | **Net amount** |
|---|---|---|---|
| **a) changes in fair value** | **(8,721)** | **2,286** | **(6,435)** |
| Debt instruments - Item 150 | (6,449) | 2,133 | (4,316) |
| Capital securities - Item 170 | (2,272) | 153 | (2,119) |
| **B) transfer to the income statement - profits/losses from realisation** | **3,052** | **(1,010)** | **2,042** |
| Debt instruments - Item 150 | 3,052 | (1,010) | 2,042 |

The amount of the income tax of €1,230 thousand (item 180 net of item 100) finds evidence also in Tables 10.5 and 10.6 of assets "tax assets", as follows:

| | |
|---|---|
| **10.5 Changes in deferred tax liabilities offsetting shareholders' equity** | |
| Increases | 2,142 |
| Decreases | (4,800) |
| Net changes due to changes in accounting criteria and transf. of taxation into ctp in the income statement | 3,679 |
| **10.6 Changes in deferred tax liabilities offsetting shareholders' equity** | |
| Increases | (72) |
| Decreases | 490 |
| Net changes due to changes in accounting criteria | (209) |
| **Effect of income tax on overall profitability** | **1,230** |

# *Part E*
## *Information on risks and on related hedging policies*

# *Preamble*

The Bank carries out its activities in accordance with the criteria of sound and prudent management and with a limited propensity to risk, this in relation:

- to the need for stability connected to banking activity;
- to the profile of its investors.

The overall propensity to risk is measured in summary form through the identification, within the scope of the means of assets of the Bank ("own funds"), a item of capital is not intended to risk-taking (unexpected losses), but oriented to pursue the following objectives:

- Business continuity for medium-long term, gradual strengthening of equity and maintenance of conditions of managerial flexibility (so-called "strategic reserve of capital");
- The capital of the impacts arising from the occurrence of stress (so-called "capital to cope with the stress").

The Corporate Governance Code sets out the internal control and risk management system formed of a set of rules, procedures and organisational structures aimed at identifying, measuring, managing and monitoring main risks. This system is integrated in organisational structures and of corporate governance adopted by the Institute.
In particular, the system of internal controls of the Bank shall be responsible for the implementation of the strategies and policies and is constituted by a set of rules, procedures and organisational structures which aim to respect the principles of sound and prudent management.
The company bodies have the primary responsibility to guarantee, according to their specific competences, completeness, suitability, functionality and reliability of the system of internal controls.
The Bank has adopted a model of governance of traditional type which provides for the presence of the Board of Directors of the Board of Statutory Auditors and the General Direction.
The Board of Directors is responsible for the function of strategic supervision and management of the Bank, which also participates in the general direction, while the control function is assigned to the Board of Statutory Auditors.
The Board of Directors defines the business model by means of the approval of the strategic plan of the company and the annual financial statements, with awareness of the risks which this model exposes the Bank and the understanding of the ways in which the risks are recognised and assessed.
The Board of Directors defines and approves the strategic direction and provides their periodic review, establishes, in the context of risk appetite Framework, the propensity to risk and thresholds of tolerance, as well as the policies of the government of the risks, ensuring that the structure of the Bank is consistent with the activities carried out and with the business model adopted.
The policies of the government of the risks are formalised in special regulations/policy that are regularly submitted to the approval of the Board of Directors.
The adoption of new products and services, the launch of new activities, the insertion in new markets and, in general, transactions more relevant are always approved by the Board of Directors.
The Board of Directors periodically assesses that the profiles of risk assumed by the Bank in terms of capital adequacy, liquidity and risk performance of the management activities are consistent with the propensity to risk defined within the scope of the activities of strategic planning and with the

levels of the regulations. In addition to the Board of Directors assesses the compliance with the operating limits defined for the recruitment of the various types of risk. The Board of Directors shall ensure consistency between the strategic plan, the business model, the reference framework for the propensity to risk ("risk appetite Framework"), the ICAAP process-ILAAP, financial statements as well as the organisation and the system of internal controls, taking into consideration the evolution of the internal and external conditions in which the ECB operates.
In the course of 2018, the usual annual updating of the document "Risk Appetite Framework Policy" was carried out as a result of the declination of the objectives of the Strategic Plan in the annual financial statements for the year 2018, updating the types of risk that the bank intends to assume the objectives of risk, any thresholds of tolerance and any operating limits.
The Bank is also provided, in accordance with the Directive 2014/59/EU Bank Recovery Resolution Directive (BRRD), the recovery plan or of the instrument dedicated to face in a timely and effective manner the crisis situations, by adjusting the measures to enable to restore economic equilibrium-financial statements and financial position of the Bank. In particular, the Plan, updated in the course of 2018, establishes the indicators to assess for the early recognition of situations of crisis, the arrangements for regular monitoring of the same, as well as actions to possibly be in place for the rebalancing of the business situation.
The Board of Directors is supported by the Risk Committee, an internal board committee that performs advisory functions and make proposals regarding the risks and the system of internal controls.
The General Management has a full understanding of business risks, care the implementation of strategic guidelines and policies of the government of the risks as defined by the Board of Directors. In particular, it proposes the operating limits for the recruitment of the various types of risk, taking into account the stress tests carried out by the functions entrusted, as provided for by the internal policies of the Bank.
The General Management, in order to facilitate the development and dissemination to all levels of a culture of risk management, schedule, even on the basis of the proposals made by the Division Resources, training programmes for the staff of the Bank.
The Board of Statutory Auditors carries out periodic checks to ascertain the completeness, suitability, functionality and reliability of the system of internal controls.
In the accomplishment of its duties, the Board of Statutory Auditors has adequate information flows on the part of other corporate bodies and control functions. The constant attendance of the Board of Statutory Auditors the Board meetings which take place fortnightly, represents a guarantee regarding timely information of the control member in relation to the events management.

The sound and prudent management of banks is ensured by a business organisation adequate, which provides for a system of internal controls complete and functional.
In particular, the system of internal controls of the Bank is articulated on three different levels:

- first level checks aimed at ensuring the correct carrying out of transactions. They are carried out by the same operational structures or incorporated in procedures and computer systems, i.e. carried out within the framework of the back-office activities.
  The Bank, in order to spread at the capillary level inside the entire structure the knowledge of the legislation inner and outer, shall promptly notify the relevant updates to all corporate functions concerned by means of the appropriate electronic portal. Furthermore, the controls to be put in place in the context of each business process are set out in the appropriate "manual controls of the line". Finally, with the aim of harmonising the conduct of operators, by facilitating the integration of controls, the mapping of the main business processes relevant is making available online for all staff through a special application programme;
- risk and compliance checks (the so-called "Second-level checks") which have the objective of ensuring, inter alia:

- the proper implementation of the risk management process;
- compliance with the operating limits assigned to various functions;
- the conformity of the transactional business rules, including those of self-regulation.

The second-level checks are conferred by the sorting organizational service to Risk Management Planning & Control, Compliance service and service to combat money laundering. The functions involved in these checks are distinct from those production; they contribute to the definition of the policies of the government of the risks and the risk management process;

- internal audit (the so-called "Third-Level Checks"): aimed at identifying breaches of procedures and rules, as well as to regularly assess the completeness, suitability, functionality and reliability of the system of internal controls and of the information system. This activity is performed by the Internal Audit Department.

The corporate functions of control you deal with controls of second and third level have the authority, resources and skills necessary for the performance of their duties.
The Organisational Chart provides, in accordance with the supervisory provisions, the corporate hierarchical and functional relationships of control to the Board of Directors.
The control functions have access to all the activities carried out by the Bank, both at the central offices at both the peripheral structures, as well as any information relevant to the fulfilment of its tasks.

The role of Supervisory Body established under Law 231/01, is attributed to the Board of Statutory Auditors.
In the course of the meetings held during the year, the body 231 has had the opportunity to examine more closely on accomplished adopted by the bank of the necessary organisational measures relating to the application of the rules of combat money-laundering and the financing of international terrorism also in the light of the news intervened with Legislative Decree. 90/2017;
There were also several specific checks aimed at: 1) Market Abuse; 2) corporate crimes; 3) IT crime and illegal data processing; 4) misappropriation, money laundering, use of money and self-laundering. These tests were carried out using the methodology of risk recognition approved by the Bank, used in the process of management and control of the risk of non-compliance.
Body 231 also has read and discussed the annual reports of the various corporate functions for controlling the Bank evaluating, in particular, critical issues that emerged and the related interventions and/or planned by the Bank for the removal of the same.
With reference to the so-called "Process Carife", it is appropriate to indicate the positive outcome of the judgement delivered by the Court of Ferrara on 11 February; this judgement has excluded, with absolute formula because "The fact does not exist", the existence of reciprocal subscriptions of capital between Banca Valsabbina and the Cassa di Risparmio di Ferrara in relation to transactions carried out in the year 2011. The judge, fulfilling the former Director General of the Bank Valsabbina Mr Spartaco Gafforini, has excluded also the civil liability of the Institute.
In the course of 2018, there were no reports received concerning the commission of offences and/or relevant offences within the meaning of the guidelines, as well as other news relating to violations or suspected violations of the rules of conduct or procedure contained in the Model.
It is recalled that on the company web site contains all the information concerning the organisational model adopted by the Bank as well as the breakdown of the Supervisory Body.
Finally, as in the course of the year has been started and completed with the support of a consulting firm specialising, a draft revision and updating of the Organisation, Management and Control Model pursuant to Legislative Decree No. 231/2001 in order, inter alia to standardise the content of the document to the best practice, guidelines and principles jurisprudence in this matter. The new Model 231, consisting of two main parts, a general and a special, and integrated by the Ethical Code and the code of conduct was approved by the Board of Directors on 27 June 2018.

## *Compliance Department*

The risk of non-conformity is guarded by the Compliance Service. Among the activities of the compliance department is the monitoring of new legislation (also with the support of specialised functions), the recognition of the impacts, the proposal of organisational and procedural changes aimed to ensure adequate supervision of the risk of non-compliance identified as well as the verification of the effectiveness of the organisational adjustments made by the operating units (structures, processes, procedures also transactional and commercial) suggested for the prevention of the risk of non-compliance. In particular, the Compliance Department collaborates with the other control functions (Internal Audit, Risk Management, money laundering) in order to develop their methods of risk management in a manner consistent with the strategies and business transactions, verifies that situations of conflict of interest in the context of "investment services", or the possible emergence of that conflict can be eliminated, reduced or managed and shall submit to the attention of the Directorate General new cases, suggesting hypothesis of overrun or solution.
The Compliance Department deals with consulting and assistance in respect of corporate bodies of the Bank in all matters in which it assumes importance is the risk of non-compliance. The Chief Risk Officer collaborates for this purpose in the training of staff on the provisions applicable to the activities carried out, in order to spread a corporate culture based on the principles of honesty, correctness and with respect for the letter and spirit of the law.
The Compliance Department aims to constantly update the internal rules that allows the function of conformity of the Bank of garrison, according to an approach "risk based", the management of the risk of non-conformity with regard to the business, verifying the adequacy of internal procedures.

## *Anti-Money Laundering Department*

The Anti-Money Laundering Department is located in a position of autonomy, both hierarchical and functional with respect to the individual transactional structures of the Bank and acts in an autonomous and independent manner, by reporting the results of the activities carried out to corporate bodies with objectivity and impartiality.
The Anti-Money Laundering Department has the task of checking in the continuous that business processes are consistent with the objective of preventing and combating money laundering and the financing of terrorism.

The transaction of the service pursues the dual requirement:

- Implement the obligations with regard to reporting of suspicious transactions, by carrying out checks in relation to the observance of the provisions against money-laundering, communicating to the MEF any violations of the rules on the use of cash and bearer bonds as well as experiencing the demands of the authorities;
- Provide a consultative support to the organizational structure as a result of the enactment of new rules on money laundering having impact on the bank.

The guidelines adopted by the Bank on the subject of money laundering shall take account of the provisions issued by the Banca d'Italia. The "Anti-Money Laundering Policy", approved by the Board of Directors, collects the guiding principles relating to strategic guidelines and policies of government, headmasters organizational and control of the risk, appropriate verification, the obligations of abstention and to active cooperation in respect of Supervisory Authorities.

The Anti-Money Laundering Department shall adopt, as an instrument of the internal regulations of the specialist function, its own Regulation approved by the Board of Directors; the internal rules for the use of all the staff, is instead abridged in the form of a manual, with the aim of gathering organically to the principles and the transactional rules adopted by the Bank in the theme of risk prevention of money laundering and terrorist financing.

The Anti-Money Laundering Department, assisted by Compliance Department, provide for the identification of applicable external standards and, in collaboration with the business functions authorities, assesses their impact on jobs and on internal procedures. In particular, given what has already been established by the IV EU Directive 2015/849, enacted by the European Parliament and the European Council and transposed by Legislative Decree 25 May 2017 n. 90 that has made with effect from 04/07/2017 changes to Legislative Decree No. 231/2007 concerning the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, has initiated the necessary adjustments regulatory and procedural interiors.

The Anti-Money Laundering Department assists the training sector, leading to Division Resources, the provision and delivery of courses devoted to internal staff aimed to raise awareness on the issue against money laundering and terrorist financing in the framework of the training plans established by the Bank.

## *Risk Management Department*

The Risk Management Department has the purpose of carrying out the policies of risk control, through a proper process of identification, measurement and monitoring of same; this function is assigned to the Service Risk Management Planning & Control. The structure of the service and its positioning inside the organisational model of the bank guarantee a garrison built of different risks to which the intermediary is exposed.
The organisational ordering of the Bank and the regulation of service shall govern the following tasks:

- verifying the adequacy of the RAF (*Risk Appetite Framework*) and the appropriateness of the risk management process and the operational limits;
- collaborating in the definition and implementation of the RAF, the policies of the government of the risks and of the various phases that constitute the risk management process as well as in determining the operating limits for the recruitment of the various types of risk;
- monitoring the actual risk assumed by the Bank and its consistency with the objectives of risk, as well as the compliance with the operating limits;
- providing the measurement/evaluation of individual risks of first and second pillar, both in the normal course of business that in a situation of stress, also by analysing the other risks that are difficult to quantify. The Risk Management Department also maintains the development of tools and methodologies for managing and measuring risk, reporting the corporate bodies and the functions involved in regard to the findings of the analyses, ensuring the necessary information;
- coordinating the internal process of determination of the capital adequacy (Internal Capital Adequacy Assessment Process - ICAAP) and of the adequacy of the system of government and the management of liquidity risk (Internal Liquidity Adequacy Assessment Process - ILAAP).

In particular, in the context of the ICAAP, the Bank performs a process of wealth planning, assesses the overall risk exposure, and accordingly determines the capital requirements that are current and prospective. In the context of the ILAAP, however, the bank assesses the adequacy of the system of government and the management of liquidity risk and its exposure to the risk of liquidity planning the level of reserves of liquidity to maintain as well as the sources and channels of financing which it uses;

- proposing the parameters of a quantitative and qualitative nature necessary for the definition of the RAF (threshold of tolerance and operating limits), consistent with the methods used in the context of the process ICAAP-ILAAP;
- collaborating on the drafting of the document "disclosure to the public" (Pillar III);
- coordinating the activity of preparing and updating the *Recovery Plan*, supporting the company bodies in particular in the identification of indicators in the calibration of the activation thresholds of the plan and in the identification of the options of remediation.

The scope of applicability of the Risk Management Department comprises the following risk categories:

- credit and counterparty risk;
- market risk (related both to the trading book that the banking book);
- operational risk:
- concentration risk;
- interest rate risk of the banking book;
- liquidity risk;
- the risk related to the share of committed assets;
- risk of excessive financial leverage;
- reputational risk;
- strategic risk;
- residual risk;
- risks resulting from securitisations:
- IT risk.

The Risk Management Planning & Control Department, within the scope of the activity of periodic review within the scope of the monitoring of the risks to which the bank is subject, also proceeds to check the occurrence of new cases of risk arising from the adoption of new management choices, as well as the evolution of the market context.

The activity of the function is designed to identify, assess and monitor the various types of risk assumed or assumable in different business segments and to propose the necessary measures of mitigation and prevention, perceiving, in an integrated logic, the interrelationships and returning the evidences found to corporate bodies.

The Risk Management Department verifies the adequacy and effectiveness of the measures taken to remedy the weaknesses identified in the risk management process, identifying possible areas of improvement and giving information also in the context of report ICAAP-ILAAP.

The Risk Management Planning & Control Department finally constantly monitors the profile of risk assumed by the Bank with respect to the propensity to risk defined in the RAF, giving useful information to Corporate Bodies.

## *Internal Audit Department*

The Internal Audit department, in the context of third-level controls carried out both at a distance at both the central and peripheral structures, operates independently and autonomously. The Internal Audit department verifies, on the basis of the annual planning, the adequacy and effectiveness of the system of internal controls, the regularity of the business transactions and compliance with the guidelines adopted in the field of taking risks; also verifies the efficiency and effectiveness of second-level checks assigned to other business functions of control and, in particular, of those oriented to ensure the containment of corporate risks within the level considered acceptable by the Bank. The department shall, moreover, to ensure the removal of anomalies in transactional processes and in the transaction of the controls through the follow-up work, carrying out checks on the overall functionality of the system of internal controls.

The department presents, annually, to corporate bodies, an audit plan that indicates the activities scheduled checks.

The internal audit department carries out investigations also with regard to specific irregularities of initiative or at the request of the Board of Directors, Statutory Auditors or the General Management. Among the tasks of the function there is finally the verification of compliance in the various transactional areas of the limits provided for by the mechanisms of delegation, with particular reference to the fields of credits and financial.

# *Section 1 - Credit risk*

## *Qualitative information*

## *1. General considerations*

The business model always adopted by the Bank is mainly based on the activity of loan sharks and is oriented to the support of families and of the world of production in the areas of competence, in accordance with the guidelines outlined management by the Board of Directors and in compliance with the statutory forecasts.

The activity of credit is mainly directed to retail segments, small business and small and medium-sized enterprises, as realities that need a contact person, able to understand and satisfy the needs; in a less marked degree the lending activity is directed to the corporate segment.

The Bank, taking into consideration their economic situation/assets and the economic context of reference, outlines the credit policies to protect the quality of jobs both in the phase of the first act of entrustment, both in the subsequent management of the relationship.

Policies of recent years have had as strategic orientation the fractionation of the confidences and diversification of the Portfolio uses in order to mitigate the impact on the overall credit risk of the Bank.

The credit policies established by the Board of Directors have contributed to the adoption, by the structures of a greater accuracy in both the opening phase of the report, which in its subsequent management.
In the start-up phase of the relationship, particular attention is paid to the quality of the entrepreneurial projects underlying the financial intervention required at the Institute, in particular are evaluated the prospects of income of the company and the consequent ability to repay.
The management and monitoring of credit already dispensed are aimed at the timely remodulation of the ratio as a function of the changes of the economic and financial situation of counterparties and the identification of possible performance anomalies. Such monitoring is functional to the prevention of the effects of the impairment of the creditworthiness as well as to intervene promptly with corrective actions in the removal of faults (e.g. recurrence of overdue payments, increase in unpaid instalments, acceptance of presentations of portfolio on already outstanding names). Management of the short-term guarantees granted is inspired by the principles of extreme caution and therefore the signals of a pattern that is not in line with a correct transaction are punctually analysed, in order to put in place the necessary operations.
The commercial policy is pursued by means of branches both in geographical areas where the bank is traditionally present in order to consolidate its position in both new markets of settlement, with the objective to acquire new market shares and facilitate the growth of the activities of loan sharks.

## *2. Credit risk management policies*

## *2.1 Organisational aspects*

The factors that generate credit risk are traceable to the possibility that an unexpected change of the creditworthiness of a counterparty, in respect of which there is an exposure, and generate a corresponding unexpected change of the current value of the relative credit exposure.
The credit risk is therefore not confined only to the insolvency of a counterparty, but also includes the simple impairment of its creditworthiness.
In the context of management methods and risk taking adopted, the first oversight is located in branch, either through a constant and continuous dialogue with customers, making use of both sources of information of an interior and exterior nature and with the aid of computerised procedures.
In the phases of investigation and review of the credit, the bank analyses the financial needs of the customer and the documentation necessary to carry out a proper recognition of the creditworthiness of the borrower. The decision to grant credit is based both on the analysis of the complete set of information relating to the economic subject, either on the basis of the direct knowledge of customers and the economic context where it operates. All activities of investigation relating to the transactional process, leading to the delivery and the periodic review of the position, are developed with the goal of giving a reasonable credit at the level of the single name (and/or group), providing the technical forms of credit more suitable and proper remuneration of risk assumed.
The assumption and management of credit risk has been regulated by formalising the process below, detailing the role of the governing bodies, the transaction of all the players involved, defining the first-level checks and explaining the role of control functions.

The Board of Directors in particular has defined, in the context of the "Regulation Credits", the deliberative autonomy of each body delegated with the granting of credit. The respect of delegation authorised by the Board of Directors is guaranteed by the automatic controls provided in computerised procedure with which is handled the investigation of the confidences.
The Directorate General shall implement the credit policies issued by the Board of Directors and supervises the execution of the credit process, coordinating and in particular the work of the sector loans in the context of the activity of delivery and management of confidences.

The activity of the control and management of credits that have signals of fault or impaired is in charge of the division anomalous credit, including Performance Monitoring, Pre-Litigation and Legal and Contentious Services. The Anomalous Credit Division coordinates and oversees the transaction of the various services with the aim of optimising the activity of credit recovery of the Bank, caring for its reporting process toward the company bodies.
In particular the "Performance Monitoring" service is assigned the task of monitoring performing receivables that have signs of anomaly, in coordination with the territorial network. This activity is aimed at fostering an anticipatory management of credit risk and implementation of management strategies aimed at improving the quality of the Bank. The activity of management of relations classified expired boundless impaired and default likely is assigned to the pre-litigation service, while the management of classified positions to suffering is in charge to the Legal and Contentious Service.
In the context of the overall process of credit risk management second-level checks are included aimed at verifying the correct performance monitoring of credit risk exposures under the responsibility of the Risk Management Department. The third-level checks on the credit management process are instead entrusted to the Internal Audit Department.
Below is a summary of the business functions involved in the process of the credit and the related tasks assigned:

- The Committee credits, whose mission is to direct and optimize the credit policies of the Bank, within the framework of the strategies established by the Board of Directors;
- The Anomalous Credit Committee, with the purpose of supporting the general direction in the formulation of strategies for recovery and management of anomalous reports and in the adoption of organisational and operational solutions aimed at improving the activity of a garrison in the structures involved in the process of credit and their coordination;
- the Business Division, which, with the help of the Strategic Planning and Corporate Affairs Sector, is responsible to verify the sustainability of credit policies adopted, making proposals to the General Management relating:
    - to instruments and the types of counterparty to which assign the credit in order to achieve profitable uses and fractionated;
    - to the technical forms by favouring defining the ceilings in terms of amount and expiry;
    - the economic sectors and geographical areas to be favoured in order to diversify the risk;
- the credit sector that manages and verifies the recruitment process of the risks connected with the granting of credit, proposes the policies for the management of credit and schedules tasks consequent, supporting the territorial network both during the first investigation both in the context of the revision of the confidences granted;
- the Performance Monitoring Service that deals with the monitoring of performing positions showing anomalies;
- The pre-litigation service that manages the loan portfolio classified to overdue/expiring impaired and at probability of default of the Bank;
- he Leg and Litigation Department that takes care of the legal aspect of the practices classified to suffering, with the aim of optimising the recovery phase of the credit, also through the use of collaborators and legal professionals external;
- t Risk Management Planning & Control Department which is entrusted with the verification of the correct execution of the performance monitoring on credit exposure, in accordance with the circular of the Banca d'Italia n. 285/2013 "Supervisory Provisions for banks";

- the Internal Audit Department that evaluates the functionality and reliability of the whole system of internal controls and performs, among others, the checks on the regularity of transaction of the lending business.

## *2.2 Management, measurement and control systems*

Management, measurement and control systems of credit risk are developed in an organisational framework which involves the entire cycle of the credit process, from the initial stage of investigation to the periodic review, up to the withdrawal and recovery.
The Bank also conducts quantitative and qualitative analyses for the purposes of measurement and of the periodic inspection of credit risk. In particular, the quantitative evaluations use several tools that provide information under the economic aspect, capital structure and financial position of the customer:

- Budget and tax declarations: evaluations of financial and equity statements, determination of the degree of indebtedness, determination of the net financial position, analysis of the economic indicators;
- relationship with the Institute: analysis of the movement of the current accounts, the average usage of credit lines granted, verification of the regularity in the reimbursement of financing granted;
- relations with other institutions: analysis of Central Risks and other external databases.

The Bank has in every moment the knowledge of its exposure to each customer, since the information system adopted allows for each client or group of connected clients) to have daily data and updated information.

In general, in the exercise of credit, in addition to compliance with the rules of law and supervision provided for financial intermediaries, the Bank aims for:

- the best knowledge of contractual partners in order to assess the capacity of current reimbursement and in perspective;
- the use of the most appropriate technical form to the credit requirement to be met, taking into account the guarantees and the duration;
- the diversification of credit risk by limiting the concentration of exposures on groups of connected clients/groups of undertakings or on individual sectors/branches of economic activity;
- the appropriate economic return of the report with respect to the risk assumed;
- the control of the progress of individual positions carried out both through the periodic review of the practices both through a monitoring task systematic;
- the best management of impaired loans.

Within the scope of the performance monitoring of the credit of individual exposures, both performing and impaired, the functions involved in the process are supported by specific operational procedures provided by the outsourcer Cedacri.

The Bank in particular for purposes purely managerial and operative inner has adopted the rating model provided by the outsourcer Cedacri (CRS - Credit Rating System), which is used in the context of the monitoring of the quality of the credit exposures previously entrusted and that, allowing early identification of signs of impairment in the credit represents a valid management support , both for analysis at the level of single exposure, that at the level of total portfolio.

This model, articulated on a specific cleavage of the customer portfolio, is based on the analysis of the statistical type and a careful selection of the indicators used to estimate the probability of default.
In particular, the model adopted attaches a probability of default for every customer, through a system of internal scoring of the statistical type, based on the analysis of indicators interiors and exteriors. Specifically, the relationship institution is evaluated on the basis of the following information:

- trend of the relationship with the Institute,
- trend of the customer at the system (Central Risks),
- economic and financial performance of the customer (company financial statements),
- the segment of membership of the customer (Private Consumers, Small Business, SMES, Large Corporate, Real Estate, financial and institutional).

On the basis of the probability of default estimated, is assigned to the corresponding rating at each position. The rating scale used has been defined by the computer outsourcers, on the basis of statistical studies.

The Bank also uses the application C.Q.M. - Credit Quality Management, which supports the functions entrusted in the identification of those counterparties to be subjected to the monitoring and management of the positions in which the faults have already been expressed.
In particular, the application divides customers into sub-portfolios of monitoring in accordance with the strategic lines of the Bank, for each cluster of customers found it is possible to associate various credit strategies, with a personalization of the chosen route in terms of actors and actions to be undertaken, ensuring an integrated vision of the transaction in progress and historical analysis of the reports. The key elements of the procedure are the definition of the status of credit, the attribution of classes of risk and the identification of a managerial path with various types of actions passable for each position recognised by the application, diversifying also among the operational roles involved in the process.

The task of monitoring and management of credit risk is carried out also through specific portfolio analysis with the aim to assess the overall quality of credit risk exposures and the main dynamics, verifying compliance with respect to the strategic objectives. The portfolio analysis are conducted using the procedures adopted for the monitoring of individual exposures, both by resorting to reprocessing database products directly from the electronic archives of the Bank. The findings of the analysis of portfolio are periodically reported to corporate bodies.

Within the scope of the activity of reporting is constantly monitored the intake level of credit risk with particular reference to the evolution of credit quality, as well as comparing the overall risk assumed with the capital of the Bank.

In particular are defined specific objectives and warning thresholds for both the indicators relating to the incidence of impaired loans and the overall credit quality, both in terms of assets absorption with reference to credit risk.
The definition of objectives and the risk limits is carried out on the basis of the expected trends of management within the framework of the process the RAF, taking account also of the exercises of stress tests in the self-recognition process ICAAP-ILAAP. In particular the stress scenarios provide a general impairment in the credit quality of the bank's portfolio, due both to a worsening of the macroeconomic framework of reference, as well as to phenomena of an idiosyncratic type. The stress tests impact therefore both on the performing loan portfolio, increasing the default rates expected, on both the portfolio already impaired, increasing writedowns, with negative effects on the allocation of capital and on the value of the credit risk weighted.
In the context of the containment of credit risk, the credit policies are aimed at a careful diversification of risk and therefore contain the level of exposures to individual borrower, for group

of connected clients, as well as a sector of economic activity. On the basis of credit policies specific risk limits in the context of the RAF are calibrated.
The RAF Process provides for a system of regular monitoring of the objectives and limits laid down for all relevant risks of the Bank, ensuring a constant garrison to the assumption of risk and enabling timely start of any actions of mitigation.

The Bank, for the calculation of the capital requirement for credit risk (First Pillar), uses the standard methodology prescribed by the supervisory provisions, in line with the principle of proportionality. Related Information are subject to quarterly reporting to the Banca d'Italia.

The Institute carries out the calculation of the solvency requirements (First Pillar) and the recognition of capital adequacy using the special application program SDB Matrix. The Bank also makes use of the procedure known as C.C.M. (Credit Capital Management) with the aim of integrating the measurements as well as within the scope of the process of prudential control (Second Pillar) and for the provision of reports within the scope of the disclosure to the public (Third Pillar).

## *2.3 Methods of measurement of expected losses*

The general approach defined by the principle IFRS 9 for estimating the impairment is based on a process aimed to give evidence of impairment of credit quality of a financial instrument at the date of reporting in relation to the date of the initial recognition. In particular, at each financial statements date, financial assets other than those measured at fair value and impact on the income statement are subjected to a valuation to see if there is any evidence that can be considered to be not entirely recoverable in terms of the recognition value of said assets.

The process of definition of expected losses predominantly envisages the allocation of credits to the different "stage" provided by the principle IFRS 9 ("staging" or "stage allocation"), which takes place through the identification of significant changes of the credit risk on the basis of the modification of the creditworthiness of the counterparty to date of reporting with respect to the initial recognition.
The classification of exposures contributes to the determination of the relative expected loss together with the residual life of the financial activities and information forward-looking that may influence the risk of credit.
In detail, the exposures are divided into three stages (so-called "Stage" or "bucket") as a function of increasing degree of their credit risk:
•"Buckets 1": there are exposures characterised by the absence of a significant increase of the credit risk exposure with respect to the initial entry in the financial statements. For this bucket, for the calculation of the expected loss for a year on a collective basis is provided for.
•"Bucket 2": there are exposures characterised by significant increase of credit risk exposure with respect to the initial entry in the financial statements. For this bucket the expected loss is calculated in optical "life time", i.e., with reference to the whole of the remaining life of the instrument on a collective basis.
•"Bucket 3": there are impaired exposures, corresponding to the positions classified as Non-Performing. The expected loss for impaired loans is calculated on analytical basis for single location.

The exposures included in the "bucket 1" and in "Bucket 2' therefore coincide with in bonis or Performing exposures, whilst the exposures included in "Bucket 3" coincide with the Non-Performing exposures: overdue impaired, probability of defaults and bad debts.
The identification of the significant increase of the credit risk for positions in bonis, with consequent classification of exposure in Stage 2, is carried out by the Bank through the monitoring of the change of the rating class of belonging to date of reporting in relation to the date of first grant and/or renewal of confidences attributed by the CRS model. Account shall also be taken for the possible allocation of credits in bucket 2 of the presence of encroachments by more than 30 days, the presence of "measures granting" and other signals of fault operationally defined.
The expected loss for performing positions is estimated by applying a suitable calculation model, which takes into account the credit exposure of the probability of default and loss potential actualised in the case of default.
The probability of insolvency which is a function of the creditworthiness of the counterparty is estimated on a time horizon of one year for credits in Bucket 1, while considers a "life time" perspective for positions in Bucket 2.
Risk parameters are determined on the basis of statistical analysis carried out by the computer outsourcer and take account of the expected trends of macroeconomic scenarios in a "forward looking" perspective.

## *2.4 Credit Risk Mitigation Techniques*

The main levers for the mitigation of credit risk are represented by the system of guarantees which assist the exposures, from a low degree of concentration with respect to the borrowing counterparties, as well as an appropriate level of diversification of posts for type of credit and market sectors.
With reference to the management of guarantees the bank has defined its operational processes within the framework of the internal rules.
The mode of management of guarantees is integrated into the information system by which it is possible to deduce the main information to these related, for the purposes of effective monitoring of credit risk exposures and a correct determination of the risk-weighted assets for the purposes of calculating capital requirements.
In fact, with a view to ensuring compliance with the specific requirements laid down by the supervisory provisions, the Bank has adopted a special system for the management of guarantees implemented by Cedacri, which provides the tools to manage processes and data relating to the classification and the evaluation of the instruments to guarantee the credit, in accordance with the strategic objectives and management of the Bank.

The Bank, in order to mitigate the credit, risk uses real and personal guarantees. In particular, the main types of collateral used are the mortgage guarantees real estate and the financial collateral.
An ad hoc procedure was adopted, known as "Collateral", supplied by the outsourcer Cedacri, to preside effectively the whole acquisition process, recognition, verification and realisation of mortgage guarantees, identifying all the relevant information and the link between the goods data in warranty and the "entitled persons" over the asset. The procedure also allows the periodic updating of the "current" value of the same guarantee and the control of the consistency of the value of the guarantee with respect to the deliberate risk. The ratio between the financing and the value of the asset to guarantee is subject to monitoring, also through the process of statistical revaluation of the values of the experts.

The Bank in the context of the collection of pawns on financial instruments prefers the use of securities traded on regulated markets, also by monitoring the change of the value of the same with respect to credit risk exposures subject to warranty.
The personal guarantees consist mainly of sureties issued by individuals and society. In this connection it is pointed out that in recent years the Bank has appealed for the funding granted to forms of guarantee granted by the State through the Mediocredito Centrale under Law 662/1996 , the use of guarantees issued by specialised bodies (e.g.: Confidi), as well as to forms of hedge granted by the European Investment Fund.
To date, the Bank does not use credit derivatives for the hedge or the transfer of risk against the credits in the portfolio.

## *3. Impaired credit exposures*

## *3.1 Strategies and management policies*

Relating to the classification of impaired exposures, the Bank makes reference to the regulations issued by the Supervisory Authority, integrated with internal provisions which fix criteria and rules for the classification of credits within the different risk categories.
Impaired exposures in detail are broken down into the categories suffering, defaults likely, exhibitions have expired and/or overdue impaired, in accordance with the following rules:

- **Bad debts**: the complex of cash exposures and outside the financial statements in respect of a subject in a state of insolvency (also not found in the courts) or in situations substantially comparable, regardless of any estimates of loss made by the Bank.

- **Probability of default** ("unlikely to pay"): the classification in this category is primarily the result of the judgement of the Bank about the unlikelihood that, without recourse to measures such as the realisation of the securities, the debtor complies fully (in line capital and/or interest) to its credit bonds. This valuation has to be performed in a manner independent of the presence of any amounts (or rate) expired and not paid. It is therefore not necessary to wait for the explicit symptom of fault (non-refund), where there are elements that imply a situation of risk of default of the borrower (e.g., a crisis in the industrial sector in which it operates the debtor).

- Overdue **exposures and/or overdue impaired**: cash exposures, other those classified among the suffering or failures likely, that the reference date of signalling, have expired or are overdue for over 90 days.
  The exposures that have expired and/or become overdue impaired may be determined by referring, alternatively, the single debtor or to the individual transaction; the Institute shall adopt an approach for the debtor", as described below.
  The expiry or the overdue nature must be ongoing. In particular, in the case of exposures to repayment instalments shall be considered the instalment not paid that presents the greater delay.
  If a debtor belongs more overdue and/or defaulting exposures for more than 90 days, it is necessary to consider the greater delay. In the case of openings of current account credit "Withdrawal" in which the credit limit granted has been exceeded (also due to the effect of

the capitalisation of interest), the calculation of days in overdraft begins - depending of the case that occurs before - starting from the first date of non-payment of interests that determines the deviation or from the date of the first request for return of capital.

The total exposure to a debtor must be recognised as expired or unauthorised borrowing impaired if at the reference date of signalling, the higher of the following two values is equal to or greater than the threshold of 5%:

(A) average of expired and/or overdue amounts over the entire exposure recognised on a daily basis during the last preceding quarter;

B) expired or unauthorised borrowing over the entire exposure referred to the reference date for the report.

The management of impaired loans is in charge of the division anomalous credit through the Performance Monitoring Services, Pre-Litigation and Legal and Litigation Services. The Bank, in the context of the regulation of the underlying process, has adopted a special "Single Text for the management of credit abnormal and impaired" that defines the main tasks and the broad guidelines, which then are further specified in the relevant regulations of the service.
The information relating to impaired are integrated into the information system with the aid of specific tools that support the management and highlight the status.
Performance Monitoring and Pre-litigation Services, on the basis of specific indices of fault recognised both with the IT procedures and on the basis of qualitative valuations and in the light of what has been established by the company regulations, govern, with the supervision of the Credit Division abnormal, the process of classification of credit positions and change of the relative "status", respecting the limits of autonomy established by the Board of Directors.
In the framework of the management of performing positions, the Bank has defined for management purposes a subclass of credits known as "Subcontrol", in which exposures are classified that show a pattern that is not fully regular of the credit report.

The recognition of exposures nonperforming occurs according to analytical mode, defined in the appropriate internal policy approved by the Board of Directors. In this policy, the guidelines to be adopted in the determination of expected loss by diversifying approaches depending on the type of credit, the technical form of the relationship and the type of warranty to support are formalised. The document are establishes methods for the quantification of the parameters to be used for the estimation of the value adjustments and their upgrade mode, that I am also considering the historical analysis of the activities of recovery.

The amount of the adjustment is equal to the difference between the carrying amount of the asset and the present value of the expected future cash flows. Depending on the severity of the state of impairment and the significance of the exposure, the estimates of the salvage value consider an approach known as "Going concern", which presupposes the business continuity of the counterparty and the continuous generation of operating cash flow, or an approach known as "Gone concern", in the event of a scenario of cessation of activity for which the recovery of the credit is based substantially on the value of the guarantees which assist the ratio or on the realisable value of assets. Relating to the receivables classified as non-performing it should be noted that for a specific "subportfolio" of exposures, the calculation of the value adjustment was carried out considering a sales scenario in the context of the possible recovery strategies.

The strategies for the management of impaired loans are defined by the Board of Directors and are aimed at containing the non-performing loans and at the maximisation of the recovery activities. In

particular, the Bank, in the second half of 2018, has formalised the "Operational Plan for the management of non-performing loans", which defines for the period 2018-2021, the goals of reducing stocks of impaired loans and their impact on both the overall gross credits, that on net loans. In the context of the definition of the objectives of the plan were considered the different management strategies that take account of the main characteristics of the portfolio.
In particular there are several recovery modes: Release of measures of concessions aimed at the restructuring of credit, takings through agreements with their counterparts, enforcement of warranties, agreements of balance and excerpt and transactions involving the assignment of receivables.
In the course of the financial year 2018 has effected supplies of suffering for a total of €120 million, which, together with the other recovery activities carried out, have allowed the Bank to bring the NPL gross ratio (ratio of gross impaired loans/uses gross) about 13%, sighting widely the objective of the plan.

## *3.2 Write off*

The procedure of "write-off" consists in the cancellation from the accounting records of exposures for which you do not have more reasonable expectations of recovery. The procedure can be performed before the legal actions for the recovery of credit by the Bank to be terminated and does not involve the legal waiver to credit on the part of the Institute. The "write-off" can hedge the entire amount of the financial asset or a portion of it.

The "write-off" can be performed if the recovery procedures completed or still in progress reveal the impossibility of recovering the contractual cash flows arising from exposure or in the case in which there is no economic convenience to proceed with the activity of recovery and credit management. The accounting cancellation understood as "write-off" usually concerns non-performing positions is proposed as a result of the evaluation carried out by the Legal and Litigation Service.

The "write-off" due to non-recoverability is estimated to occur in this case proving significant chance that the credit could not be recovered, in whole or in part, including: absence of recoveries from executive procedures concluded, evident insufficiency of the assets in the event of a bankruptcy procedure, unsuccessful experiment of numerous attempts to recover on the principal debtor or guarantor on, also taking into account the degree of seniority of non-performance.

The "write-off" due to non-economic convenience is proposed in the case in which the analysis is that the costs for the continuation of recovery actions are greater than the recoverable amount of the financial asset.

## *3.3 Impaired financial assets acquired or originated*

As indicated by the accounting principle 'IFRS 9 - Financial Instruments", in some cases, a financial asset is considered impaired at the time of initial recognition since the credit risk is very high, and in the case of purchase, is purchased with significant discounts (with respect to the value of the initial delivery). In the case in which the financial assets in question, on the basis of the application of the drivers of classification (i.e. SPPI test and business model), are classified among the assets valued at amortised cost or fair value with impact on overall profitability, the same are qualified as 'Purchased originated or Credit Impaired Asset" (in short "POCI") and are subject to a special treatment. In particular, against the same, since the date of initial recognition and for their whole lives are counted value adjustments equal to the Expected credit loss (ECL) lifetime. In light of the foregoing, the financial activities POCI are initially entered in stage 3, without prejudice to the possibility of being moved later among the credits performing, in which case an expected loss will continue to be recognised equal to the ECL lifetime (stage 2). A financial asset known as "POCI" is therefore qualified as such in the processes of signs and of the calculation of the expected loss (ECL).

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

The standard defines "measures granting" ("forbearance measures") changes the original terms and conditions or the total refinancing or part of the debt, which are granted to a debtor who is or is about to be in difficulties to meet their financial commitments.
Furthermore, the rules contained in the Circular of the Banca d'Italia n. 272/2008 and in EU Regulation 680/2014, requires that they be identified both in the context of performing loans that of impaired loans reports the subject of measures to grant (known as "Forbearance"), respectively defining the categories "Forborne performing exposures" (performing loans subject to grant) and "Non-performing exposures with forbearance measures" (impaired loans subject of the concession).
In the context of the three categories of impaired loans in accordance with the law, are relationships identified the subject of "measures granting" ("Non-performing exposures with forbearance measures").
The qualification of "forborne non-performing" therefore does not represent a category signs in itself in the context of impaired loans, but rather is an additional allocation transverse to the three categories mentioned above.
The Bank has adopted a specific policy for the recognition of the "forborne exposures" in the context of which were defined the various types of granting distinguishing between contractual changes with effect in "short term" (temporary suspension of payments in line capital and/or interests) or in "long-term" (renegotiation of the contractual terms and conditions and the duration of the financing). The Bank, on the basis of the characteristics of the exhibition and the objective recognition of the degree of financial difficulty of the score, currencies the measures granting more suitable in order to make sustainable repayment of the debt exposure.
Exposures known as "forborne performing" are classified in bucket 2 and the expected loss is valued, in logical "life time", considering the remaining life of the credit. "Forborne Non-Performing" exposures are instead assessed in detail on the basis of the recognition criteria laid down for impaired loans.

The renegotiations of trade are put in place in the absence of an objective financial difficulties and are aimed at maintaining the contractual relationship with the customer. The deliberative bodies within, on the basis of the autonomies in force, evaluate applications of renegotiation taking account of changes in the conditions on average practised by the market, while still safeguarding the risk efficiency of credit report.

# *Quantitative information*
## *A. Credit quality*

### *A.1 Impaired and non-impaired credit exposures: amounts, write-downs, dynamic, economic distribution*

### *A.1.1 Breakdown of financial assets by portfolio and credit quality (balance values)*

| Portfolios/quality | Non-performing loans | Defaults likely | Impaired overdue exposures | Non-impaired overdue exposures | Other non-impaired exposures | Total |
|---|---|---|---|---|---|---|
| 1, Financial assets valued at amortised cost | 122,906 | 82,108 | 19,747 | 56,650 | 3,884,461 | 4,165,872 |
| 2. Financial assets valued at fair value with impact on overall profitability | - | - | - | - | 275,921 | 275,921 |
| 3. Financial assets designated at fair value | - | - | - | - | 9,577 | 9,577 |
| 4) Other financial assets compulsorily valued at fair value | - | - | - | - | 194,751 | 194,751 |
| 5. Financial assets held for sale | - | - | - | - | - | - |
| **Total 31-12-2018** | **122,906** | **82,108** | **19,747** | **56,650** | **4,364,710** | **4,646,121** |
| **Total 31-12-2017** | | | | | | |

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

| Portfolios/quality | Impaired | | | | Non-impaired | | | Total (net exposure) |
|---|---|---|---|---|---|---|---|---|
| | Gross exposure | Overall value adjustments | Net exposure | overall partial write-off (*) | Gross exposure | Overall value adjustments | Net exposure | |
| 1. Financial assets valued at amortised cost | 430,110 | 205,349 | 224,761 | 27,184 | 3,969,655 | 28,544 | 3,941,111 | **4,165,872** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2.Financial assets valued at *fair value* with impact on overall profitability | - | - | - | - | 276,486 | 565 | 275,921 | **275,921** |
| 3. Financial assets designated at fair value | - | - | - | - | - | - | 9,577 | **9,577** |
| 4) Financial assets compulsorily valued at fair value | - | - | - | - | - | - | 194,751 | **194,751** |
| 5. Financial assets held for sale | - | - | - | - | - | - | - | **-** |
| **Total 31-12-2018** | **430,110** | **205,349** | **224,761** | **27,184** | **4,246,141** | **29,109** | **4,421,360** | **4,646,121** |
| **Total 31-12-2017** | | | | | | | | |

| **Portfolios/quality** | **Activities of obvious poor credit quality** | | **Other assets** |
|---|---|---|---|
| | **Capital losses cumulated** | **Net exposure** | **Net exposure** |
| 1. Financial assets held for trading | - | - | 75 |
| 2. Hedging derivatives | - | - | - |
| **Total 31-12-2018** | **-** | **-** | **75** |
| **Total 31-12-2017** | | | |

### *A.1.3 Breakdown of financial assets by overdue bands (balance values)*

| **Portfolios/stages of risk** | **First stage** | | | **Second stage** | | | **Third stage** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **From 1 to 30 days** | **From 30 to 90 days** | **Over 90 days** | **Up to 30 days** | **From 30 to 90 days** | **Over 90 days** | **Up to 30 days** | **From 30 to 90 days** | **Over 90 days** |
| 1. Financial assets valued at amortised cost | 19,617 | - | - | 9,024 | 18,055 | 9,954 | 3,522 | 5,268 | 181,214 |
| 2. Financial assets valued at fair value with impact on overall profitability | | - | - | - | - | - | - | - | - |
| **Total 31-12-2018** | **19,617** | **-** | **-** | **9,024** | **18,055** | **9,954** | **3,522** | **5,268** | **181,214** |
| **Total 31-12-2017** | | | | | | | | | |

## A.1.4 Financial assets, commitments to deliver funds and financial guarantees issued: dynamic of overall value adjustments and total provisions

| Description/stages of risk | Overall value adjustments | | | | | | | | | | | | | Total provisions on commitments to deliver funds and financial guarantees issued | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Assets falling within in the first stage | | | | Activities falling within the second stage | | | | Activities falling within the third stage | | | | of which: impaired financial assets acquired or originated | | | | |
| | Financial assets valued at amortised cost | Financial assets at fair value with impact on overall profit. | of which: individual. impair. | of which: collective. impair. | Financial assets valued at amortised cost | Financial assets at fair value with impact on overall profit. | of which: individual. impair. | of which: collective. impair. | Financial assets valued at amortised cost | Financial assets at fair value with impact on overall profit. | of which: individual. impair. | of which: collective. impair. | | First stage | Second stage | Third stage | |
| **Initial overall adjustments** | - | - | - | - | - | - | - | - | **(273,588)** | - | **(273,588)** | - | - | - | - | **(435)** | **(274,023)** |
| Change in increase from financial assets acquired or originated | - | - | - | - | - | - | - | - | (588) | - | (588) | - | - | - | - | - | **(588)** |
| Derecognitions other than write-offs | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net adjustments/write-backs by credit risk (+/-) | (2,508) | (70) | (1,693) | (884) | 1,628 | (9) | 184 | 1,435 | (28,741) | - | (28,741) | - | - | 143 | 377 | (48) | **(29,228)** |
| Contractual changes without cancellations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Changes in the methodology of estimation | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Write-off not recognised in income statement | - | - | - | - | - | - | - | - | 93,743 | - | 93,743 | - | - | - | - | - | **93,743** |
| Other changes | (13,871) | (486) | (622) | (13,736) | (13,792) | - | (193) | (13,599) | 3,825 | - | 3,825 | - | - | (401) | (657) | - | **(25,382)** |
| **Final overall adjustments** | **(16,379)** | **(556)** | **(2,315)** | **(14,620)** | **(12,164)** | **(9)** | **(9)** | **(12,164)** | **(205,349)** | - | **(205,349)** | - | - | **(258)** | **(280)** | **(483)** | **(235,478)** |
| Recoveries from collection on financial assets subject to write-off | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Write-off recognised directly in the income statement | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

1) For the assets under stage I and II, individual writedowns include debt securities present in the FVOCI and Ac ptf (impairment by creditworthiness), while the collective writedowns include funding entered in the AC portfolio.
2) Also for assets related to stage I and II, the line "Other changes" records valuations transposed on 01/01/2018 with the adoption of IFRS9; the principle of reference for the calculation of depreciation having changed, adjustments as as 31/12/2017 are not indicated under initial overall adjustments.

**A.1.5 Financial assets, commitments to deliver funds and financial guarantees issued: transfers between the different stages of credit risk (gross values and nominal)**

| Portfolios/stages of risk | Gross values / nominal value | | | | | |
|---|---|---|---|---|---|---|
| | **Transfers between the first stage and second stage** | | **Transfers between the second stage and the third stage** | | **Transfers between the first stage and the third stage** | |
| | **From the first stage to the second stage** | **From the second stage at the first stage** | **From the second stage at the third stage** | **From the third stage to the second stage** | **From the first stage to the third stage** | **From the third stage to the first stage** |
| 1. Financial assets valued at amortised cost | 222,756 | 333,603 | 56,585 | 28,361 | 16,627 | 9,449 |
| 2. Financial assets valued at fair value with impact on overall profitability | 67,965 | - | - | - | - | - |
| 3. Commitments to deliver funds and financial guarantees issued | 170 | 10 | 16 | 5 | 4 | - |
| **Total 31-12-2018** | **290,891** | **333,613** | **56,601** | **28,366** | **16,631** | **9,449** |
| **Total 31-12-2017** | | | | | | |

***A.1.6 Exposures for cash and off-balance sheet creditworthiness toward banks: gross and net values***

| Type of exposures/Values | Gross exposure | | Value adjustments and overall total accruals | Net Exposure | Write-off overall partial * |
|---|---|---|---|---|---|
| | Impaired | Non-impaired | | | |
| **A. CASH CREDITWORTHINESS EXPOSURES** | | | | | |
| a) Non-performance | - | - | - | - | - |
| - of which: exposures subject to concessions | - | - | - | - | - |
| b) Probability of defaults | - | - | - | - | - |
| - of which: exposures subject to concessions | - | - | - | - | - |
| c) Expired exposures impaired | - | - | - | - | - |
| - of which: exposures subject to concessions | - | - | - | - | - |
| d) Expired exposures not impaired | - | - | - | - | - |
| - of which: exposures subject to concessions | - | - | - | - | - |
| e) Other exposures not impaired | - | 231,619 | 110 | 231,509 | - |
| - of which: exposures subject to concessions | - | - | - | - | - |
| **TOTAL A** | **-** | **231,619** | **110** | **231,509** | **-** |
| **B. OFF-BALANCE SHEET EXPOSURES** | | | | | |
| a) Impaired | **-** | **-** | - | - | - |
| b) Non-impaired | **-** | 406,782 | 1 | 406,781 | **-** |
| **TOTAL B** | **-** | **406,782** | **1** | **406,781** | **-** |
| **TOTAL A+B** | **-** | **638,401** | **111** | **638,290** | - |

### *A.1.7 Creditworthiness exposures for cash and off-balance sheet exposures toward customers: gross and net values*

| Type of exposures/Values | Gross exposure | | Value adjustments and overall total accruals | Net Exposure | Write-off overall partial* |
|---|---|---|---|---|---|
| | impaired | Non-impaired | | | |
| **A. CASH CREDITWORTHINESS EXPOSURES** | | | | | |
| A) Non-performance | 287,066 | - | 164,160 | 122,906 | 27,184 |
| - of which: exposures subject to concessions | 38,694 | - | 22,803 | 15,891 | - |
| b) Probability of defaults | 120,702 | - | 38,594 | 82,108 | - |
| - of which: exposures subject to concessions | 65,337 | - | 19,036 | 46,301 | - |
| c) Expired exposures impaired | 22,342 | - | 2,595 | 19,747 | - |
| - of which: exposures subject to concessions | 15,870 | - | 1,843 | 14,027 | - |
| d) Expired exposures not impaired | - | 59,772 | 3,122 | 56,650 | - |
| - of which: exposures subject to concessions | - | 9,133 | 649 | 8,484 | - |
| e) Other exposures not impaired | - | 4,159,077 | 25,876 | 4,133,201 | - |
| - of which: exposures subject to concessions | - | 78,590 | 3,179 | 75,411 | - |
| **TOTAL A** | **430,110** | **4,218,849** | **234,347** | **4,414,612** | **27,184** |
| **B. OFF-BALANCE SHEET EXPOSURES** | | | | | |
| a) Impaired | 10,003 | - | 483 | 9,520 | - |
| b) Non-impaired | - | 1,183,425 | 537 | 1,182,888 | - |
| **TOTAL B** | **10,003** | **1,183,425** | **1,020** | **1,192,408** | **-** |
| **TOTAL A+B** | **440,113** | **5,402,274** | **235,367** | **5,607,020** | **27,184** |

Net exposures for cash are composed, beyond that from loans to customers for €3,958.5 million, by bonds present in the portfolio FVOCI for €251.8 million (item 30, assets), by debt securities included in the portfolio of financial assets must be valued at fair value for €194.8 million (item 20c), insurance policies inscribed in the portfolio of financial assets designated at fair value (item 20b) of the assets for approximately €9.6 million. Gross loans, as well as related adjustments, are exposed to the net value of the interest on arrears.

### *A.1.8 Creditworthiness exposures for cash from banks: dynamics of exposures gross impaired*

### *A.1.8bis Creditworthiness exposures for cash from banks: dynamics of gross exposures subject to separate concessions for credit quality*

The tables are not compiled given that there are no impaired loans from banks as at 31/12/2018.

### *A.1.9 Credit exposures for cash from customers: dynamics of exposures gross impaired*

| Description/Categories | Non-performing loans | Probability of defaults | Impaired overdue exposures |
|---|---|---|---|
| **A. Initial gross exposure** | **411,342** | **155,286** | **26,315** |
| - of which: sold exposures not derecognised | 1,081 | 2,414 | 2,149 |
| **B. Increases** | **43,189** | **91,313** | **38,267** |
| B.1 inputs from exposures not impaired | 584 | 32,147 | 34,536 |
| B.2 inputs from financial assets impaired acquired or originated | - | 37 | 764 |
| B.3 transfers from other categories of impaired exposures | 38,600 | 15,492 | 2 |
| B.4 contractual changes without derecognitions | - | - | - |
| B.5 Other increases | 4,005 | 43,637 | 2,965 |
| **C. Decreases** | **167,465** | **125,897** | **42,240** |
| C.1 outputs toward exhibitions not impaired | - | 21,846 | 19,412 |
| C.2 write-off | 20,682 | 5,831 | - |
| C.3 receipts | 46,726 | 57,205 | 7,079 |
| C.4 proceeds from transfers | 618 | - | - |
| C.5 losses on disposals | 98,636 | - | - |
| C.6 transfers to other categories of impaired exposures | - | 38,600 | 15,494 |
| C.7 contractual changes without derecognitions | - | - | - |
| C.8 other decreases | 803 | 2,415 | 255 |
| **D. Final gross exposure** | **287,066** | **120,702** | **22,342** |
| - of which: sold exposures not derecognised | 4,440 | 2,496 | 2,983 |

In the line "other changes in increase" the following are recorded, in general:
- for the bad debts, unresolved and other similar cases on positions entered in previous years,
- for the other categories, in particular for the shortcomings likely, even the account transfers between reports related to the same person made after the date of entry into the category (e.g. transactions of advance subject to collection).

For this table, as well as for the following A1.9bis and1.11 in the lines relating to "exposures sold and not erased" are entered the gross loans and value adjustments relating to loans securitised enrolled in portfolios transferred do not erased (self-securitisation).

***A.1.9bis Credit exposures cash from customers: dynamics of gross exposures subject to separate concessions for credit quality***

| **Description/Quality** | **Exposures subject to concessions: impaired** | **Other exposures subject to concessions: not impaired** |
|---|---|---|
| **A. Initial gross exposure** | **142,277** | **95,205** |
| - of which: sold exposures not derecognised | 1,106 | 23,016 |
| **B. Increases** | **58,208** | **58,302** |
| B.1 inputs from exposures not impaired not subject to concessions | 1,611 | 38,283 |
| B.2 inputs from exposures not impaired subject to concessions | 19,099 | - |
| B.3 inputs from exposures subject to concessions impaired | - | 12,106 |
| B.4 Other increases | 37,498 | 7,913 |
| **C. Decreases** | **80,584** | **65,784** |
| C.1 outputs toward exhibitions not impaired not subject to concessions | - | 26,148 |
| C.2 outputs toward exhibitions not impaired subject of concessions | 12,106 | - |
| C. 3 outputs toward exposures subject to concessions impaired | - | 19,099 |
| C.4 write-off | 492 | - |
| C.5 Receipts | 27,921 | 19,553 |
| C.6 proceeds from transfers | 14,870 | - |
| C.7 losses from transfers | 14,663 | - |
| C.8 other decreases | 10,532 | 984 |
| **D. Final gross exposure** | **119,901** | **87,723** |
| **- of which: sold exposures not derecognised** | **2,035** | **26,957** |

### A.1.10 Credit exposures for cash impaired to banks: changes in overall impairment

As at 31/12/2018, there are impaired exposures towards banks; the relative table is therefore not compiled.

### A.1.11 Credit exposures for cash impaired towards customers: changes in overall impairment

| Description/Categories | Non-performing loans | | Probability of defaults | | Impaired overdue exposures | |
|---|---|---|---|---|---|---|
| | Total | of which: exposures subject to concessions | Total | of which: exposures subject to concessions | Total | of which: exposures subject to concessions |
| **A. Initial overall adjustments** | **229,675** | **33,090** | **41,824** | **19,178** | **2,089** | **1,092** |
| - of which: sold exposures not derecognised | 189 | - | 376 | - | 167 | 86 |
| **B. Increases** | **70,283** | **5,441** | **16,081** | **5,358** | **2,007** | **1,508** |
| B.1 value adjustments by financial assets impaired acquired or originated | - | - | - | - | - | - |
| B.2 Other value adjustments | 17,712 | 3,437 | 9,147 | 4,181 | 934 | 1,262 |
| B.3 losses from transfers | 5,275 | 1,559 | 366 | - | - | - |
| B.4 transfers from other categories of impaired exposures | 6,896 | 436 | 207 | 79 | - | - |
| B.5 contractual changes without derecognitions | - | - | - | - | - | - |
| B.6 Other increases | 40,400 | - | 6,361 | 1,098 | 1,073 | 246 |
| **C. Decreases** | **135,798** | **15,728** | **19,311** | **5,500** | **1,501** | **757** |
| C.1. write-backs from valuation | 6,144 | 1,098 | 5,284 | 3,155 | 669 | 455 |
| C.2 write-backs from collection | 5,885 | 350 | 1,975 | 690 | 236 | 63 |
| C.3 Gains on disposal | 3,619 | 100 | - | - | - | |
| C.4 write-off | 93,743 | 13,017 | 5,466 | - | - | - |
| C.5 transfers to other categories of impaired exposures | - | - | 6,507 | 1,655 | 596 | 239 |
| C.6 contractual changes without derecognitions | - | - | - | - | - | - |
| C.7 other decreases | 26,407 | 1,163 | 79 | - | - | - |
| **D. Final overall adjustments** | **164,160** | **22,803** | **38,594** | **19,036** | **2,595** | **1,843** |
| - of which: sold exposures not derecognised | 1,006 | 23 | 587 | 25 | 341 | 197 |

Within the values exposed in correspondence to the "other increases" are inserted the integrations of writedowns transposed on 01/01/2018 on the occasion of the adoption of IFRS9, integrations described in an appropriate part of the accounting policies.
In parallel and in particular for bad debts, in the "other decreases" are entered in addition to the amount corresponding to the "losses on disposal" also corrections of credit transposed with IFRS9 and used in place of the disposal of impaired loans made during the year.

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

### A.2.1 Breakdown of financial assets, commitments to deliver the funds and financial guarantees issued: for classes of external ratings (gross values)

In accordance with the rules on compiling provided by Banca d'Italia, the table in question has not been populated since the amount of exposures with external rating is attributable exclusively to titles of state since the Bank has chosen only for these activities to take advantage of the rating issued by authorised agencies as appropriate decision of the Board of Directors.

### A.2.2 Breakdown of financial assets, commitments to deliver the funds and financial guarantees issued: for classes of internal ratings (gross values)

The table is not compiled because, to date, models of Rating provided by the outsourcer are used only for management purposes as an instrument of classification, analysis and monitoring of customers.

## *A.3 Distribution of credit risk exposures guaranteed by type of security*

### A.3.1 Credit exposures for cash and off-financial statements from banks guaranteed

The table is not compiled as, as at 31/12/2018, there are no exposures secured to banks.

## *A.3.2 Credit exposures for cash and off-financial statements towards customers guaranteed*

| | | | Real guarantees (1) | | | | Personal guarantees (2) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Credit derivatives | | | | | Endorsement credits | | | |
| | | | | | | | | Other derivatives | | | | | | | |
| | Gross exposure | Net exposure | Real Estate - Mortgages | Real Estate - Financial leasing | Securities | Other real guarantees | CLN | Central Counterparties | Banks | Other financial companies | Other subjects | Public Administrations | Banks | Other financial companies | Other subjects | Total (1)+(2) |
| **1. Credit exposures for cash guaranteed:** | **2,479,816** | **2,347,453** | **1,251,927** | **-** | **76,271** | **91,118** | **-** | **-** | **-** | **-** | **-** | **509,760** | **48** | **14,383** | **345,659** | **2,289,166** |
| 1.1 fully guaranteed | 2,058,554 | 1,937,367 | 1,241,659 | - | 54,892 | 79,489 | - | - | - | - | - | 222,267 | 48 | 9,104 | 318,611 | 1,926,070 |
| - of which impaired | 289,656 | 187,566 | 147,802 | - | 1,038 | 1,685 | - | - | - | - | - | 5,757 | - | 1,161 | 28,039 | 185,482 |
| 1.2 partially guaranteed | 421,262 | 410,086 | 10,268 | - | 21,379 | 11,629 | - | - | - | - | - | 287,493 | - | 5,279 | 27,048 | 363,096 |
| - of which impaired | 20,528 | 12,072 | 1,466 | - | 395 | | - | - | - | - | - | 4,264 | - | 629 | 2,663 | 9,418 |
| **2. Guaranteed "off-balance sheet" credit exposures:** | **282,690** | **282,038** | **4,548** | **-** | **13,209** | **6,593** | **-** | **-** | **-** | **-** | **-** | **2,328** | **560** | **331** | **236,860** | **264,429** |
| 2.1 fully guaranteed | 236,416 | 235,944 | 4,548 | - | 10,955 | 3,558 | - | - | - | - | - | 915 | 560 | 229 | 215,009 | 235,774 |
| - of which impaired | 2,466 | 2,152 | 15 | - | 290 | 167 | - | - | - | - | - | - | - | 20 | 1,661 | 2,152 |
| 2.2 partially guaranteed | 46,274 | 46,094 | - | - | 2,254 | 3,035 | - | - | - | - | - | 1,413 | - | 102 | 21,851 | 28,655 |
| - of which impaired | 1,020 | 875 | - | - | - | 3 | - | - | - | - | - | - | - | - | 559 | 562 |

# *B. Distribution and concentration of credit risk exposures*

## *B.1 Sectoral distribution of credit risk exposures for cash and off-balance-sheet to customers*

| Exposures/Counterparts | Public Administrations | | Finance companies | | Financial companies (of which: insurance undertakings) | | Non-financial companies | | Households | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Overall value adjustments | Net exposure | Overall value adjustments | Net exposure | Overall value adjustments | Net exposure | Overall value adjustments | Net exposure | Overall value adjustments |
| **A. Exposures for cash** | | | | | | | | | | |
| A.1 Bad debts | - | - | 363 | 529 | - | - | 79,834 | 123,128 | 42,708 | 40,502 |
| - of which exposures subject to concessions | - | - | - | - | - | - | 8,797 | 20,457 | 7,093 | 2,346 |
| A.2 Probability of defaults | - | - | 74 | 25 | - | - | 55,286 | 30,764 | 26,748 | 7,806 |
| - of which exposures subject to concessions | - | - | 71 | 23 | - | - | 28,360 | 13,924 | 17,870 | 5,088 |
| A.3 Impaired overdue exposures | - | - | 9 | 1 | - | - | 13,455 | 1,755 | 6,284 | 839 |
| - of which exposures subject to concessions | - | - | - | - | - | - | 10,127 | 1,316 | 3,900 | 528 |
| A.4 Exposures not impaired | 1,087,372 | 2,441 | 503,125 | 646 | - | - | 1,758,707 | 20,654 | 840,647 | 5,257 |
| - of which exposures subject to concessions | - | | 898 | 33 | - | - | 58,688 | 3,203 | 24,309 | 592 |
| **Total (A)** | **1,087,372** | **2,441** | **503,571** | **1,201** | **-** | **-** | **1,907,282** | **176,301** | **916,387** | **54,404** |
| **B. Off-balance sheet exposures** | | | | | | | | | | |
| B.1 Impaired exposures | - | - | 13 | 85 | - | - | 9,012 | 315 | 496 | 83 |
| B.2 Exposures not impaired | 5,442 | - | 35,243 | 1 | - | - | 1,065,212 | 502 | 76,990 | 34 |
| **Total (B )** | **5,442** | **-** | **35,256** | **86** | **-** | **-** | **1,074,224** | **817** | **77,486** | **117** |
| **Total (A+B) 31-12-2018** | **1,092,814** | **2,441** | **538,827** | **1,287** | **-** | **-** | **2,981,506** | **177,118** | **993,873** | **54,521** |
| **Total (A+B) 31-12-2018** | | | | | | | | | | |

## *B.2 Territorial distribution of credit risk exposures for cash and off-balance-sheet from customers*

| Exposures/Geographical Areas | Italy | | Other European countries | | America | | Asia | | Rest of the world | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Overall value adjustments | Net exposure | Overall value adjustments | Net exposure | Overall value adjustments | Net exposure | Overall value adjustments | Net exposure | Overall value adjustments |
| **A. Exposures for cash** | | | | | | | | | | |
| A.1 Bad debts | 122,906 | 164,160 | - | - | - | - | - | - | - | - |
| A.2 Probability of defaults | 82,091 | 38,589 | 17 | 5 | - | - | - | - | - | - |
| A.3 Impaired overdue exposures | 19,747 | 2,595 | - | - | - | - | - | - | - | - |
| A.4 Exposures not impaired | 4,129,350 | 28,850 | 44,502 | 91 | 14,425 | 53 | 1,573 | 4 | - | - |
| **Total (A)** | **4,354,094** | **234,194** | **44,519** | **96** | **14,425** | **53** | **1,573** | **4** | **-** | **-** |
| **B. Off-balance sheet exposures** | | | | | | | | | | |
| B.1 Impaired exposures | 9,520 | 483 | - | - | - | - | - | - | - | - |
| B.2 Exposures not impaired | 1,182,440 | 537 | 27 | - | 421 | - | - | - | - | - |
| **Total (B )** | **1,191,960** | **1,020** | **27** | **-** | **421** | **-** | **-** | **-** | **-** | **-** |
| **Total (A+B) 31-12-2018** | **5,546,054** | **235,214** | **44,546** | **96** | **14,846** | **53** | **1,573** | **4** | **-** | **-** |
| **Total (A+B) 31-12-2018** | | | | | | | | | | |

## *B.3 territorial distribution of credit risk exposures for cash and off-balance-sheet toward banks*

| Exposures/Geographical Areas | Italy | | Other European countries | | America | | Asia | | Rest of the world | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Overall value adjustments | Net exposure | Overall value adjustments | Net exposure | Overall value adjustments | Net exposure | Overall value adjustments | Net exposure | Overall value adjustments |
| **A. Exposures for cash** | | | | | | | | | | |
| A.1 Bad debts | - | - | - | - | - | - | - | - | - | - |
| A.2 Probability of defaults | - | - | - | - | - | - | - | - | - | - |
| A.3 Impaired overdue exposures | - | - | - | - | - | - | - | - | - | - |
| A.4 Exposures not impaired | 220,110 | 102 | 6,871 | 7 | 2,777 | 1 | 1,016 | - | 735 | - |
| **Total (A)** | **220,110** | **102** | **6,871** | **7** | **2,777** | **1** | **1,016** | **-** | **735** | **-** |
| **B. Off-balance sheet exposures** | | | | | | | | | | |
| B.1 Impaired exposures | - | - | | - | - | - | - | - | - | - |
| B.2 Exposures not impaired | 385 | - | 70 | - | - | - | 60 | - | 74 | 1 |
| **Total (B )** | **385** | **-** | **70** | **-** | **-** | **-** | **60** | **-** | **74** | **1** |
| **Total (A+B) 31-12-2018** | **220,495** | **102** | **6,941** | **7** | **2,777** | **1** | **1,076** | **-** | **809** | **1** |
| **Total (A+B) 31-12-2018** | | | | | | | | | | |

## *B.4 Major exposures*

According to the definition contained in EU Regulation 575/2013 (CRR) constitute "large exposures' exposures to a client or group of connected clients when their value is greater than or equal to 10% of eligible capital of the institution (Article 392), without the application of the values of the weighting.
Limit to large exposures (Article 395 CRR) means taking account of the effect of credit risk mitigation (weighted values), 25% of eligible capital of the Bank; in the case in which the customer is a credit or if within a group of connected clients is present an institution, the limit is high at €150 million if the value calculated at 25% is lower than the amount mentioned above.

The concept of exposure includes both credits for cash credits outside the financial statements; in the aggregates are including exposures to the Central Government Communities, in particular those represented by debt securities.

As at 31/12/2018, the permissible capital amounted to €387,006 thousand. For "large exposures" there were counterparts for a total nominal value of €2,255,876 thousand and weighted value of €253,287 thousand, of which:
- exposures to customers for a nominal amount of €106,100 thousand and weighted amount of €53,073 thousand;
- exposure to the Italian State (Ministry of Treasury) for €1,578 million, weighted €55 million: this item, as well as exposure for debt securities, includes the credit for tax assets;
- 1 exposure toward financial intermediaries for €58 million weighted at 100%, which cash proceeds from securitised mortgages and temporarily deposited with other entities;
- Other exposures to financial intermediaries, mainly for transactions of PcT passive, for €513 million nominal, €87 million weighted.

# C. Securitisation Transactions

## Qualitative information

***Objectives, strategies and processes underlying the securitisation transactions***

The Bank has identified in securitisation transactions a tool to diversify the sources of *funding*, in particular in order to establish an adequate liquidity reserve to protect the bank from any possible situations of "stress".

As at 31/12/2018, the Institute had two self-securitisation transactions.
The first, to be finalised in 2012, reopened for the first time in January 2015 (" *First size increase"* ) and a second in July 2018 (" *Second size increase")* , called "Valsabbina SPV 1", has for object the sale of a portfolio of mortgage loans to individuals with the intent to dispose of securities eligible in order to be transactions of *funding* with the European Central Bank, i.e. have funding at rates equal to those officers secured by assets eligible net of a margin of tolerance ("*haircut*").
The Bank subscribed, at the time of issuing, to all liabilities issued.
With the same objective, on 10 November 2016, the sale of a portfolio of mortgages and unsecured was finalised, for a total amount of approximately €648 million, by the Bank to the vehicle company Valsabbina SPV 1 Srl, in the context of the transaction of the securitisation of loans granted to SMES called "Valsabbina SME".
Also in this case all the securities issued were subscribed by the Bank.

Both transactions are best described in section III - Liquidity risk.

Finally, in the month of December 2015, in the context of a securitisation transaction multi-originator, the Bank has sold pro-solute non-performing credits for a gross amount of €5.8 million (net €2.2 million) at a price of about €2 million. To hedge credit due, the Bank has received in the liquidity and partly a title having underlying Non-Performing Loans transferred from various Institutes (including ours).

By subscribing to bonds issued by various SPV, the Bank has also continued the activities of purchase amounts receivable by businesses and professionals toward the Public Administration.

Finally, in the course of 2018, the Bank carried out subscriptions of bonds issued in the context of two separate securitisation transactions, the first with an underlying personal loan, while the second with an underlying loans arising from the disposal of the fifth of the salary.

# D. Information on Structured entities not consolidated accountant (different from vehicle company for securitisation)

## Qualitative information

The section is not compiled because the bank does not use structured entities not consolidated accountant different from vehicle company for securitisation.

## Quantitative information

The section is not compiled because the bank does not use structured entities not consolidated accountant different from vehicle company for securitisation.

# E. Transfer Operations

## *A. Financial assets sold and not fully derecognised*

## *Qualitative information*
## *Quantitative information*

### *E.1 Financial assets sold recognised in full and associated financial liabilities: balance values*

| | **Financial assets sold recognised in full** | | | | **Associated financial liabilities** | | |
|---|---|---|---|---|---|---|---|
| | **Balance sheet value** | **of which the subject of securitisation transactions** | **of which are the subject-matter of contracts of sale and repurchase transactions** | **of which impaired** | **Balance sheet value** | **of which: the subject of securitisation transactions** | **of which: hedged by contracts of sale and repurchase transactions** |
| **A. Financial assets held for trading** | - | - | - | - | - | - | - |
| 1. Debt instruments | - | - | - | - | - | - | - |
| 2. Equity instruments | - | - | - | - | - | - | - |
| 3. Loans | - | - | - | - | - | - | - |
| 4. Derivatives | - | - | - | - | - | - | - |
| **B. financial assets compulsorily valued at fair value** | - | - | - | - | - | - | - |
| 1. Debt instruments | - | - | - | - | - | - | - |
| 2. Equity instruments | - | - | - | - | - | - | - |
| 3. Loans | - | - | - | - | - | - | - |
| **C. Financial assets designated at fair value** | | | | | | | |
| 1. Debt instruments | - | - | - | - | - | - | - |
| 2. Loans | - | - | - | - | - | - | - |
| **D. Financial assets valued at fair value with impact on overall profitability** | **85,690** | **-** | **85,690** | **-** | **(85,376)** | **-** | **(85,376)** |
| 1. Debt instruments | 85,690 | - | 85,690 | | (85,376) | - | (85,376) |
| 2. Equity instruments | - | - | - | - | - | - | - |
| 3. Loans | - | - | - | - | - | - | - |
| **E. Financial assets valued at amortised cost** | **345,918** | **-** | **345,918** | **-** | **(313,577)** | **-** | **313,577** |
| 1. Debt instruments | 345,918 | - | 345,918 | - | (313,577) | - | (313,577) |
| 2. Loans | - | - | - | - | - | - | - |
| **Total 31-12-2018** | **431,608** | **-** | **431,608** | **-** | **(398,953)** | **-** | **(398,953)** |
| **Total 31-12-2017** | | | | | | | |

## *B. Financial assets sold and erased integrally with recognition of the continuing involvement (continuing involvement)*

## *Qualitative information*

As at 31/12/2018, the Bank has no transactions of this type.

***Quantitative information***

As at 31/12/2018, the Bank has no transactions of this type.

## *F. Models for the measurement of credit risk*

Models and procedures aimed to classify customers in risk classes are used, as said above, for management more accurate credit risk.
These models are not currently used for the purposes of calculating capital ratios, since for these purposes, the Bank uses the standard methodology.

# *Section 2 - Market risks*

## *2.1 Interest Rate Risk and Price Risk - Regulatory trading portfolio*

## *Qualitative information*

## *A. General Aspects*

For the purposes of the compilation of the present section is exclusively consider financial instruments hedged in "regulatory trading book", as defined in the rules concerning reports of supervision on market risks.
The activity of investment in securities is carried out alternately in an optical receipt of only the cash flows of the contract, in a logic of business model "held to collect" (HTC), or in an optical joint collection of contractual flows and possible realisation of capital gains deriving from the sale, in a logic of business model "held to collect and sell".
Therefore, the transactions that in the course of the year have affected the trading portfolio were marginal.

## *B. Management Processes and methods for measuring interest rate risk and price risk*

The internal legislation lays down both operating limits (in terms of the consistency of the portfolio and breakdown for typology of titles), both of exposure to interest rate risk (in terms of financial duration or "duration") and of credit risk (in terms of ratings and counterparts).

In view of the insignificance of the trading portfolio the measurement of interest rate risk and price risk was carried out solely on banking portfolio.

# *Quantitative information*

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

| Type/residual Duration | On demand | up to 3 months | For over 3 months up to 6 months | For over 6 months to 1 year | For over 1 year to 5 years | For over 5 years to 10 years | More than 10 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | - | - | - | - | - | - | - | - |
| 1.1 Debt instruments | - | - | - | - | - | - | - | - |
| - with early repayment option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 1.2 Other assets | - | - | - | - | - | - | - | - |
| **2. Cash liabilities** | - | - | - | - | - | - | - | - |
| 2.1 Payable interest | - | - | - | - | - | - | - | - |
| 2.2 Other liabilities | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | - | **5,082** | **2,526** | **417** | - | - | - | - |
| 3.1 With underlying security | - | - | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - | - | - |
| 3.2 Without an underlying security | - | 5,082 | 2,526 | 417 | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | 5,082 | 2,526 | 417 | - | - | - | - |
| + long positions | - | 3,002 | 1,265 | 209 | - | - | - | - |
| + short positions | - | 2,080 | 1,261 | 208 | - | - | - | - |

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

| Type/residual Duration | On demand | up to 3 months | For over 3 months up to 6 months | For over 6 months to 1 year | For over 1 year to 5 years | For over 5 years to 10 years | More than 10 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | - | - | - | - | - | - | - | - |
| 1.1 Debt instruments | - | - | - | - | - | - | - | - |
| - with early repayment option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 1.2 Other assets | - | - | - | - | - | - | - | - |
| **2. Cash liabilities** | - | - | - | - | - | - | - | - |
| 2.1 Payable interest | - | - | - | - | - | - | - | - |
| 2.2 Other liabilities | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | - | **5,119** | **2,585** | **437** | - | - | - | - |
| 3.1 With underlying security | - | - | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - | - | - |
| 3.2 Without an underlying security | - | 5,119 | 2,585 | 437 | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | 5,119 | 2,585 | 437 | - | - | - | - |
| + long positions | - | 2,103 | 1,293 | 218 | - | - | - | - |
| + short positions | - | 3,016 | 1,292 | 219 | - | - | - | - |

***2. Regulatory trading portfolio: distribution of exposures in equity securities and stock indices for the main countries of the listing market***

The table concerning section is not populated since, as at 31/12/2018, there are no equity securities chargeable in this portfolio.

***3. Regulatory trading portfolio: internal models and other methods of analysis of sensitivity***

The methodologies of analysis of sensitivity are applied on banking portfolio.

## *2.2 Interest rate risk and price - banking portfolio*

# *Qualitative information*

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

The interest rate risk is generated by the imbalance between the maturities (re-pricing) of asset and liability items belonging to the banking portfolio. The latter is constituted by all the financial instruments, both assets and liabilities, not included in the trading book for the purposes of the regulatory provisions referred to in Section 2.1.
The Directorate-general responsible for the declination of the guidelines for the management of the banking book in accordance with the strategic guidelines defined by the Board of Directors and the monitoring of the management of the same.
The Business Division proposes to the Directorate General to the possible transactions of management and mitigation of the interest rate risk of banking book.
The mitigation of the risk rate is pursued through the integrated management of the assets and liabilities of banking and is aimed at stabilising the interest margin and to safeguard the economic value of the banking book.
In particular, portfolio management bonds is oriented at a business model aimed at collecting the cash flows of the contract (Held to collect) or the collection of the same together with the realisation of capital gains deriving from the sale of financial instruments (Held to collect and sell).
The measurement of interest rate risk is carried out by the Service Risk Management Planning & Control. The recognition takes place on a monthly basis, in particular for each sensitive mail, identified in the time horizon chosen for analysis, account shall be taken of the specific modalities of re-pricing.
The ERMAS procedure allows you to monitor the activities of the bank connected with the transformation of the maturities of assets and liabilities and to quantify the effects of the type of assets and economic, induced by hypothetical shock of market rates. Said shock are processed in the context of macroeconomic scenarios, i.e. theoretical displacements of the curves of the market rates.
Through the use of the application ERMAS it is possible to analyse the impact that unexpected changes in the external market conditions determine the profitability of the bank, offering also the possibility of carrying out an estimation of the change of the interest margin expected and the business value of the assets based on data monthly capital.
To measure the variability of the interest margin, determined by positive and negative changes of the rates over a period of 365 days, it performs a monitoring on the differences between asset and liability items placed financial statements, grouped according to the date of expiry or the redefinition of the rate; the method used is that of "gap analysis", through more approaches that allow you to arrive at estimates always more punctual. The measurement techniques in the management of exchange rate risk are consistently implemented by the Risk Management Planning & Control Department.
In particular in the measurement for management purposes of the exchange rate risk is used the behavioural model constructed for the post office to view of collection and use.
The measurement of the sensitivity of the economic value of the assets and liabilities of the Bank to vary interest rates is carried out through analysis of "Duration Gap" and "Sensitivity Analysis".

For the quantification of the risk of price with reference to the titles of property of the bank, you use a model based on the concept of value at risk (Value at Risk - V.a.R.), in such manner as to express in a concise and in monetary terms the maximum loss likely a static portfolio, with reference to a specific period of time and to a specific level of confidence in normal market conditions. For the calculation of the V.a.R. Service Risk Management Planning and Control uses the application ERMAS. The financial information necessary for the determination of the V.a.R. (Volatility,

correlations, structure in the long-term interest rates, exchange rates, equity indices and benchmark indices) are provided by the product Risk Size. The model of V.a.R. adopted is parametric type and are prudentially used a confidence interval of 99% and a period of time equal to 10 days. The measurement of V.a.R. occurs by taking into consideration the bond that exists between the single instrument and the risk factor for reference.
The Service Risk Management Planning & Control unit calculates the daily V.a.R. separately for the securities portfolio managed internally by the Financial Sector of the bank and for the allocated portfolio under management at two external operators.
It was also arranged an analysis of "backtesting" (i.e. a timely comparison of V.a.R. of portfolio with the daily movements of the portfolio of properties), aimed at verifying the reliability of the model V.a.R. in predicting the quantification of (possible) loss on securities portfolio. The methodology of calculation adopted foresees that the losses/theoretical gains recorded in the course of the day are compared with the V.a.R. of the previous day. The losses/theoretical gains are determined by re-evaluating the time "t" the positions of the end of the day to "t-1" (assuming that the positions remain unchanged).
From the analysis of "backtesting" carried out in 2018 were discovered six cases of exceeding the V.a.R., calculated for the portfolio managed internally, while relatively to the portfolios under management to external operators there has been only one case of the exceeding of limits. The exceeding of the limits of the measurements of risk were recorded in conjunction with moments of tension occurring on financial markets mainly as a result of the economic crisis in Italian politics. The activity of backtesting anyway confirms the reliability of the measurement of the risk carried out through the V.a.R.

For the quantification of the risk of price are constantly monitored stock quotes (for listed securities). For unlisted securities on regulated markets are carried out specific recognitions on the basis of any transactions carried out in the course of the year on the same or comparable instruments, or using models of alternative recognition, who consider data coming from different sources. The policies relating to the methods of assessing the financial instruments in the portfolio are defined in the document called the "fair value" policy.

The duration of the securities portfolio of properties as at 31 December 2018 was equal to 2.83 years.

# *Quantitative information*

### *1. Banking portfolio: distribution for residual duration (re-pricing date) of financial assets and liabilities - Currency of denomination: EURO*

| Type/residual Duration | On demand | up to 3 months | For over 3 months up to 6 months | For over 6 months to 1 year | For over 1 year to 5 years | For over 5 years to 10 years | More than 10 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| **1, Cash assets** | **1,673,672** | **1,463,149** | **480,325** | **45,382** | **413,180** | **311,837** | **244,552** | **-** |
| 1.1 Debt instruments | 25,642 | 280,292 | 434,857 | 6,308 | 207,259 | 236,826 | 166,527 | - |
| - with early repayment option | - | 5,523 | 793 | 723 | 13,993 | 16,148 | 12,085 | - |
| - other | 25,642 | 274,769 | 434,064 | 5,585 | 193,266 | 220,678 | 154,442 | - |
| 1.2 Loans to banks | 3,086 | 178,817 | 8,042 | - | 10,074 | - | - | - |
| 1.3 Loans to customers | 1,644,944 | 1,004,040 | 37,426 | 39,074 | 195,847 | 75,011 | 78,025 | - |
| - C/C | 460,921 | - | 2,333 | 824 | 18,633 | 6,606 | - | - |
| - other financing | 1,184,023 | 1,004,040 | 35,093 | 38,250 | 177,214 | 68,405 | 78,025 | - |
| - with early repayment option | 988,103 | 825,572 | 34,312 | 36,982 | 175,040 | 67,559 | 68,383 | - |
| - other | 195,920 | 178,468 | 781 | 1,268 | 2,174 | 846 | 9,642 | - |
| **2. Cash liabilities** | **2,279,988** | **778,635** | **138,427** | **176,892** | **1,089,061** | **15,405** | - | - |
| 2.1 Payable to customers | 2,271,822 | 223,935 | 112,253 | 89,645 | 242,825 | 269 | - | - |
| - C/C | 2,241,852 | 223,935 | 112,253 | 89,645 | 242,825 | 269 | - | - |
| - other payables | 29,970 | - | - | - | - | - | - | - |
| - with early repayment option | - | - | - | - | - | - | - | - |
| - other | 29,970 | - | - | - | - | - | - | - |
| 2.2 Payables to banks | 8,009 | 548,953 | - | - | 684,156 | - | - | - |
| - C/C | 863 | - | - | - | - | - | - | - |
| - other payables | 7,146 | 548,953 | - | - | 684,156 | - | - | - |
| 2.3 Debt instruments | - | 5,747 | 26,174 | 87,247 | 162,080 | 15,136 | - | - |
| - with early repayment option | - | - | - | - | - | - | - | - |
| - other | - | 5,747 | 26,174 | 87,247 | 162,080 | 15,136 | | - |
| 2.4 Other liabilities | 157 | - | - | - | - | - | - | - |
| - with early repayment option | - | - | - | - | - | - | - | - |
| - other | 157 | - | - | - | - | - | - | - |
| **3. Financial derivatives** | **243,182** | **185,429** | **37,424** | **46,286** | **234,251** | **54,607** | **35,898** | - |
| With underlying security | - | 8 | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | 8 | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - | - | - |
| + short positions | - | 8 | - | - | - | - | - | - |
| 3.2 Without an underlying security | 243,182 | 185,421 | 37,424 | 46,286 | 234,251 | 54,607 | 35,898 | - |
| - Options | 243,182 | 185,421 | 37,424 | 46,286 | 234,251 | 54,607 | 35,898 | - |
| + long positions | - | 18,159 | 29,830 | 45,790 | 234,251 | 54,607 | 35,898 | - |
| + short positions | 243,182 | 167,262 | 7,594 | 496 | - | - | - | - |
| - Other derivatives | - | - | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - | - | - |
| **4. Other off-financial statements transactions** | **73,072** | - | - | - | - | - | - | - |
| + long positions | 36,536 | - | - | - | - | - | - | - |
| + short positions | 36,536 | - | - | - | - | - | - | - |

***1. Banking portfolio: distribution for residual duration (re-pricing date) of financial assets and liabilities - Currency of denomination: OTHER CURRENCIES***

| Type/residual Duration | On demand | up to 3 months | For over 3 months up to 6 months | For over 6 months to 1 year | For over 1 year to 5 years | For over 5 years to 10 years | More than 10 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|
| **1, Cash assets** | **3,265** | **7,165** | **76** | **1,406** | **1,632** | - | - | - |
| 1.1 Debt instruments | - | 5,235 | - | 88 | 1,632 | - | - | - |
| - with early repayment option | - | 1,283 | - | - | - | - | - | - |
| - other | - | 3,952 | - | 88 | 1,632 | - | - | - |
| 1.2 Loans to banks | 2,413 | - | - | 1,318 | - | - | - | - |
| 1.3 Loans to customers | 852 | 1,930 | 76 | - | - | - | - | - |
| - C/C | 509 | - | - | - | - | - | - | - |
| - other financing | 343 | 1,930 | 76 | - | - | - | - | - |
| - with early repayment option | 343 | 1,930 | 76 | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| **2. Cash liabilities** | **5,761** | - | - | - | - | - | - | - |
| 2.1 Payable to customers | 5,761 | - | - | - | - | - | - | - |
| - C/C | 5,761 | - | - | - | - | - | - | - |
| - other payables | - | - | - | - | - | - | - | - |
| - with early repayment option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 2.2 Payables to banks | - | - | - | - | - | - | - | - |
| - C/C | - | - | - | - | - | - | - | - |
| - other payables | - | - | - | - | - | - | - | - |
| 2.3 Debt instruments | - | - | - | - | - | - | - | - |
| - with early repayment option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 2.4 Other liabilities | - | - | - | - | - | - | - | - |
| - with early repayment option | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | - | - | - | - | - | - | - | - |
| With underlying security | - | - | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - | - | - |
| 3.2 Without an underlying security | - | - | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - | - | - |
| **4. Other off-financial statements transactions** | - | **591** | - | - | - | - | - | - |
| + long positions | - | *295* | - | - | - | - | - | - |
| + short positions | - | *296* | - | - | - | - | - | - |

The valuation of long and short positions exposed in financial derivatives is mainly due to reports of financing to customers that provide contractually the payment of an interest rate indexed with a minimum threshold and/or maximum ("floor" and "cap").

### *2. Banking portfolio: internal models and other methods for the analysis of sensitivity*

The measurement of interest rate risk in a logic of second pillar takes place first of all on the basis of the standard algorithm provided by Banca d'Italia Circular No. 285 of 2013, by means of the processing of a synthetic index that expresses the ratio between the change of the net value of the portfolio of banking in the event of a shock of rate (200 basis points) and the "own funds". The Bank has always maintained the risk index at a lower level than the attention threshold fixed by the legislation (20%).
Is also calculated the change of the economic value of the banking portfolio against displacements parallel not interest rate curve.
The measurement of interest rate risk also occurs for internal management and on a monthly basis by using the procedure ERMAS that instead allows to quantify the effects, both on the net value of the banking book that on the margin of the expected interest arising from hypothetical shock of market rates (for example by assuming changes of the curve of interest rates and applying different types of scenarios).
The use of ERMAS procedure allows you to perform specific analysis, even on individual items in the financial statements and on individual transactions, which allow to take account of the peculiarities of the structure of the assets and liabilities of the Bank.

## *2.3 Exchange rate risk*
## *Qualitative information*

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

The bank is exposed to the risk of transmission to a marginal extent, being constantly oriented to the daily balance of foreign currency positions, that is obtained by considering both the positions to ready that those in the long term. Transactions, accounted for in derivatives trading and in financial liabilities held for trading, are carried out in return to the specific demands of customers and without taking risk positions.
The exchange rate risk is managed by the operating limits, intraday and end of day; moreover the internal legislation establishes operating limits of stop loss both on individual positions, that on the overall position assumed by the Bank.
The exchange rate risk assumed by the Bank in the exercise is derived primarily from investment in securities denominated in currencies other than the Euro within the framework of mandates of external managers, where are defined the limits to the recruitment of foreign-exchange risk.

## *B. Exchange rate risk hedging activities*

The primary objective of the Bank is to manage in a prudent manner the exchange risk, subjecting it to appropriate hedges transactions directly with customers.

# *Quantitative information*

### *1. Distribution by currency of assets, liabilities and derivatives.*

| Items | Currencies | | | | | |
|---|---|---|---|---|---|---|
| | US dollars | Pounds | Yen | Canadian dollars | Swiss francs | Other currencies |
| **A. Financing activity** | **16,199** | **791** | **394** | **204** | **70** | **263** |
| A.1 Debt instruments | 6,663 | - | - | 204 | - | 88 |
| A.2 Equity instruments | 4,378 | - | - | - | - | |
| A.3 Loans to banks | 2,980 | 111 | 394 | - | 70 | 175 |
| A.4 Loans to customers | 2,178 | 680 | - | - | - | - |
| A.5 Other financial assets | - | - | - | - | - | - |
| **B. Other assets** | **(86)** | **(75)** | **(53)** | - | **(14)** | **(60)** |
| **C. Financial liabilities** | **5,287** | **74** | **249** | - | **93** | **58** |
| C.1 Payables to banks | - | - | - | - | - | - |
| C.2 Amounts due to customers | 5,287 | 74 | 249 | - | 93 | 58 |
| C.3 Debt instruments | - | - | - | - | - | - |
| C.4 Other financial liabilities | - | - | - | - | - | - |
| **D. Other liabilities** | 13 | - | - | - | - | - |
| **E. Financial derivatives** | **7,170** | **772** | **199** | - | - | - |
| - Options | - | - | - | - | - | - |
| + long positions | - | - | - | - | - | - |
| + short positions | - | - | - | - | - | - |
| - Other derivatives | 7,170 | 772 | 199 | - | - | - |
| + long positions | 3,614 | - | - | - | - | - |
| + short positions | 3,556 | 772 | 199 | - | - | - |
| **Total assets** | **19,727** | **716** | **341** | **204** | **56** | **203** |
| **Total liabilities** | **8,856** | **846** | **448** | **-** | **93** | **58** |
| **Imbalance ( +/-)** | **10,871** | **(130)** | **(107)** | **204** | **(37)** | **145** |

### *2. Internal models and other methods for price risk analysis*

It has recourse to methods of sensitivity analysis of exchange risk since the positions active and passive, spot and forward are kept trimmed.

# Section 3 - Derivative instruments and hedging policies

## 3.1 Trading derivative tools
## A. Financial derivatives

### A.1 Trading financial derivatives: values at the end of the period

| Underlying assets/Types of derivatives | Total 31-12-2018 | | | | Total 31-12-2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Over the counter | | | Organised Markets | Over the counter | | | Organised Markets |
| | Central Counterparties | Without central counterparties | | | Central Counterparties | Without central counterparties | | |
| | | With offsetting agreements | Without offsetting agreements | | | With offsetting agreements | Without offsetting agreements | |
| **1. Debt instruments and interest rates** | - | - | - | - | | | | |
| a) Options | - | - | - | - | | | | |
| b) Swaps | - | - | - | - | | | | |
| c) Forward | - | - | - | - | | | | |
| d) Futures | - | - | - | - | | | | |
| e) Other | - | - | - | - | | | | |
| **2. Equity instruments and share indices** | - | - | - | - | | | | |
| a) Options | - | - | - | - | | | | |
| b) Swaps | - | - | - | - | | | | |
| c) Forward | - | - | - | - | | | | |
| d) Futures | - | - | - | - | | | | |
| e) Other | - | - | - | - | | | | |
| **3. Currencies and gold** | - | - | **7,215** | - | | | | |
| a) Options | - | - | - | - | | | | |
| b) Swaps | - | - | - | - | | | | |
| c) Forward | - | - | 7,215 | - | | | | |
| d) Futures | - | - | - | - | | | | |
| e) Other | - | - | - | - | | | | |
| **4. Goods** | - | - | - | - | | | | |
| **5. Other** | - | - | - | - | | | | |
| **Total** | - | - | **7,215** | - | | | | |

### *A.2 Financial derivatives for trading: fair value gross positive and negative - breakdown by products*

| Type of derivative | Total 31-12-2018 | | | | Total 31-12-2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Over the counter | | | Organised Markets | Over the counter | | | Organised Markets |
| | Central Counterparties | Without central counterparties | | | Central Counterparties | Without central counterparties | | |
| | | With offsetting agreements | Without offsetting agreements | | | With offsetting agreements | Without offsetting agreements | |
| **1. Positive Fair Value** | | | | | | | | |
| a) Options | - | - | - | - | | | | |
| b) Interest rate swap | - | - | - | - | | | | |
| c) Cross currency swap | - | - | - | - | | | | |
| d) Equity swap | - | - | - | - | | | | |
| e) Forward | - | - | 75 | - | | | | |
| f) Futures | - | - | - | - | | | | |
| g) Other | - | - | - | - | | | | |
| **Total** | - | - | **75** | - | | | | |
| **1. Negative Fair Value** | | | | | | | | |
| a) Options | - | - | - | - | | | | |
| b) Interest rate swap | - | - | - | - | | | | |
| c) Cross currency swap | - | - | - | - | | | | |
| d) Equity swap | - | - | - | - | | | | |
| e) Forward | - | - | 62 | - | | | | |
| f) Futures | - | - | - | - | | | | |
| g) Other | - | - | - | - | | | | |
| **Total** | - | - | **62** | - | | | | |

### *A.3 Financial derivatives of OTC trading: notional values, fair value gross positive and negative for the counterparties*

| Underlying assets | Governments and central banks | Banks | Other financial companies | Other subjects |
|---|---|---|---|---|
| **Contracts not hedged in offsetting agreements** | | | | |
| **1) Debt instruments and interest rates** | - | - | - | - |
| - notional value | - | - | - | - |
| - positive fair value | - | - | - | - |
| - negative fair value | - | - | - | - |
| **2) Equity instruments and share indices** | - | - | - | - |
| - notional value | - | - | - | - |
| - positive fair value | - | - | - | - |
| - negative fair value | - | - | - | - |
| **3) Currencies and gold** | - | **4,163** | - | **3,189** |
| - notional value | - | 4,089 | - | 3,127 |
| - positive fair value | - | 70 | - | 4 |
| - negative fair value | - | 4 | - | 58 |
| **4) Goods** | - | - | - | - |
| - notional value | - | - | - | - |
| - positive fair value | - | - | - | - |
| - negative fair value | - | - | - | - |
| **5) Other provisions** | - | - | - | - |
| - notional value | - | - | - | - |
| - positive fair value | - | - | - | - |
| - negative fair value | - | - | - | - |
| **Contracts falling under offsetting agreements** | - | | | |
| **1) Debt instruments and interest rates** | - | - | - | - |
| - notional value | - | - | - | - |
| - positive fair value | - | - | - | - |
| - negative fair value | - | - | - | - |
| **2) Equity instruments and share indices** | - | - | - | - |
| - notional value | - | - | - | - |
| - positive fair value | - | - | - | - |
| - negative fair value | - | - | - | - |
| **3) Currencies and gold** | - | - | - | - |
| - notional value | - | - | - | - |
| - positive fair value | - | - | - | - |
| - negative fair value | - | - | - | - |
| **4) Goods** | - | - | - | - |
| - notional value | - | - | - | - |
| - positive fair value | - | - | - | - |
| - negative fair value | - | - | - | - |
| **5) Other provisions** | - | - | - | - |
| - notional value | - | - | - | - |
| - positive fair value | - | - | - | - |
| - negative fair value | - | - | - | - |

### *A.4 Residual life of financial derivatives of OTC trading: notional values*

| Underlying/residual life | Up to 1 Year | For over 1 year to 5 years | Beyond 5 years | Total |
|---|---|---|---|---|
| A.1Financial derivatives on debt instruments and interest rates | - | - | - | - |
| A.2 Financial derivatives on equity instruments and share indices | - | - | - | - |
| A.3 Financial derivatives on currency and gold | 7,215 | - | - | **7,215** |
| A.4 Financial derivatives on commodities | - | - | - | - |
| A.5 Other financial derivatives | - | - | - | - |
| **Total 31-12-2018** | **7,215** | - | - | **7,215** |
| **Total 31-12-2017** | | | | |

# *Section 4 - Liquidity risk*
## *Qualitative information*

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

The management of liquidity risk is performed mainly by the Business Division by means of the financial sector, with the aim to verify the capacity of the Bank to cope efficiently with any liquidity requirements and avoid find themselves in situations of excessive and/or insufficient availability, with the consequent need to invest and/or raise funds to unfavourable rates with respect to those of the market.

The overall model adopted by the Bank for the management and monitoring of liquidity risk is divided into three distinct areas depending on the perimeter of reference, of the time period and the frequency of analysis:
- The management of liquidity of obtaining intraday liquidity, i.e. the management of regulations newspapers of the positions of debit and credit on the different systems of regulation, payment and compensation which the Bank participates;
- The management of the operational liquidity, i.e. the management of events more birds that impact the liquidity position of the Bank in the time horizon from 1 day to 6 months, with the primary objective of maintaining the capacity of the Bank to meet payment obligations ordinary and extraordinary, while minimising the costs; in this context the recognitions of the imbalance between sources of incoming and outgoing, and also the relative system of surveillance levels, concentrates in particular on time intervals up to 6 months;
- Management of structural liquidity, i.e. the management of all the events of the banking portfolio that impact on the overall position of the liquidity of a bank in the time horizon especially over 6 months, with the primary objective of maintaining an adequate dynamic relationship between assets and liabilities in the medium/long term.

A significant support to the management of liquidity risk arises from the monitoring carried out by the Service Risk Management Planning & Control using an internal model that has the aim of detecting the effects of investment transactions/financing through the distribution for expiry of the transactions. Performance is measured with methodologies of Asset and Liability Management (A.L.M.), through the application ERMAS, which allows you to evaluate and manage both the possible needs/surplus liquidity of the bank generated by the imbalance of the flows in inlet and outlet, both the structural balance resulting from the correct breakdown for expiry of the sources and uses.

In line with the " *best practices* " national and international and with indications of vigilance, the model adopted by the Bank for the management and monitoring of the operational liquidity is based on the approach of "Maturity Mismatch", which presupposes the construction of a "maturity ladder" (time scale deadlines) and the allocation of certain flows and estimated on various time bands of the same in order to proceed with the calculation of the cumulative gap for each maturity band.
In the context of the liquidity policy The Bank has defined, consistently with the threshold of risk tolerance established by the Board of Directors, the operational limits both for the management of operational liquidity (even assuming stress scenarios), that of structural policy.
With regard to the management of the operational liquidity limits are defined in terms of the absolute values of the cumulative gap on the various deadlines. Also in consistency with what was

foreseen in the Recovery Plan The Bank has defined a threshold of *recovery* on the cumulative gap to a month and to the overcoming of which there is provided the actuation of "Remediation Plan".
The bank checks in the continuous value of counterbalancing Capacity (CBC), understood as the availability of activities which may be reimbursed, sold or used in refinancing transactions with the interbank system and which therefore allow to generate cash quickly and efficiently.
The limit adopted by the Bank for the risk monitoring of structural liquidity is defined, instead, in terms of the ratio between assets and liabilities with a maturity of more than one year. The definition of this limit has the objective of ensuring the maintenance of a structural liquidity profile consistent with the strategy of financing activities in the medium/long term with the liabilities of the same duration.

The framework of the management of liquidity risk of the Bank envisages specific processes to be activated in the event of deviation of the Assumption of Risk By objectives. In particular in risk appetite Framework, in "Contingency Funding Plan" and in "Recovery Plan" are reported in detail the services and structures responsible for the implementation of policies of extraordinary funding to be implemented in the event of need, as well as the actions to be taken to remedy situations of stress, in application of regulatory requirements provided for by the rules of supervision.

The Bank shall forward every month to the Supervisory Authority the measurement of the indicator of short-term liquidity "Liquidity Coverage Ratio" (LCR) by monitoring its evolution over time.
Relating, instead, to the indicator "Net Stable Funding Ratio" (NSFR), representative of a structural balance in the longer term, the Bank has implemented a measurement of the operational type on the basis of what is laid down in the framework of Basel III.

Also carried out is the quarterly reporting to the Supervisory Authority concerning the ALMM (*Additional Liquidity Monitoring Metrics*), such as additional metrics monitoring liquidity of times to allow a comprehensive view of its risk profile of the Bank.

The optimisation of the management of liquidity takes place with a garrison in the continuous activities promptly to be claimed or delivered or usable in refinancing transactions with the ECB. The Bank is also adhered to the New Collateralised Interbanking Market (New MIC), a sector of the e-MID market intended for deposits in Euro with deadlines from one day to one year, which avails itself of the guarantee system managed by the Compensation and Guarantee Fund (CC&G).

The Bank, in the course of financial year 2018, formalised the first ILAAP self-recognition in which has assessed the adequacy of its system of government and the management of liquidity risk. This recognition will be updated annually, reported by the Supervisory Authority in the context of the appropriate ICAAP-ILAAP Report.

As mentioned in Section I - "credit risk", subsection: C "securitisation" the Bank has put in place two steps of self-securitisation, in order to increase its financing capacity at the system. The steps of self-securitisation do not provide for the erasure (derecognition) of the underlying receivables from the financial statements.
These transactions have assumed the name "Valsabbina SPV 1" and "Valsabbina SME" and were improved respectively in 2012 and in 2016, with the intent to dispose of securities eligible in order to be transactions of *funding* with the European Central Bank.
The transaction "Valsabbina SPV 1" was completed with the sale of a portfolio of residential mortgages mortgage *performing* on the part of the Bank as *originator*, and the subscription to be part of the same *originator* of securities issued by the company vehicle.
In the month of January 2015 the predicted securitisation transaction has been the subject of "reopen" (known as "Size increase") through a further transfer of residential mortgage-backed securities; in the event of this transfer the amount of the senior security has recorded an increase of

€156,701 thousand, whilst the value assigned to the Junior security remained unchanged. A second *"size increase"* has been improved in the month of July 2018, leading to an increase of the senior security of €328,942 thousand, keeping unchanged the amount of junior security.

The transaction "Valsabbina SME" instead has hedged a portfolio of mortgages and unsecured GRANTED TO SMES, for a total amount of approximately €648 million, which was ceded by the Bank to the vehicle company Valsabbina SPV 1 Srl.
In the event of the sale of loans, Valsabbina SPV 1 Srl has issued December 2016 a tranche of debt securities guaranteed by mortgages that wholly subscribed by our Institute (Self-Securitisation), were used in the refinancing transactions at the European Central Bank.

In order to sustain the amount of collateral loans to the bond of Valsabbina EMS, the transaction has provided quarterly for the biennium 2017-2018 the ability to assign additional portfolios of loans to SMEs *(revolving*). The activity of *revolving*, completed in October 2018, has allowed to retain the amount that can be refinanced in ECB constant until the end of the financial year 2018.

For completeness, details are given below.

***Securitisation transaction "Valsabbina Spv1"***

- Vehicle Company: Valsabbina Spv 1 S.r.l.
- Date of assignment of receivables: 12/12/2011, 22/01/2015 and 12/07/2018
- Types of loans transferred: Bank mortgages
- Quality of the transferred loans: *In bonis*
- Guarantees on transferred loans: First mortgage
- Territorial Area of the transferred loans: Italy
- Economic activity of debtors sold: Private entities
- Number loans transferred 1st sale: 7,401
- The price of the loans transferred 1st sale: €284,703 thousand
- The nominal value of the loans transferred 1st sale: €284,053 thousand
- Accrued interest rate on loans transferred 1st sale: €650 thousand
- Number of loans transferred 2nd sale: 1,355
- Price of loans transferred 2nd sale: €151,511 thousand
- Nominal value of loans transferred 2nd sale: €151,376 thousand
- Accrued interest rate on loans transferred 2nd sale: €135 thousand
- Number loans transferred 3rd sale: 1,189
- Price of loans transferred 3rd sale: €286,938 thousand
- Nominal value of loans transferred 3rd sale: €286,935 thousand
- Accrued interest rate on loans transferred 3rd sale: €3 thousand

In the context of the aforesaid transaction, the ABS securities below were issued, all signed by the *originator:*
• *Senior tranche* for a nominal €4,985,100 thousand (entirely underwritten by the Bank) having external rating assigned by Moody's ("Aa3") and DBRS ("AA") with efficiency indexed to Euribor 3 months plus 40 bps;
• *Junior tranche* for €100,100 thousand (entirely underwritten by the Bank) without rating.

As at 31/12/2018, the relevant assets of the vehicle within the scope of the transaction "Valsabbina Spv1" comprise the residual value of the credits acquired equal to €424,823 thousand with accruals

for €16,000 in addition to the funds available for €29,273 thousand, of which collected by the Bank in January 2019 for €18,572 thousand.
Under liabilities, the residual debt securities issued are recorded, equal to:
• *Senior tranche* €351,836 thousand, nominal
• *Junior tranche* €100,100 thousand, nominal,
In addition to the accrued interest on the junior tranche for €2 thousand.

***Securitisation transaction "Valsabbina SME"***

- Vehicle Company: Valsabbina Spv 1 S.r.l.
- Date of assignment of receivables: 10/11/2016
- Types of loans transferred: Land loans, mortgages, non-mortgage, commercial
- Quality of the transferred loans: *In bonis*
- Guarantees on transferred loans: Mortgage, MCC guarantee (former Law 662/96), credit guarantee consortia
- Territorial Area of the transferred loans: Italy
- Economic activity of debtors sold: SMEs
- Number loans transferred 1st sale: 4,870
- The price of the loans transferred 1st sale: €648,161 thousand
- The nominal value of the loans transferred 1st sale: €647,657 thousand
- Accrued interest rate on loans transferred 1st sale: €504 thousand

In the context of the aforesaid transaction, the ABS securities below were issued, all signed by the *originator:*
• *Senior tranche* for €400 million (entirely underwritten by the Bank) having external rating assigned by Moody's ("A1") and DBRS ("A") with efficiency indexed to Euribor 3 months plus 50 bps;
• *Junior tranche* for €255.4 million (entirely underwritten by the Bank) without rating.

In the course of 2018, in order to sustain the collateralisation of the senior security issued the Valsabbina EMS transaction, were sold credits with quarterly (*revolving disposals*) at a price of €193,326 thousand, of which €193,173 thousand under security of nominal value, and €153 thousand as dose rate interest earned on loans transferred. This has allowed us to avoid the amortisation of the Senior security, allowing the bank to be able to take advantage of a greater amount that can be refinanced in ECB.

As at 31/12/2018, the relevant assets of the vehicle within the scope of the transaction "Valsabbina SME" comprise the residual value of the credits acquired equal to €598,849 thousand with accruals for €381 thousand in addition to the funds available for €63,560 thousand, of which collected by the Bank in January 2018 to €56,195 thousand.
Under liabilities, the residual debt securities issued are recorded, equal to:
• *Senior tranche* €400,000 thousand, nominal
• *Junior tranche* €255.400 thousand, nominal,
In addition to the accrued interest on the junior tranche for €4,059 thousand.

Both transactions have helped to improve the profile of the liquidity of a bank by increasing the "collateral" usable in refinancing transactions with the ECB.

As at 31/12/2018, Senior securities relating to both transactions allowed a margin of total refinancing with the ECB for approximately €672 million.

# *Quantitative information*

## *1 - Temporal distribution for residual contractual term of financial assets and liabilities - currency denomination: EURO*

| Items / temporary instalments | on demand | From 1 to 7 days | From 7 to 15 days | From 15 days to 1 month | For over 1 months up to 3 months | For over 3 months up to 6 months | For over 6 months to 1 year | For over 1 year to 5 years | After 5 years | Unspecified duration |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash assets** | **605,633** | **111,711** | **8,544** | **149,983** | **303,711** | **124,472** | **199,120** | **1,552,883** | **1,687,865** | **18,805** |
| A.1 Government securities | - | - | 175 | - | 1,101 | 3,753 | 3,874 | 313,680 | 731,038 | - |
| A.2 Other debt securities | 27,443 | 35 | 26 | 364 | 906 | 1,390 | 4,281 | 55,655 | 203,148 | - |
| A.3 O.I.C.R. Shares | 64,603 | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 513,587 | 111,676 | 8,343 | 149,619 | 301,704 | 119,329 | 190,965 | 1,183,548 | 753,679 | 18,805 |
| - banks | 3,086 | 75,000 | - | - | 85,117 | 8,088 | | 10,000 | | 18,805 |
| - customers | 510,501 | 36,676 | 8,343 | 149,619 | 216,587 | 111,241 | 190,965 | 1,173,548 | 753,679 | - |
| **Cash liabilities** | **2,281,419** | **168,013** | **128,826** | **204,718** | **280,767** | **141,698** | **180,306** | **1,090,589** | **15,268** | **-** |
| B.1 Deposits and current accounts | 2,280,215 | 17,608 | 6,038 | 17,648 | 182,533 | 112,763 | 90,324 | 242,324 | 268 | - |
| - banks | 8,009 | - | - | - | - | - | - | - | - | - |
| - customers | 2,272,206 | 17,608 | 6,038 | 17,648 | 182,533 | 112,763 | 90,324 | 242,324 | 268 | - |
| B.2 Debt securities | 740 | 405 | 1,039 | 899 | 5,562 | 28,935 | 89,982 | 158,265 | 15,000 | - |
| B.3 Other liabilities | 464 | 150,000 | 121,749 | 186,171 | 92,672 | - | - | 690,000 | - | - |
| **"Off financial statements" transactions** | **36,740** | **935** | **195** | **12,558** | **2,653** | **2,926** | **867** | **7,699** | **16,533** | **-** |
| C.1 Financial derivatives with an exchange of capital | - | 935 | 195 | 2,458 | 1,503 | 2,526 | 417 | - | - | - |
| - long positions | - | 440 | 195 | 1,385 | 983 | 1,265 | 209 | - | - | - |
| - short positions | - | 495 | | 1,073 | 520 | 1,261 | 208 | - | - | - |
| C.2 Financial derivatives without an exchange of capital | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |
| C3 Loans receivable | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to deliver the funds | 36,740 | - | - | 10,100 | 1,150 | 400 | 450 | 7,699 | 16,533 | - |
| - long positions | 204 | - | - | 10,100 | 1,150 | 400 | 450 | 7,699 | 16,533 | - |
| - short positions | 36,536 | - | - | - | - | - | - | - | - | - |
| C.5 Financial Guarantees issued | - | - | - | - | - | - | - | - | - | - |
| C.6 Financial guarantees received | - | - | - | - | - | - | - | - | - | - |
| C.1 Financial derivatives with an exchange of capital | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |
| C.8 Financial derivatives without an exchange of capital | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| - short positions | - | - | - | - | - | - | - | - | - | - |

## *1 - Temporal distribution for residual contractual term of financial assets and liabilities - currency denomination: OTHER CURRENCIES*

| **Items / temporary instalments** | **on demand** | **From 1 to 7 days** | **From 7 to 15 days** | **From 15 days to 1 month** | **For over 1 months up to 3 months** | **For over 3 months up to 6 months** | **For over 6 months to 1 year** | **For over 1 year to 5 years** | **After 5 years** | **Unspecified duration** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash assets** | **5,402** | **272** | **63** | **429** | **1,259** | **480** | **1,470** | **6,085** | **474** | **-** |
| A.1 Government securities | 10 | - | - | - | - | 10 | 10 | 1,275 | - | - |
| A.2 Other debt securities | - | - | 4 | 13 | 34 | 393 | 110 | 4,810 | 474 | - |
| A.3 O.I.C.R. Shares | 2,135 | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 3,257 | 272 | 59 | 416 | 1,225 | 77 | 1,350 | - | - | - |
| - banks | 2,413 | | | | | | 1,350 | - | - | - |
| - customers | 844 | 272 | 59 | 416 | 1,225 | 77 | | - | - | - |
| **Cash liabilities** | **5,761** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| B.1 Deposits and current accounts | 5,761 | - | - | - | - | - | - | - | - | - |
| - banks | - | - | - | - | - | - | - | - | - | - |
| - customers | 5,761 | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | - | - | - | - | - | - | - | - | - | - |
| **"Off financial statements" transactions** | **-** | **1,516** | **190** | **2,494** | **1,509** | **2,585** | **437** | **-** | **-** | **-** |
| C.1 Financial derivatives with an exchange of capital | - | 925 | 190 | 2,494 | 1,509 | 2,585 | 437 | - | - | - |
| - long positions | - | 487 | - | 1,092 | 524 | 1,293 | 218 | - | - | - |
| - short positions | - | 438 | 190 | 1,402 | 985 | 1,292 | 219 | - | - | - |
| C.2 Financial derivatives without an exchange of capital | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |
| C3 Loans receivable | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |
| C.4 Irrevocable commitments to deliver the funds | - | 591 | - | - | - | - | - | - | - | - |
| - long positions | - | 296 | - | - | - | - | - | - | - | - |
| - short positions | - | 295 | - | - | - | - | - | - | - | - |
| C.5 Financial Guarantees issued | - | - | - | - | - | - | - | - | - | - |
| C.6 Financial guarantees received | - | - | - | - | - | - | - | - | - | - |
| C.1 Financial derivatives with an exchange of capital | - | - | - | - | - | - | - | - | - | - |
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |
| C.8 Financial derivatives without an exchange of capital | - | - | - | - | - | - | - | - | - | - |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| - long positions | - | - | - | - | - | - | - | - | - | - |
| - short positions | - | - | - | - | - | - | - | - | - | - |

# Section 5 - Operational risk

## Qualitative information

## A. General aspects, management processes and methods for the measurement of transactional risk

Operational risk is he risk of suffering losses deriving from the inadequacy or from malfunctions of processes, human resources and internal systems, or from external events. This risk is inherent to the banking activity and can be generated and reside, therefore, in all business processes.
In general, the main sources of manifestation of the operational risk are traceable to internal fraud, to external fraud, to employment and safety at work, to professional obligations toward customers, damage caused by external events, with the dysfunction of the systems and to the execution, delivery and management of processes.

The Bank has defined a set of organisational processes for the oversight and the management of the case of the operational risk, within the framework of which he avails himself of specific functions:
- The Internal Audit Department, whose activity is on the one hand to check the regularity of the transactions and the trend of the risks, and on the other to assess the functionality of the entire system of internal controls;
- the Control Body, pursuant to Legislative Decree 231/2001 within the Organisation, Management and Control Model adopted;
- Risk Management, that responds to the need to detect and measure the risks that are typical of the banking company through a constant monitoring of those employed and those potentially generated by the investment policies of use and service;
- Compliance, entrusted with the oversight and the control of the respect of the rules, providing a support in the prevention and management of the risk of incurring sanctions judicial or administrative and/or bring significant losses resulting from the breach of legislation either internal or external.

In support of the management model of operational risk the Bank has adopted the following operational processes, regulated in a suitable internal policy:
- "Loss Data Collection" - process for gathering the operating losses expressed within the bank (active from 2012);
- "Risk Self-Assessment" - self process for evaluating perspective of operational risks aimed to identify possible risk events, estimating their possible potential impacts.

In particular, the process of Loss Data Collection is divided into the following items:
- Data collection of events of operating loss (Loss Event Collection), represents the process of collection and compilation of data of operating losses occurring in the Bank;
- Creation of a database of events (Loss Data Collection) that generate losses through which carry out statistical processing of losses and of the causes which have determined.

The organisational model adopted has the following levels of responsibility:
- Indicator (all organisational units);

- Manager (Internal Audit Department);
- Validator (Risk Management Planning & Control Department).

The role of signalling of a possible or potential operating loss is played by all the organisational units are they branch offices or central offices. The occurrence of a loss is arranged a reporting, which is sent to the service of Internal Audit that it deals with the management of the reporting and its insertion in the procedure (Loss Data Collection). Validation and consolidation is carried out by the Risk Management Planning & Control Department.

Within the scope of the "Loss Data Collection" activity, events that took place in the course of the last seven years, and for which we proceeded to the accounting of the relative operating loss, have been catalogued by type of operating loss (types of event).
The types of event were subsequently attributed to "business lines" and to "events of loss" on the basis of the classification in Circular no. 285/2013 of Banca d'Italia and by Regulation no. 575/2013 (CRR).

The objectives that we intend to pursue with the aforesaid process are:
- to identify the cause of the injurious events that are at the origin of the operating losses and consequently increase profitability;
- to improve the efficiency of the management, through the identification of critical areas, their monitoring and optimisation of the system of controls;
- to optimise mitigation policies and transfer of risk;
- to develop a culture of operational risk at the level of the Bank, by raising awareness of the whole structure.

In order to integrate the transaction that is already carried out ex post with the collection of operating losses, the Bank has implemented - with the support of a major consultancy company - a functional self-valuation process to estimate in a prospective exposure to operational risk of the Institute ("Risk Self-Assessment"). It relates in particular to a process of self-esteem which aims to assess the degree of risk exposure by a combination of judgements expressed in terms of impact, probability of occurrence and effectiveness of controls. The process represents a further garrison to operational risk since it allows to identify any potential risk scenarios and to evaluate therefore appropriate actions of mitigation.

In the context of risk management processes, the mitigation activities is primarily pursued through measures of a regulatory nature, organisational, procedural and training. There are also mapped regulated and the main operational processes, with the consequent definition of tasks and responsibilities.

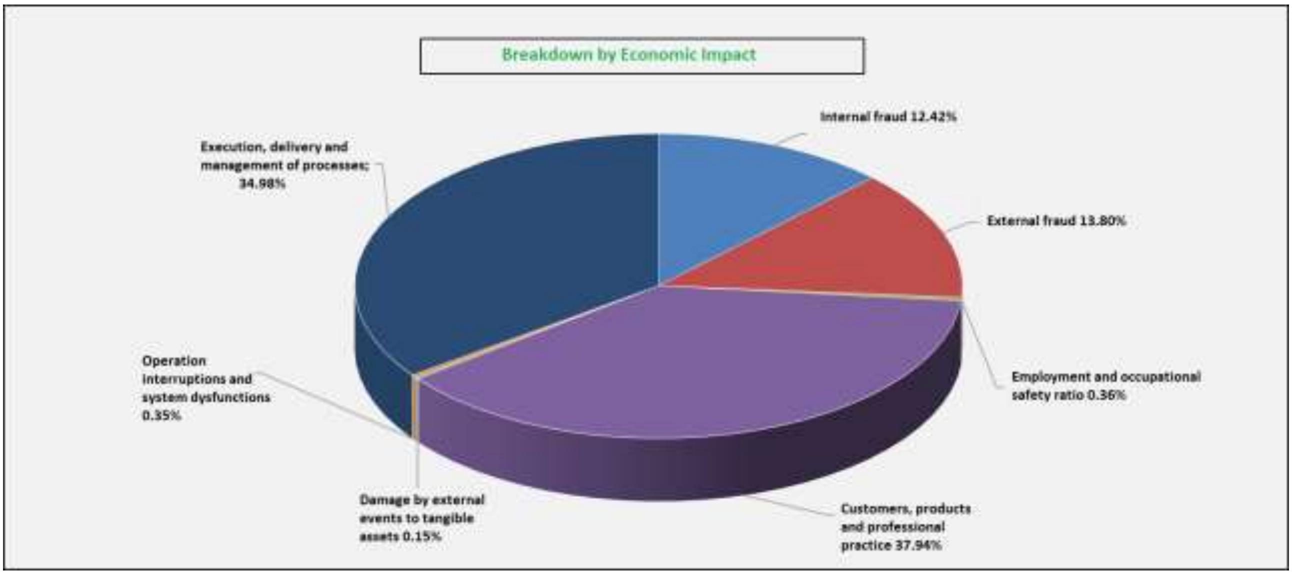
Any critical areas identified through the ex-ante and ex post analyses carried out, are investigated by the competent functions to evaluate the appropriate corrective action.

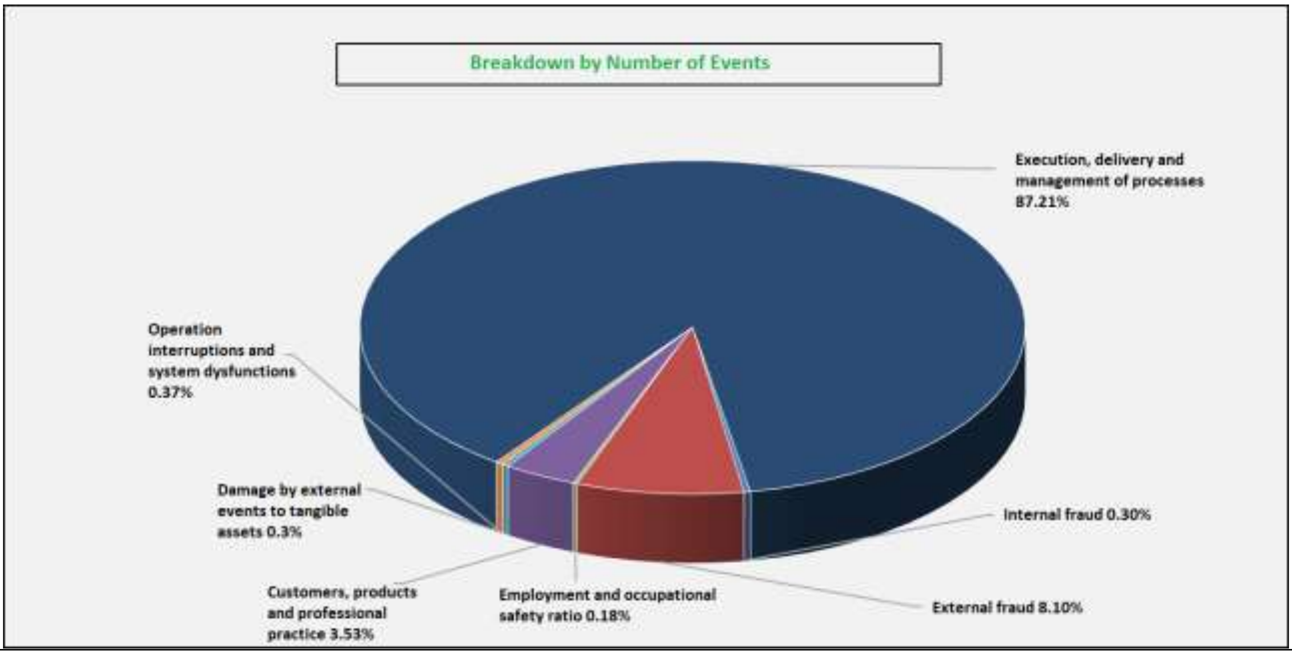
The Bank has adopted for the calculation of the capital requirement for operational risk, the method of the indicator of base (BIA - Basic Indicator Approach), which provides that the capital to hedge this type of risk is equal to 15% of the average of the "relevant indicator" of the last three financial years, calculated pursuant to Articles 315 and 316 of Regulation CRR.
The assets absorption for this type of risk as at 31 December 2018 is equal to €15,585 thousand.

*Quantitative information*

Relating to the loss data, inserted in the archive management of Loss Data Collection of the Bank in the years 2012-2018, returns below the distribution by type of loss, with a view to impact on the income statement and for the extent of occurrence, according to the scheme of classification of events provided by the supervisory provisions.

**Incidence of operating losses by type of event (2012 - 2018)**



In addition, by way of information given below is the historical trend of robberies and complaints by highlighting the number of events and the cost to be borne by the Bank, accounted for between the burdens of managing (Amounts in thousands of euros):

| | **Theft** | | **Complaints** | | |
|---|---|---|---|---|---|
| | **No.** | **Amount (€/000)** | **No. received** | **No. accepted** | **Reimbursements €/000** |
| FY 2012 | 2 | 10 | 86 | 29 | 107 |
| FY 2013 | 2 | 26 | 109 | 26 | 231 |
| FY 2014 | 2 | 2 | 153 | 33 | 38 |
| FY 2015 | 2 | 66 | 161 | 25 | 251 |
| FY 2016 | 1 | 12 | 223 | 33 | 99 |
| FY 2017 | 1 | 1 | 97 | 43 | 187 |
| FY 2018 | 1 | 13 | 76 | 29 | 63 |

In the risks and charges are set aside under liabilities €1,536 thousand.

***Information to the public***

The information concerning capital adequacy, exposure to risks and the characteristics of the systems to the identification, measurement and the management of these risks envisaged by the new provisions for the prudential supervision of banks (Circular no. 285 of 17 December 2013), Title III "Disclosure to the public", are published on the website of the Bank at the address: www.lavalsabbina.it .

# PART F- Information on Equity

## Section 1 - Company assets

## A. Qualitative information

The assets of the Bank corresponds to the algebraic sum of items 110 "Revaluation reserves", 140 "Reserve", 150 "Share premium", 160 "capital", 170 "Treasury shares (-) and 180 "Profit or Loss for the financial year" of the liability side of the financial statements.
The consistency and the dynamics of the capital means constitute one of the strategic priorities of the Bank, both in relation to the prospects of development and evolution of the risk that in function of the regulations.
Therefore, even in future projection, the capital requirements are determined:
- by respect of capital requirements dictated by the supervisory regulations;
- by oversight of the risks connected with the banking activity;
- by projects of corporate development;
- by recognitions on the amount of profits to be distributed to the members and to be capitalised.

In Part B - Liabilities Section 12 of the present Notes information is provided about the items, the consistency, the origin, the degree of availability and spreadability of the various items.

# B. Quantitative information

# B.1 Company assets: breakdown

| Items / values | | Total 31-12-2018 | Total 31-12-2017 |
|---|---|---|---|
| 1. | Capital | 106,550 | |
| 2. | Share premium issues | 230,299 | |
| 3. | Reserves | (12,501) | |
| | - from profits | (9,409) | |
| | a) legal | 24,195 | |
| | b) statutory | 20,023 | |
| | c) treasury shares | 12,014 | |
| | d) other | (65,641) | |
| | - other | (3,092) | |
| 4. | Equity instruments | - | |
| 5. | (Treasury shares) | (8,840) | |
| 5. | Valuation reserves | 108 | |
| | - Capital securities designated at fair value and impact on overall profitability | 3,865 | |
| | - Hedging of equity securities designated at fair value and impact on overall profitability | - | |
| | - Financial assets (other than equity securities) valued at fair value and impact on overall profitability | (4,414) | |
| | - Property, plant and equipment | - | |
| | - Intangible assets | - | |
| | - Hedging of foreign investments | - | |
| | - Cash flow hedges | - | |
| | - Hedging Instruments (elements not designated) | - | |
| | - Exchange rate differences | - | |
| | - Non-current assets and groups of assets held for sale | - | |
| | - Financial liabilities designated at fair value and impact on the income statement (changes in its creditworthiness) | - | |
| | - Actuarial profit (loss) on defined benefit plans with defined benefits | (322) | |
| | - Portion of valuation reserves relating to investees valued at shareholders' equity | - | |
| | - Special revaluation laws | 979 | |
| 7. | Profit (loss) for the year | 15,186 | |
| | ***Total*** | **330,802** | |

The change of the reserves referred to in point 3 of the preceding table (item 140 financial statements) is described in the following table:

| | Inventories as at 31-12-2017 | Resolution passed by the Shareholders' Meeting approving financial statements 2017 | | | Change opening balances - FTA IFRS9 | Inventories as at 31-12-2018 |
|---|---|---|---|---|---|---|
| | | Allocation to reserves | Allocation of treasury shares to integration of the dividend | Reintegration and increase bottom purchase treasury shares | | |
| "Profit" reserves: | 62,867 | (5,821) | - | - | (66,455) | (9,409) |
| a) legal | 24,195 | - | - | - | - | 24,195 |
| b) statutory | 25,844 | (5,821) | - | - | - | 20,023 |
| c) treasury shares | 12,014 | - | - | - | - | 12,014 |
| d) other | 814 | - | - | - | (66,455) | (65,641) |
| "Other" reserves | (3,092) | - | - | - | - | (3,092) |
| **Reserves Item 140** | **59,775** | **(5,821)** | **-** | **-** | **(66,455)** | **(12,501)** |

From 01/01/2018, entered at regime the IFRS9; the first application of this principle, the principle that affects mainly the asset items, is described in the appropriate part of the "Accounting Policies" of the present Notes. The counterpart of the changes affixed to the items concerned by the principle in place of transition is the "Retained earnings", moved in this regard in negative terms for €66.5 million. At the time of the first adoption of an accounting policy is in fact have two options, the first of which is to reopen all the previous financial statements of the company by applying the new principle; the second, chosen by our Institute, is to bring together all the economic effects that would have been recorded in the application of the principle from the outset in a reserve of useful.

The amount entered in the reserve "Other" represents the difference in melting arising from the transaction of incorporation of Credito Veronese occurred in 2012.

## *B.2 Reserves from the valuation of financial assets valued at fair value with impact on overall profitability: breakdown*

| | Assets/Values | Total 31-12-2018 | | Total 31-12-2017 | |
|---|---|---|---|---|---|
| | | Positive Reserve | Negative reserve | Positive Reserve | Negative reserve |
| 1. | Debt instruments | 46 | (4,460) | | |
| 2. | Equity instruments | 4,200 | (335) | | |
| 3. | Loans | - | - | | |
| | ***Total*** | **4,246** | **(4,795)** | | |

The revaluation reserves are attributed the changes in fair value are both positive and negative recorded on financial assets at fair value with impact on overall profitability.
Also attributed is the impact on the valuation of creditworthiness associated with debt securities entered in FVOCI portfolio, with financial income; for the change of this item see lines "Impairment losses/write-backs for credit risk".

# *B.3 Reserves from the valuation of financial assets valued at fair value with impact on overall profitability: annual changes*

| | | Debt instruments | Equity instruments | Loans |
|---|---|---|---|---|
| **1.** | **Opening balances** | **(5,410)** | **8,473** | **-** |
| **2.** | **Positive changes** | **5,482** | **-** | **-** |
| 2.1 | Fair Value increases | 36 | - | - |
| 2.2 | Value adjustments for credit risk | 79 | - | - |
| 2.3 | Transfer to the income statement of negative reserves from realisation | 2,175 | - | - |
| 2.4 | Transfers to other equity items (capital securities) | - | - | - |
| 2.5 | Other changes | 3,192 | - | - |
| **2.** | **Negative changes** | **4,486** | **4,608** | **-** |
| 3.1 | Fair Value reductions | 4,353 | 2,119 | - |
| 3.2 | Write-backs for credit risk | - | - | - |
| 3.3 | Transfer to the income statement from reserves | - | | |
| | positive: from realisation | 132 | - | - |
| 3.4 | Transfers to other equity items (capital securities) | - | - | - |
| 3.5 | Other changes | 1 | 2,489 | - |
| **4.** | **Closing inventory** | **(4,414)** | **3,865** | **-** |

In the "other changes" are entered the amounts relating to the transfer of securities from portfolios ex IAS39 to the purses IFRS9 (transfers made in the FTA) and to the implementation of the concept of creditworthiness on debt securities.

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

The actuarial reserve relating to retirement benefit plans to future benefits, entered in the revaluation reserves net of tax effects enrolled in deferred tax assets, is negative for €322 thousand as 31/12/2018, in line with respect to the end of 2017 when it was equal to €414 thousand, with a change of €92 thousand (€139 thousand without the tax effect).

The limited difference is reflected in the financial parameters used, parameters are very similar in the two years compared.

As described in Part B of the notes to the accounts, the actuary has done the calculation on the basis of the following financial assumptions: annual rate of discounting 1.57% (determined, consistently with para. 83 of IAS 19, with reference to the curve of the average yields that springs from the IBOXX index Eurozone Corporates AA with duration 10+ recognised31/12/2018, rate considered as the best expression of yields of companies of prime quality), annual inflation rate 1.50% and annual rate of increase TFR 2.625%.

# *Section 2 - Own funds and surveillance ratios*

## *2.1 Own funds*

## *A. Qualitative information*

Own funds and the capital ratios were calculated on the basis of the values of the financial statements as determined by the application of the rules laid down by the international accounting standards (IAS/IFRS; account shall also be taken of the specific rules adopted by the European Union in the theme of prudential supervision (Regulation 575/2013 CRR, Directive 36 of 2013, Implementing Regulation 680/2014 and subsequent integrations) transposed by Banca d'Italia in its Circulars, in particular no. 285 and no. 286 of 2013.

## *1. Primary capital of class 1 (Common Equity Tier 1 - CET1)*

The primary capital of class 1 before application of the deductions and of prudential filters is composed from the capital, by share premium, from reserves, including those of evaluation; inside this aggregate is computed the regulatory reduction envisaged for the treasury shares, equal to the maximum amount authorised for the repurchase of €10.1 million. Not calculated is the proportion of the operating result that will be intended to reserve the post shall decide the shareholders.
The items to be deducted include goodwill (net of deferred taxation afferent), other intangible assets and taxation in advance relative to the second release of goodwill by incorporation of Credito Veronese.

With the entry into force of the IFRS9 was introduced in the EU Regulation 575/2013 - CRR a transitional rule (Article 473-bis) that spread out over time the impact on own funds resulting from the application of the new model of impairment. The above framework provides, upon exercise of the option communicated to the supervisory body on 01/02/2018, the possibility to include in the primary capital of class 1 a positive item transient equal to a share of the increase immediately by the writedowns credits transposed in the financial statements due to the effect of the first application of IFRS9; this share is decreasing in time in a time span of five years: 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022. In addition to the possibility of delaying the impact resulting from the first application of the accounting principle, the transitional arrangement provides the ability to mitigate any impacts that the application of the new model of impairment will produce until the year 2022 limited to the evaluation of performing credits.
In the tables present in part " *B. Quantitative Information* " in this section are highlighted both the values of the capital that the coefficients in application from the transitional arrangements (phased-in), a scheme to which the Bank has joined, that in the application of the ordinary scheme (fully phased, fully loaded).

## *2. Additional capital of class 1 (Additional Tier 1 - AT1)*

There are significant elements additional capital of class 1.

## *3. Capital of class 2 (Tier 2 - T2)*

The capital of class 2 consists of debenture loans subordinates. Licences shall comply with the stringent requirements imposed by the European regulations, including:
- original maturity of at least five years;
- no forecast of incentive for early repayment.
The computable part for supervisory purposes was calculated according to a depreciation schedule that determines a constant decrease of market share over the last 5 years the residual life of the instruments, as provided for by Article 64 of the CRR.
The Banca d'Italia has authorised a maximum amount of repurchase, relating only to subordinated loans, equal to €1.05 million.

## *B. Quantitative information*

| | Total 31-12-2018 | | Total 31-12-2017 |
|---|---|---|---|
| | **Transitional regime** | **Fully loaded** | |
| **A. Tier 1 primary capital (Common Equity Tier 1 – CET1) before applying prudential filters** | **314,356** | **314,356** | |
| of which CET1 instruments subject to transitional provisions | - | - | |
| B. Prudential filters of CET1 (+/-) | - | - | |
| **C. CET1 before deductible items and the effects of the transitional regime (A+/-** | **314,356** | **314,356** | |
| **D. Items to be deducted from CET1** | **(10,396)** | **(10,396)** | |
| **E. Transitional regime - Impact on CET1 (+/-)** | **58,087** | **-** | |
| **F. Total Common Equity Tier 1 (Common Equity Tier 1 – CET1) (C – D +/-E)** | **362,047** | **303,960** | |
| **G. Additional Tier 1 (AT1) before the items to be deducted and the effects of the transitional regime** | **-** | **-** | |
| of which AT1 instruments subject to transitional provisions | - | - | |
| **H. Items to be deducted from AT1** | **-** | **-** | |
| **I. Transitional regime - Impact on AT1 (+/-)** | **-** | **-** | |
| **L. Total Additional Tier 1 (Additional Tier 1 – AT1)** | **-** | **-** | |
| **M. Tier 2 capital (T2) before the items to be deducted and the effects of the transitional regime** | **25,403** | **25,403** | |
| of which T2 instruments subject to transitional provisions | - | - | |
| **N. Items to be deducted from T2** | **(444)** | **(444)** | |
| **O. Transitional regime - Impact on T2 (+/-)** | **-** | **-** | |
| **P. Total Tier capital 2 (T2) (M-N+/-O)** | **24,959** | **24,959** | |
| **Q. Total own funds (F+L+P)** | **387,006** | **328,919.** | |

In line "E. Transitional arrangements - Impact on CET1" is included the filter reaches the items resulting from the adoption of the IFRS9, according to the option chosen by the Bank; in the absence of such an option provided by Article 473-bis of the RRC, own funds would be lower for €58.09 million and would amount to €328.9 million, rather than €3870 million.
As at 31/12/2017, the total of own funds amounted to €408.9 million and the CET1 to €373.8 million.

## *2.2 Capital adequacy*

## *Qualitative information*

The prudential rules according to the Basel Capital Accord is based on three pillars as already highlighted in the chapter "risk management system" the management report.
For the recognition of the financial soundness and the respect of the minimum coefficients in the continuous the Bank carries out a series of checks which terminate in the production of the report "ICAAP" and "RAF". Among other things are carried out stress tests useful for an understanding of the evolution of the prudential ratios as a result of a possible impairment in market conditions.

## *Quantitative information*

| Categories/Values | Non-weighted amounts 31/12/2018 | | Weighted amounts / requirements 31/12/2018 | |
|---|---|---|---|---|
| | Transitional regime | Fully loaded | Transitional regime | Fully loaded |
| **A. RISK ACTIVITY** | **5,428,167** | **5,370,321** | **2,248,592** | **2,183,964** |
| **A.1 CREDIT AND COUNTERPARTY RISK** | **5,428,167** | **5,370,321** | **2,248,592** | **2,183,964** |
| 1. Standardised Methodology | 5,229,176 | 5,171,336 | 2,179,509 | 2,114,886 |
| 2. Methodology based on internal ratings | - | - | - | - |
| 2.1 Basis | - | - | - | - |
| 2.2. Advanced | - | - | - | - |
| 3. Securitisations | 198,991 | 198,985 | 69,083 | 69,078 |
| **B. EQUITY OVERSIGHT REQUIREMENTS** | | | **-** | **-** |
| **B.1 CREDIT AND COUNTERPARTY RISK** | | | **179,887** | **174,716** |
| **B.2 RISK OF ADJUSTMENT OF CREDIT ASSESSMENT** | | | **1** | **1** |
| **B.3 REGULATORY RISK** | | | **-** | **-** |
| **B.4 MARKET RISKS** | | | **1,256** | **1,256** |
| 1, Standard methodology | | | 1,256 | 1,256 |
| 2. Internal models | | | - | - |
| 3. Concentration Risk | | | - | - |
| **B.5 OPERATIONAL RISK** | | | **15,585** | **15,585** |
| 1, Basic Method | | | 15,585 | 15,585 |
| 2. Standardised Method | | | - | - |
| 3. Advanced Method | | | - | - |
| **B.6 OTHER ELEMENTS OF CALCULATION** | | | **-** | **-** |
| **B.7 TOTAL PRUDENTISL REQUIREMENTS** | | | **196,729** | **191,558** |
| **C. RISK ACTIVITY AND SUPERVISORY COEFFICIENTS** | | | | |
| C.1 Weighted risk assets | | | 2,459,109 | 2,394,480 |
| C.2 Tier 1 primary capital/Weighted risk assets (CET 1 capital ratio) | | | 14.72%. | 12.69%. |
| C.3 Tier 1 capital/Weighted risk assets (Tier 1 capital ratio) | | | 14.72%. | 12.69%. |
| C.4 Total Own Funds / Weighted risk assets (Total capital ratio) | | | 15.73%. | 13.74%. |

The Bank has, as at 31 December, a relationship between capital of Class 1 and risk weighted assets (CET 1 Capital Ratio) equal to 14.72% (15.17% as at 31/12/17) while the ratio between own funds and risk weighted assets (Total Capital Ratio) is equal to 15.73% as at (16.60% 31/12/17). The

increase in the asset for about €600 million compared with 31/12/2017 has not resulted in particular burdens in terms of coefficients of solvency, because this increase was contextualised in portfolios regulations relative to absorption of capital such exposures secured by real estate or by the State through the instrument of law 662/96, which the securitisation of loans to public administration or investments in Government Bonds. The reduction of impaired loans, which fell from €319 million to €225 million, has provided a positive contribution to the coefficient.
If the bank had not adopted the transitional regime granted by Article 473-bis of the RRC, solvency ratios would have resulted equal to 12.69% for the CET1 and 13.74% for the total capital ratio.

At the conclusion of the process of revising the prudential for the year 2016, by letter dated 22/08/2017 Banca d'Italia has communicated the requirements of additional capital for our Institute.
The overall requirements to be applied as a result of this process are thus quantified:
- Coefficient of primary capital of class 1 (CET 1 Ratio) equal to 6.925%, inclusive of 1.875% required by way of conservation reserve of capital and of 0.55% which additional requirement with respect to the regulatory minimum;
- Coefficient of capital of class 1 (Tier 1 Ratio) equal to 8.625%, inclusive of 1.875% as a reserve of capital preservation and 0.75% by outcome of the process SREP;
- Coefficient of total capital (Total Capital Ratio) equal to 10.875%, inclusive of 1.875% by way of conservation reserve of capital and of 1.00 % as a result of the SREP.
The coefficients measured as at 31/12/2018 are in excess of the thresholds required.
It should be noted that on 19/02/2019 Banca d'Italia has announced the launch of a new process of review SREP prudential, process which will conclude within 90 days from the date of communication; were therefore press releases new provisional coefficients to which follow that will become final only at the end of the process.

The requirement of preservation of capital, as foreseen by the EU directive n. 36/2013 (CRD IV), in function of the transitional period is for the year 2018 equal to 1.875%; this requirement will become of 2.5% definitively on 1 January 2019.

# *Part H - Transactions with related parties*

## *Section 1 - Information on the remuneration of directors and managers with strategic responsibility*

In the following table are reported the fees within the competence of the exercise of directors and statutory auditors, as well as the remuneration paid to Directors strategic in the course of 2018:

| **Items/Values** | **31-12-2018** |
|---|---:|
| Directors | 600 |
| Auditors | 202 |
| Managers with strategic responsibility | 925 |

The fees for administrators relate to what was established by the shareholders of 14/04/2018, net of VAT and social charges when due.
The emolument of the Board of Statutory Auditors is equal to the resolution passed by the shareholders of 14/04/2018 for the three-year period 2018/2020, always net of VAT and social welfare charges when due.
The amount is detailed in the commentary to the income statement, part C of the notes to the accounts - section 9.1 - Staff expenditure.
The amount shown for the "Managers with strategic responsibility" includes the amount of remuneration paid to those who have hedged the function in exercise, as well as the burdens social and welfare at the expense of the company and the share of the termination indemnities accruing in the year. For managers are not provided for compensation of incentives related to profits obtained, are not provided for pension schemes other than those enjoyed by employees, nor are provided share incentive plans.

## *Section 2 - Information on transactions with related parties*

Related parties as defined by the international accounting standard IAS 24, are the following:
1. Subsidiaries, parent companies or subject to joint control;
2. Those companies who may exercise a significant influence over the company that draws up the financial statements;
3. Affiliate companies;
4. The joint venture involving the reporting enterprise;
5. Directors, Statutory Auditors and Managers with strategic responsibilities of the reporting enterprise;
6. The close family members of one of the entities referred to in point 5;
7. Subsidiaries, jointly controlled or subject to significant influence from one of the entities referred to in points 5 and 6;
8. Pension funds of employees or any other entity to the same correlated.

Close family members are considered those family members who may be expected to influence, or be influenced by, subject concerned in their relations with the company which the spouse not legally separated and the partner, the children and the dependants of the subject of the spouse who is not legally separated or unmarried partners.
On the basis of the legislation on popular banks there is a parent or that exercise activity of direction and coordination on the Banca Valsabbina S.C.P.A..

The Bank holds 100% of the control over Valsabbina Real Estate s.r.l., a company with sole shareholder.
Relationships with related parties are adjusted on the basis of market conditions provided for the individual transactions or aligned, if there is any basis under the conditions applied to employees.
No specific provisions for credit losses were carried out in the year towards related entities.
The risks existing with related parties, including companies in which the directors and the auditors have positions of administration and control, are at the end of the year the following:

| Directors, Auditors, Strategic Managers | 31-12-2018 | 31-12-2017 |
|---|---|---|
| Cash receivables | 38,018 | 34,295 |
| Endorsement credits | 2,492 | 1,820 |

The ratio between loans and advances to related parties and the total credits in the financial statements is equal to 1.24% compared with 1.16% in the previous year.
The equity relationships, as well as the economic balances as at 31/12, with the subsidiary are spelt out in the following table:

| Financial statement items | Valsabbina Real Estate | |
|---|---|---|
| | 31-12-2018 | 31-12-2017 |
| **Capital balances: assets** | **4,843** | **5,865** |
| Receivables from customers | 4,843 | 5,865 |
| **Capital balances: liabilities** | **160** | **88** |
| **Income statement figures** | **106** | **89** |
| Interest income | 86 | 69 |
| Other operating income and expenses | 20 | 20 |

# *Part L - Segment Reporting*

This part is not populated since the banking activity carried out by the Bank affects mainly retail customers resident in the province of Brescia and residually in other provinces.

# *Publishing of audit fees and services other than auditing pursuant to Consob Issuers Regulation Article 149-duodecies*

The following table, drawn up in accordance with Article 149-duodecies of the Consob Issuers' Regulations, indicates the fees for 2018 for auditing services and those for other services provided by the independent auditing firm.

| Type of services | Entity providing the service | Recipient | 2017 fees (in thousands of euro) |
|---|---|---|---|
| Audit | BDO Italia S.p.A. | Banca Valsabbina S.C.p.A. | (1) 34 |
| Certification services | BDO Italia S.p.A. | Banca Valsabbina S.C.p.A. | (2) 15 |
| **Total** | | | **49** |

(1) Includes fees for the unwinding of the limited revision on the half-yearly financial statements and on the verification of the proper keeping of the accounts

(2) Services of attestation regarding the checks relating to the submission of the declaration of a non-financial nature

## *Valsabbina Real Estate srl - Financial Statements as at 31-12-2018*

| **BALANCE SHEET** | **31-12-2018** | | **31-12-2017** | |
|---|---|---|---|---|
| **Assets** | | | | |
| B) Tangible assets | | | | |
| I – Intangible assets | | - | | - |
| Total fixed assets (B) | | - | | - |
| C) Current assets | | | | |
| I - Inventories | | 4,798,282 | | 5,449,190 |
| Real Estate | 4,798,282 | | 5,449,190 | |
| II - Loans and receivables | | 354,840 | | 590,201 |
| due within the next financial year | 161,721 | | 478,577 | |
| amounts due for payment after the financial year | 193,119 | | 111,624 | |
| Total circulating assets (C) | | 5,153,122 | | 6,039,391 |
| D) Accrued income and expenditure | | - | | - |
| **Total assets** | | **5,153,122** | | **6,039,391** |
| **Liabilities** | | | | |
| A) Shareholders' equity | | 242,341 | | 114,656 |
| I - Capital | | 100,000 | | 100,000 |
| IV - Legal reserve | | 2,826 | | 2,826 |
| VI - Payments to hedge losses | | 481,830 | | 302,452 |
| VIII -Profits (losses) carried forward | | - | | - |
| IX - Profit (loss) for the year | | (342,315) | | (290,622) |
| D) Payables | | 4,910,281 | | 5,924,734 |
| due within the next financial year | 67,488 | | 59,335 | |
| amounts due for payment after the financial year | 4,842,793 | | 5,865,399 | |
| E) Accrued income and expenditure | | 500 | | - |
| **Total liabilities and shareholders' equity** | | **5,153,122** | | **6,039,390** |

| **INCOME STATEMENT** | | **31-12-2018** | | **31-12-2017** |
|---|---|---|---|---|
| | | | | |
| A) Production value | | 952,317 | | 1,157,500 |
| 1) revenue from sales | 941,000 | | 1,152,000 | |
| 2) rental income | - | | - | |
| 3) other | 11,317 | | 5,500 | |
| B) Production costs | | (1,299,464) | | (1,439,381) |
| 6) for raw materials, ancillary materials, consumables and goods | (448,939) | | (3,387,162) | |
| 7) for services | (135,491) | | (119,902) | |
| 8) for use of third-party goods | (3,022) | | (2,670) | |
| 10) depreciation and write-downs | - | | (313) | |
| 11) changes in inventories of goods | (650,908) | | 2,103,022 | |
| 14) miscellaneous operating costs | (61,104) | | (32,356) | |
| Difference between value and cost of production (A-B) | | (347,147) | | (281,881) |

| | | | | |
|---|---|---|---|---|
| C) Financial income and expense | | (66,572) | | (68,909) |
| 17) interest and other financial expense | (66,572) | | (68,909) | |
| interest expense payable to parent company | (66,572) | | (68,909) | |
| Profit (or loss) before tax (A-B+-C) | | (413,719) | | (350,790) |
| 20) Income taxes for the year: current, deferred and pre-paid | | 71,404 | | 60,168 |
| **21) Profit (loss) for the year** | | **(342,315)** | | **(290,622)** |