Cassa Centrale Banca
Credito Cooperativo del Nord Est

CASSA CENTRALE BANCA
CREDITO COOPERATIVO DEL NORD EST

2018 financial statements

CASSA CENTRALE BANCA
CREDITO COOPERATIVO DEL NORD EST

2018 financial statements

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ORDINARY SHAREHOLDERS

ASSICURA S.r.l.
BANCA ADRIA - CREDITO COOPERATIVO DEL DELTA - Cooperative Company
BANCA ALTO VICENTINO - CREDITO COOPERATIVO DI SCHIO E PEDEMONTE - Cooperative Company
BANCA CENTRO EMILIA - CREDITO COOPERATIVO - Cooperative Company
BANCA CENTRO LAZIO CREDITO COOPERATIVO - Cooperative Company
BANCA DEI COLLI EUGANEI - CREDITO COOPERATIVO - LOZZO ATESTINO - Cooperative Company
BANCA DEL GRAN SASSO D'ITALIA, BANCA DI CREDITO COOPERATIVO - Cooperative Company
BANCA DEL NISSENO CREDITO COOPERATIVO DI SOMMATINO E SERRADIFALCO - Cooperative Company
BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - Cooperative Company
BANCA DELL'ALTA MURGIA CREDITO COOPERATIVO - Cooperative Company
BANCA DI BOLOGNA CREDITO COOPERATIVO - Cooperative Company
BANCA DI CARAGLIO, DEL CUNEESE E DELLA RIVIERA DEI FIORI - CREDITO COOPERATIVO - Cooperative Company
BANCA DI CREDITO COOPERATIVO DEI CASTELLI E DEGLI IBLEI - Cooperative Company
BANCA DI CREDITO COOPERATIVO DEI CASTELLI ROMANI E DEL TUSCOLO - Cooperative Company
BANCA DI CREDITO COOPERATIVO DEL CARSO Cooperative Company - ZADRUGA ZADRUZNA KRASKA BANKA
BANCA DI CREDITO COOPERATIVO DEL CIRCEO E PRIVERNATE - Cooperative Company
BANCA DI CREDITO COOPERATIVO DEL VELINO - COMUNE DI POSTA PROVINCIA DI RIETI - Cooperative Company
BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - Cooperative Company
BANCA DI CREDITO COOPERATIVO DELL'ALTO TIRRENO DELLA CALABRIA VERBICARO - Cooperative Company
BANCA DI CREDITO COOPERATIVO DELLE PREALPI - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI ALBEROBELLO E SAMMICHELE DI BARI - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI ANAGNI - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI AQUARA - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI BARLASSINA (MILANO) - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI BRESCIA - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI CASALGRASSO E SANT'ALBANO STURA - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI CASSANO DELLE MURGE E TOLVE - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI CASTAGNETO CARDUCCI - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI CHERASCO - Cooperative Company
BANCO MARCHIGIANO Credito Cooperativo - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI CONVERSANO - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI FLUMERI - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI LOCOROTONDO CASSA RURALE E ARTIGIANA - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI MONOPOLI - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI PIANFEI E ROCCA DE' BALDI - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI ROMA - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI RONCIGLIONE E BARBARANO ROMANO - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI SAMBUCA DI SICILIA - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI SAN GIOVANNI ROTONDO - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI SAN MARZANO DI SAN GIUSEPPE - TARANTO - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI SARSINA - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI SPELLO E BETTONA - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI STARANZANO E VILLESSE - Cooperative Company
BANCA DI CREDITO COOPERATIVO DI TURRIACO - Cooperative Company
BANCA DI CREDITO COOPERATIVO LA RISCOSSA DI REGALBUTO - Cooperative Company
BANCA DI CREDITO COOPERATIVO LAUDENSE - LODI - Cooperative Company
BANCA DI CREDITO COOPERATIVO PORDENONESE - Cooperative Company
BANCA DI CREDITO COOPERATIVO SANGRO TEATINA DI ATESSA - Cooperative Company
BANCA DI CREDITO COOPERATIVO VALDOSTANA - COOPERATIVE DE CREDIT VALDOTAINE - Cooperative Company
BANCA DI UDINE CREDITO COOPERATIVO - Cooperative Company
BANCA DI VERONA CREDITO COOPERATIVO CADIDAVID - Cooperative Company
BANCA DI VITERBO CREDITO COOPERATIVO - Cooperative Company
BANCA MALATESTIANA - CREDITO COOPERATIVO - Cooperative Company
BANCA MONTE PRUNO - CREDITO COOPERATIVO DI FISCIANO, ROSCIGNO E LAURINO - Cooperative Company
BANCA PER LO SVILUPPO DELLA COOPERAZIONE DI CREDITO S.p.A.
BANCA S. BIAGIO DEL VENETO ORIENTALE DI CESAROLO, FOSSALTA DI PORTOGRUARO E PERTEGADA - Cooperative Company
BANCA SAN GIORGIO QUINTO VALLE AGNO CREDITO COOPERATIVO - Cooperative Company
BANCATER CREDITO COOPERATIVO FVG - Cooperative Company
BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL 1902 - Cooperative Company
BENE BANCA CREDITO COOPERATIVO DI BENE VAGIENNA (CUNEO) - Cooperative Company
CASSA PADANA BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA - Cooperative Company
CASSA RURALE ADAMELLO - BRENTA BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE ALTA VALLAGARINA DI BESENELLO, CALLIANO, NOMI, VOLANO - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE DI LEDRO - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE DI LIZZANA - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE DI ROVERETO - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE DI TRENTO - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE ED ARTIGIANA DI BORGO SAN GIACOMO (BRESCIA) - CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE ED ARTIGIANA DI BOVES - BANCA DI CREDITO COOPERATIVO (BOVES-CUNEO) - Cooperative Company
CASSA RURALE ED ARTIGIANA DI CORTINA D'AMPEZZO E DELLE DOLOMITI - CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE ED ARTIGIANA DI VESTENANOVA - CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE GIUDICARIE VALSABBIA PAGANELLA - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE LAVIS - MEZZOCORONA - VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE NOVELLA E ALTA ANAUNIA - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE PINZOLO - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE RENON - Cooperative Company
CASSA RURALE ROTALIANA E GIOVO - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE VAL DI SOLE - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE VAL RENDENA - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - Cooperative Company
CAVIT - Cantina Viticoltori Consorzio Cantine Sociali del Trentino - Cooperative Company
CENTROVENETO BASSANO BANCA - CREDITO COOPERATIVO - Cooperative Company
CON.SOLIDA - Social Cooperative Company
CONSORZIO LAVORO AMBIENTE - Cooperative Company
CONSORZIO MELINDA - Agricultural Cooperative Company
CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA - Cooperative Company
CREDITO COOPERATIVO CENTRO CALABRIA - Cooperative Company
CREDITO COOPERATIVO FRIULI - Cooperative Company
CREDITO ETNEO - BANCA DI CREDITO COOPERATIVO - Cooperative Company
DZ BANK AG DEUTSCHE ZENTRALGENOSSENSCHAFTSBANK FRANKFURT AM MAIN
FEDERAZIONE DELLE BCC DEL FRIULI VENEZIA GIULIA - Cooperative Company
FEDERAZIONE TRENTINA DELLA COOPERAZIONE - Cooperative Company
FEDERAZIONE VENETA DELLE BANCHE DI CREDITO COOPERATIVO - Cooperative Company
FONDO COMUNE DELLE CASSE RURALI TRENTINE - Cooperative Company
FRIULOVEST BANCA - CREDITO COOPERATIVO - Cooperative Company
PRIMACASSA - CREDITO COOPERATIVO FVG Cooperative Company
PROMOCOOP TRENTINA S.p.A.
ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - Cooperative Company
ROVIGOBANCA CREDITO COOPERATIVO - Cooperative Company
SAIT CONSORZIO DELLE COOPERATIVE DI CONSUMO TRENTINE - Cooperative Company
TRENTINGRANA CONSORZIO DEI CASEIFICI SOCIALI E DEI PRODUTTORI LATTE TRENTINI - Agricultural Cooperative Company

PREFERENCE SHAREHOLDERS

BANCA DI CREDITO COOPERATIVO CAMPANIA CENTRO - CASSA RURALE ED ARTIGIANA - Cooperative Company
BANCA IFIS S.p.A.
BANCA POPOLARE ETICA - Cooperative Company
CHAMBER OF COMMERCE INDUSTRY AGRICULTURE AND CRAFTS - TRENTO
CASSA RAIFFEISEN BASSA VENOSTA - Cooperative Company
CASSA RAIFFEISEN DELLA VAL PASSIRIA - Cooperative Company
CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA - Cooperative Company
COOPERATIVA PROVINCIALE GARANZIA FIDI - Cooperative Company
DZ BANK AG DEUTSCHE ZENTRALGENOSSENSCHAFTSBANK FRANKFURT AM MAIN
MEDIOCREDITO TRENTINO-ALTO ADIGE S.p.A.
PROMOCOOP TRENTINA S.p.A.
AUTONOMOUS PROVINCE OF TRENTO

CORPORATE OFFICERS
CASSA CENTRALE BANCA

BOARD OF DIRECTORS

Giorgio	Fracalossi	Chairman of the Board of Directors
Carlo	Antiga	Acting Deputy Chairman of the Board of Directors
Lino	Mian	Deputy Chairman of the Board of Directors
Enzo	Zampiccoli	Deputy Chairman of the Board of Directors
Lelio	Bogoni	Director
Luca	De Luca	Director*
Diego	Eccher	Director
Lars	Hille	Director
Tiziano	Manfrin	Director*
Umberto	Martinuzzi	Director*
Silvio	Mucchi	Director*
Claudio	Ramsperger	Director*
Wilma	Sassudelli	Director

BOARD OF STATUTORY AUDITORS

Antonio	Maffei	Chairman Board of Statutory Auditors
Marco	Dell'Eva	Standing auditor
Vincenzo	Miceli	Standing auditor
Stefano	Bianchi	Alternate Auditor
Manuela	Conci	Alternate Auditor

GENERAL MANAGEMENT

Mario	Sartori	General Manager
Enrico	Salvetta	Acting Deputy General Manager
Sandro	Bolognesi	Deputy General Manager

* Executive Committee members

This list relates to individuals in office until 13 January 2019. On 14 January 2019, the Shareholders' Meeting elected new Directors and Statutory Auditors.

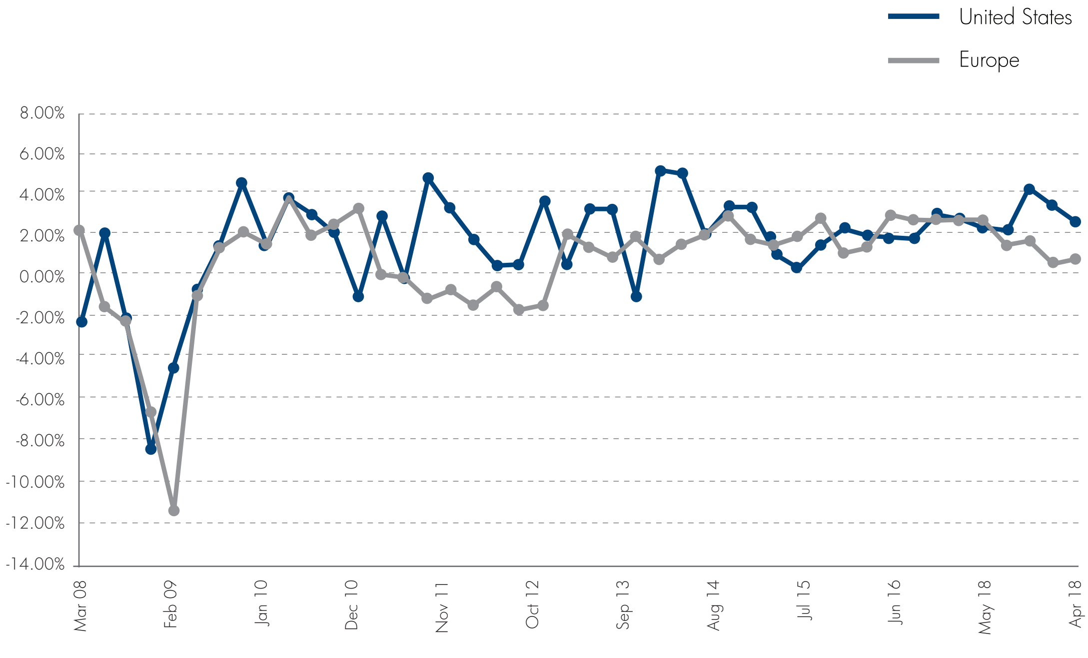
DIRECTORS' REPORT ON OPERATIONS

GENERAL INTRODUCTION

INTERNATIONAL SCENARIO

After a positive start, 2018 was characterised by the gradual slowdown in global growth due to the unfavourable combination of factors linked to, among other things, Trump's protectionist attitude, which led to dangerous tariffs confrontations with China, and the effects of the American restrictive monetary policy. On the American front, the economic cycle was confirmed to be close to its maturity, with a strong labour market, characterised by the absence of concerns with regard to inflation. The important half-term elections then saw the Democrats regain majority of the House of Representatives with the Republicans consolidating their position in the Senate, complicating issues for the US President, who also started to dispute the monetary policy operated by the Federal Reserve (FED), with rates at the end of the year in the range between 2.25% - 2.50%. In Europe there were greater difficulties, with the slowdown in global trade penalising exports, in particular for Germany, and the uncertainty linked to Brexit. The French situation was characterised by social tensions, which erupted at the end of the year with the Yellow Vest protests, while Italy was very concerned with the new Government and its announcements in relation to taxation and relationships with the European Union. In 2018 the Quantitative Easing program of the European Central Bank (ECB) gradually came to a close, in a context of reference rates stalled at historical minimum levels. The situation in emerging markets was rather uneven. On the one hand, there was a cooling of Chinese growth, which dropped to under +7.00%, and the continuation of Indian growth thanks to the acceleration of private consumption, while the concerns linked to the trade wars, the rises by the Federal Reserve and internal political tensions penalised countries such as Turkey, Argentina and South Africa.

GROSS DOMESTIC PRODUCT TRENDS IN EUROPE AND IN THE UNITED STATES



UNITED STATES

The American economy closed 2018 with an expansion growth of +3.00%, accelerating compared to the previous year thanks to the effects of the tax stimulus provided by the Government. In particular, the third quarter of the year saw a vigorous expansion of consumption in the private sector, the highest since the fourth quarter of 2014, while investments experienced a slowdown. Cooling signs were however emerging on many fronts, due to the negative effects of the economic slowdown at global level and Trump's commercial war, particularly with respect to China, which contributed to business uncertainty, impacting on activities and investments. Inflation generally remained in line with the Federal Reserve's target, resenting the impact at the end of the year of the drop in the oil price.

Of the most significant macroeconomic indicators, the ISM Manufacturing and Service indices pointed decidedly to expansion during the year, to then give marked signs of a slowdown towards the end of the year, even though still on positive ground. In the first case, December saw the lowest value of the last two years and the most marked monthly contraction in the last ten years, while services showed a reduction in the new order components. Signs of reduced optimism were also recorded in the consumer market, as confirmed by the University of Michigan's confidence index, which dropped to the lowest level in the last two years.

Completely opposite signals were however recorded in the labour market, which continues to record marked increases in labour opportunities. The Non Farm Payrolls in fact showed surprising data, continuing the positive trend started in the last quarter of 2010, with the unemployment rate dropping to under 4.00%.

After three rises in 2017, the Federal Reserve increased rates four more times during 2018, reaching a range of between 2.25% - 2.50%, while at the same time reviewing future growth estimates downwards.After repeated attacks by Trump on the FED's actions, only at the end of the year and at the start of 2019 did the interventions of Governor Powell and the other FED representatives recorded a dovish turn, moving from the plan to rise rates at least twice in 2019 to a view with rates now close to levels consistent with the macroeconomic situation.

EURO AREA

During 2018, the growth in the Eurozone recorded a marked slowdown compared to the values at the start of the year, settling at just over 1.00%. The difficulties also related to the largest economy in the area, Germany, due to temporary negative factors which affected the German automotive sector in particular. Italy, however, was in recession in the fourth quarter, while the Spain and French economies were supported by exports, which showed a greater than expected expansion.

In addition to the fears of trade war which characterised the last few months of the year, a negative impact was experienced also due to the Brexit process, which has yet to be clarified, the political frictions between European Institutions and the Italian Government, in relation to the budget law, and the tensions in France with the Yellow Vests protests.

In relation to Brexit, the situation was confused and uncertain for much of the year, with Prime Minister May having to manage, in addition with the negotiations with the European Union, also various internal conflicts and in particular the most conservative faction which opposed more conciliatory solutions. At the end of November a draft agreement was agreed with the European Union, which was voted down by the British Parliament in mid-January 2019.

Business confidence data also confirmed some of the doubts on the rate of expansion of the economy in the Area. With regard to the manufacturing sector, PMI indices recorded a rather uniform progressive decrease. Specifically the index for the Eurozone reached the lowest value level since August 2016 at 51.4 points. In Italy the same index confirmed a contraction in business activities from October. The service sector appeared, however, to have been able to better limit the slowdown in growth. The role of internal growth drivers, such as consumption, the end of austerity, the recovery in the property sector and corporate investments, however, remained significant.

A similar situation was described also by the IFO and ZEW indices referred to the sole German economy, in both cases showing a contraction, especially with regard to the component relative to expectations. On the consumer front, too, the situation was not particularly encouraging, with consumer confidence progressively moving into negative territory.

The labour market showed a significant stability, with an unemployment rate which reached new minimum levels compared to December 2008, and contained wages growth. In relation to inflation, the consumer price index was affected by oil prices, highlighting during the year a progress in line with the European Central Bank's target, to then drop in the last few months of the year. The increase in the core inflation index, which excludes foodstuff and energy prices, hovered around +1.00%.

The European Central Bank reviewed downwards both the 2019 estimates for inflation and for growth and recognised the greater downside risk, abstaining from raising the cost of money.

ASIA AND PACIFIC AREAS

After two years of positive growth, the Japanese GDP showed a surprising contraction at the beginning of the year with a quarterly decrease of -0.20% due to a rather sharp drop in private investments. Growth then continued in the second quarter (+0.70%) but during the third it slowed down sharply to levels not seen for four years, having been affected by a series of natural disasters but also by global risks, including the US-China trade tensions and the slowdown in the Chinese economy. Growth then started to grow again at the end of the year even though, as it is an economy strongly dependent on exports, it suffered from the drop in foreign demand.

Among confidence indicators, consumers sentiment signalled a progressive decline during the year, reaching the minimum values seen at the end of 2016 and remaining under 50 points, underlying the persistence of a negative climate for households. The concerns relating to the United States' protectionism and China's slowdown led to a loss of momentum for the economy, with production activities in Japan, recorded by the Tankan manufacturing index relative to large companies, progressively dropping to 19 points. The Bank of Japan, guided by governor Kuroda, confirmed an ultra-expansive policy, aided by the fact that inflation remained distant from its target of 2.00%, to the extent of reviewing downwards the estimates for core inflation in the year.

China's economic growth, even though still strong, slowed down during 2018, reaching an annual rate of +6.60%, which represents the lowest level since 1990. The year will also be recorded as the year of the trade war with the United States, even though another factor that weighed on the economy was the reduction of debt by regional governments. In this context, sales of motor vehicles, property prices and industrial output proved to be weak. The People Bank of China pursued a program of stimuli to support economic growth, through expansive monetary and fiscal policies.

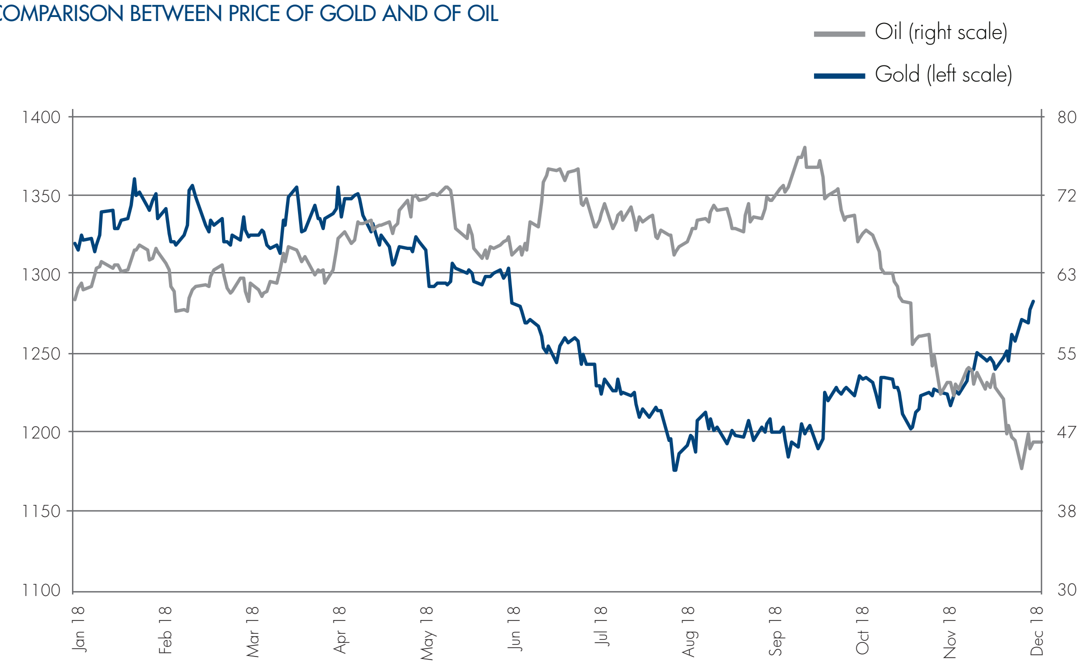
COMMODITIES

The year 2018 was a rather eventful year for the oil price. Its performance was mainly characterised by two well-defined stages: a long first part of the year, when the Texas WTI experienced continuous progress until reaching a maximum at the start of October of USD 76.41 per barrel, to then turn back to the minimum levels of June 2017, marking a contraction in the last part of the year of over 40.00%.

The upward trend in the first part of the year had its roots in 2017: after reaching the year's minimum level in June, prices showed a reversal of the trend, taking the crude oil price to ever higher levels, continuing to grow further at the start of the new year, due to the greater weakness of the US currency, the cuts in production promoted by OPEC, the data showing a drop in stocks in the United States, the geopolitical tensions (Iran and Venezuela) and the positive growth signals of global economic growth. In the latter part of the year, however, the oil price was driven by the instability of financial markets and the growing fear of a slowdown in the global economy, as well as the increase in production reported by Saudi Arabia, Russia and the United Arab Emirates, to historical maximums.

On the other hand, the price of gold started 2018 hovering around USD 1,310 - 1,360 per ounce, then in April started a downward trend which came to an end in mid-August, when the precious metal touched the lowest level in over a year at USD 1,174 per ounce, to then start to rise, to close the year at USD 1,282 per ounce. In this case too yellow gold, considered the safe heaven par excellence, was affected by the numerous outbreaks of global geopolitical tensions, as well as the uncertainties of American policies.

COMPARISON BETWEEN PRICE OF GOLD AND OF OIL



MONEY MARKET

Country	Official rate		Change			
	Name	Value at 31.12.2018	Last		From start of 2018	
EUROPE						
Euro area	Refi rate	0.00	16.03.2016	-0.05	0.00	–
United Kingdom	Repo rate	0.75	02.08.2018	0.25	0.50	0.25
Switzerland	Oscillating range target	-0.75	15.01.2015	-0.50	-0.75	–
USA AND JAPAN						
United States	Fed Funds rate	2.50	19.12.2018	0.25	1.50	1.00
Japan	O/N Call rate	-0.10	16.02.2016	-0.20	-0.10	–

Also in 2018, the dynamics recorded on the money market were mostly linked to the actions of the European Central Bank, which confirmed the need to maintain a wide range of monetary accommodation in the light of the general slowdown in the outlook for growth and inflation in the Eurozone. The ECB's governing Council therefore maintained its official rates at historical low levels, with the rate on overnight deposits at the Central Bank stable at -0.40%, which was confirmed as the effective reference level for short-term rates on the money market, also aided by an excess system liquidity close to historical maximums levels.At the end of 2018 all the main maturities of Euribor rates were still firmly in negative territory, with the quarterly and half-yearly fixing closing the year just over historical lows, respectively in the area of -0.31% and -0.24%.The cooling of the economic situation in the countries of the Eurozone, outlined by the spread of lower than expected macroeconomic data, especially in the last quarter of the year, negatively impacted on medium and long-term quotations of the rate curve, with the swap curve returning to negative ground in December for maturities of up to 3 years, after showing modest signs of recovery in the first half of 2018. The reversal was more marked for long-term maturities on the curve, with the 10-year term closing 2018 at just under the 0.80% threshold, with an overall reduction of nearly 10 basis points compared to the values reached at the end of 2017. Lastly, with regard to the extraordinary monetary policy measures, on occasion of the December meeting, the ECB formalised the decision to end net purchases of securities in the context of Quantitative Easing program at the end of 2018, committing itself in any case to still guarantee the full reinvestment of capital reimbursed from securities on maturity "for a long period of time".

EXCHANGE RATES

Currency dynamics experienced during 2018 highlighted how the balances between foreign currencies were determined by a multiplicity of factors, among which the most relevant were attributable to the gaps in economic growth and monetary policy among the different countries and by an increase in risk aversion consequent to the increase in uncertainty elements at global level (trade wards, political tensions in Europe, Brexit). In this context the Euro lost ground against the US Dollar, the Yen and the Swiss Franc, while it gained more or less ground against most other currencies.
The EUR/USD cross-rate between January and December 2018, moved from 1.1990 to 1.1450 (-4.50%). This reduction was attributable to the acceleration forced by the FED on the increase of American rates, against a ECB firm on an accommodating monetary policy. It was, however, the greater risk aversion, more than differences in fundamentals, to put investors off the Euro and drive them towards typical shelter currencies, the Yen and the Swiss Franc, with the result of pushing the EUR/JPY and EUR/CHF cross-rate to experience an annual contraction, respectively of 6.80% and 3.70%.
With regard to positive performances, the Euro recorded the most relevant annual increases compared to the Turkish Lira (+33.30%) and the South African Rand (+11.20%), aided, in the first case, by the Turkish political and financial crisis and, in the second case, by the economic recession in South Africa.
The correction in the oil price and the price of some commodities was, however, at the base of the contraction against the Euro of currencies such as the Australian Dollar (-5.70%), the Canadian Dollar (-3.80%), the New Zealand Dollar (-1.20%) and the Norwegian Krone (-1.10%). These currencies, although generally supported by a moderate economic expansion, did not benefit in a significant manner from the modest bullish signals from their respective central Banks, some of which implemented a first squeeze on rates (Bank of Canada, Norges Bank). An emblematic case in this sense was that of the Swedish Krona which lost 4.20% against the Euro, penalised by the persistence of Swedish rates in negative territory in spite of the rise implemented by the Riksbank at the end of the year.
Lastly, the EUR/GBP cross-rate experienced high volatility during the year, attributable to the difficult progression of the Brexit negotiations; the lack of an agreement with the European Union, in fact, penalised the British Pound (-0.80%) in spite of the improvement in economic fundamentals and the bullish signals on rates from the Bank of England.

Exchange rate	31.12.2018	31.12.2017	Change %
EUR/USD	1.1450	1.1993	-4.53%
EUR/GBP	0.89453	0.88723	0.82%
EUR/CHF	1.1269	1.1702	-3.70%
EUR/JPY	125.85	135.01	-6.78%
EUR/AUD	1.6220	1.5346	5.70%
EUR/CAD	1.5605	1.5039	3.76%
EUR/NOK	9.9483	9.8403	1.10%
EUR/SEK	10.2548	9.8438	4.18%
EUR/DKK	7.4673	7.4449	0.30%
EUR/ZAR	16.4594	14.8054	11.17%
EUR/HKD	8.9675	9.3720	-4.32%
EUR/CZK	25.724	25.535	0.74%
EUR/PLN	4.3014	4.1770	2.98%
EUR/HUF	320.98	310.33	3.43%
EUR/NZD	1.7056	1.6850	1.22%
EUR/TRY	6.0588	4.5464	33.27%
GBP/USD	1.2800	1.3517	-5.30%
USD/JPY	109.91	112.57	-2.36%
USD/CNY	6.8778	6.5075	5.69%

BOND MARKETS

In 2018 yields from European bonds again recorded a drop: with regard to the core countries, the German 10-year rate moved to its maximum level at the start of the year with a rate of 0.70%, to 0.20% at the end of December, so denying the widely spread forecasts of a rise in rates. This dynamic was again favoured by the revision of inflation forecasts: the forecasts for European inflation in five years' time for the following five years settled at the minimum levels of 2016, weighed by data that indicated a slowdown in the European economy. Political tensions, with the difficult dialogue on trade tariffs between China and the United States and Brexit, contributed to support a risk aversion trend.

Italian government bonds were an exception to this trend, closing the year with yields in marked rise for all the main nodes of the curve.

The first few months of 2018 were characterised by a "wait and see" phase, marked by essentially stable yields. Then, in the following months, there was a strong increase in volatility with strongly rising yields, with the prospect of a populist government with the Five Star Movement and Lega Nord: coinciding with this event, the slope of the 2-10 year section was significantly reduced. The Italian 10-year rate reached the highest return since the start of the year at 3.50% in coincidence of the tug of war between the Italian government and the European Commission on the issue of the deficit/GDP ratio for 2019.The fear of a downgrade of the Italian rating by Moody's to the non investment grade area emphasised the negative trend.Following the agreement with the European Union to maintain the deficit in the 2.20% area, some purchases of BTPs aided a contraction of yields to the 2.70% area at the end of the year.

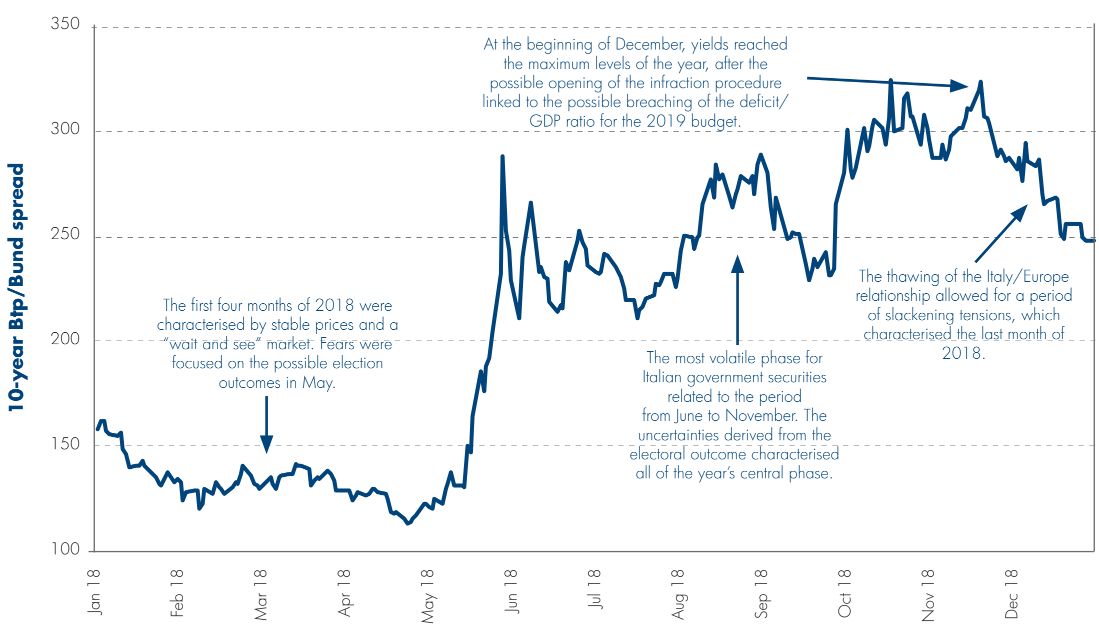
The yields on British Gilts, under attack throughout the year because of the possible implications linked to Brexit, saw their maximum levels in October, with the 10-year rate in excess of 1.70%. In the last few months of the year recovery was very robust and reported a yield of 1.20% on the levels at the start of the year.

The performance of US Treasury securities was characterised by a reduction in the differential in the 2-year and 10-year yields. After the last rise of rates by the FED in September, the differential reached the minimum for the year in the area of 23 basis points, determining a marked yield curve flattening.

In general yields rose until October, with the 10-year Treasury bond at over 3.20%, to then start on a downward trend that characterised the last two months of the year and which coincided with the marked drop in the equity markets at the same time.

Yields for emerging countries government securities again rose in 2018, after the recovery in 2017, which brought indicators back to the levels of 2015. Generally speaking, yields rose by around one percentage point. Among the worst performers, the strong rises of bonds in Venezuela (+1,200 bp) and Argentina (+450 bp) are to be noted.

SPREAD BTP-BUND DYNAMICS



STOCK MARKETS

2018 was a very negative year for global stock markets, with the World MSCI index down by 10.00%. All the world stock exchanges, considering performance expressed in American Dollars, recorded a negative performance.

Losses were strongly focused on European exchanges, while American markets proved to be more resistant without, however, managing to record a positive annual performance. The S&P 500 index ended the year down by 6.24%, after however reaching an all-time high on 3 October. December recorded the worst monthly performance since the time of the great recession of 1931. The drop in the US markets came after two years of strong growth, affected in the last few months by the FED's restrictive policies and the US-China trade dispute, factors that had a cooling effect on growth forecasts at global level and in particular on the Chinese economy. However the volatility that affected the American markets, and in particular the overvalued technology sector, was offset by a distinctly positive performance of defensive stocks, such as in the pharmaceutical sector. The giant Merck recorded a rise of 35.90%, while Pfizer was up by +20.00%.

In this context the FTSE MIB was no exception, down 16.20% on an annual basis and effectively wiping off the positive performance of 2017: the strong political tensions and the government's economic choices contributed to the volatility of the main index, especially in the second half of the year. The index exceeded 24,000 points at the end of April, supported by the strength of Fiat Chrysler, to then decline in the subsequent months and crash in October, coinciding with the exacerbation of the crisis between the government and the European Commission. The reverse star was the banking sector, hit by the government crisis which played a heavy role on the performance of many institutes. Intesa Sanpaolo lost almost 30.00% and Unicredit almost 40.00%.

Among the few positive performances were Juventus (+38.90%), on the wake of good sport results, and Campari (+14.60%), after strongly positive analysts' reviews of the third quarter results.

In 2018 IPOs focussed mainly on the AIM market (26 out of 31). Only two new companies joined the MTA market, Garofalo Health Care and Techedge, two new companies joined the Star market (Carel Industries and Piovan) while there was only one new listing, Nb Aurora, in the MIV market.

With regard to emerging markets, only a few platforms recorded positive performances, if measured in the local currency, including Brazil, Russia, United Arab Emirates, Saudi Arabia, New Zealand, India and Argentina.

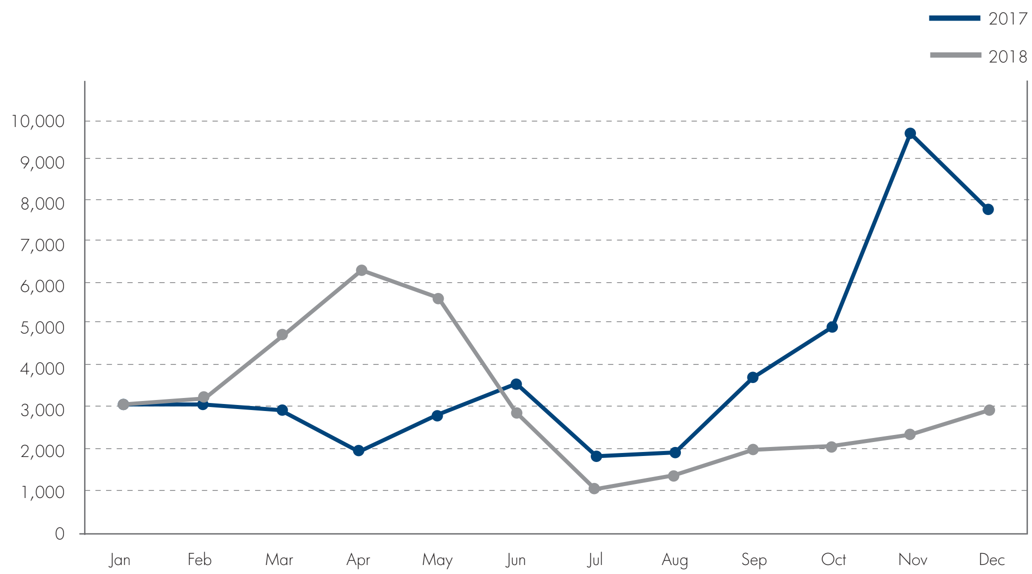
Stock exchange indices	End of 2018 trading prices	Annual change 2018
Aex Holland	487.88	-10.41%
Brazil	87,887.26	15.03%
Cac 40 Paris	4,730.69	-10.95%
China	3,010.65	-25.31%
Dax Xetra	10,558.96	-18.26%
DJ EuroStoxx50	3,001.42	-14.34%
DJ Stoxx50	2,760.06	-13.15%
US Dow Jones	23,327.46	-5.63%
Ftse Italia All Share	20,148.24	-16.71%
Ftse London	6,728.13	-12.48%
Ftse Mib Italy	18,324.03	-16.15%
Hong Kong	25,845.70	-13.61%
Ibex Madrid	8,539.90	-14.97%
India	36,068.33	5.91%
Mexico	41,640.27	-15.63%
US Nasdaq	6,635.28	-3.88%
Nikkei 225 Japan	20,014.77	-12.08%
Russia	2,358.50	11.79%
S&P/ASX 200 Australia	5,654.32	-6.90%
S&P 500 USA	2,506.85	-6.24%
South Africa	46,726.59	-11.05%

MAIN ACTIVITIES OF CASSA CENTRALE BANCA

FINANCE

From a financial viewpoint, Cassa Centrale Banca provides remuneration services that protect the reliability, continuity and efficiency of banking operations, allowing bank clients to offer their customers a vast range of investment solutions.
In 2018, total volumes traded on bond markets decreased by approximately 20.00% relative to 2017, reaching over EUR 38 billion; this values is in line with the average trend of recent years.
The monthly volume trend recorded a good start to the year, with volumes higher than in 2017 until May. In the second half of the year operations decreased, amounting to a monthly average of around EUR 2 billion. No increase on operations compared to 2017 was recorded by the end of the year and not even the sharp drop in yields, which characterised the entire month of December, triggered an increase in traded volumes.
Even though representing around 5.00% of the total, the volumes of contracts for retail customers recorded an increase in 2018 of around 5.00% compared to the previous year, thanks to the switch of several Banks belonging to the Cassa Centrale Banca Cooperative Banking Group to the trading services offered by the Parent Company. The volumes traded by the Asset Management services of Cassa Centrale Banca showed a slight contraction (-4.00%).

TOTAL BOND VOLUMES

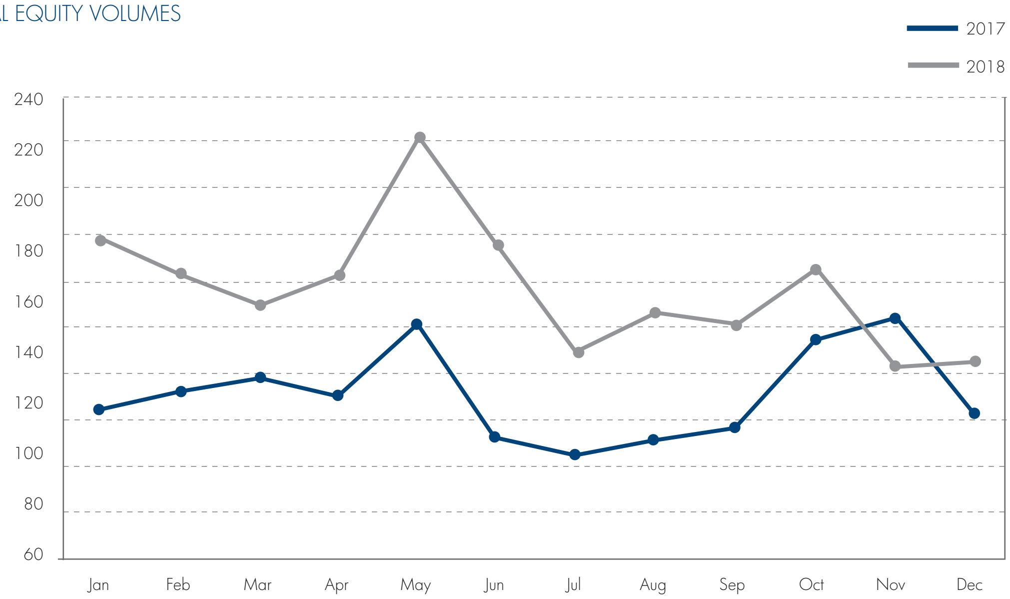


Figures in millions of euro

Brokered volumes on operations in stocks and ETFs recorded an increase of 34.00% year on year, with a value that changed from approximately EUR 1.48 to EUR 1.98 billion. 2018 volumes were essentially higher than in 2017 through the year, with the exception of December, when the correction in share markets essentially caused a significant block in operations.

Asset Management orders were in line with the values recorded in 2017, while the portion traded through Inbank experienced an increase in line with that recorded for stocks in general. In fact, considering only retail customers, the portion of the total shares traded value reached 53.00%, equal to approximately EUR 1.059 billion (compared to EUR 500 million in 2017).

TOTAL EQUITY VOLUMES



Figures in millions of euro

In 2018, Cassa Centrale Banca placed certificates issued mainly by DZ Bank for a total amount of EUR 3.77 million, a strong decrease compared to EUR 12 million issued in 2017.
After the increase experienced in 2017, interest in auctions of Italian State securities dropped slightly. Subscriptions decreased by around 17.00%, for a value of EUR 114 million. The change was attributable in large part to the strong volatility which characterised yields in Italian government securities in 2018.
2018 was again a year with a strong development with regard to the Anagrafe Titoli Centralizzata (Centralised Securities Database), also driven by the new regulations being applied during the year, including the classification of financial instruments for the purposes of the report on the top 5 brokers/execution points, the creation of the Target Market and the dispatch of EMT data for funds.
Compared to 2017, requests entered via the Cassa Centrale Banca portal experienced an increase of 10.00%, for a total of 12,100 requests. Almost 830 further requests were made via email (compared to 1,000 the previous year).
With regard to the interbank segment, the activity represented by the settlement service on the refinancing operations with the ECB in 2018 recorded managed volumes substantially in line with the previous year, both for the indirect and for the direct channel. At the end of 2018 traded volumes in this latter mode amounted

to EUR 5.5 billion, comprising entirely long-term transactions relating to the TLTRO-II program. Again from a point of view of commitments, the maintenance of short-term interbank rates into negative ground contributed to a significant increase in the collateralised loan transactions of the BCC-CR-RAIKAs in the context of the Collateral Account Service, with volumes exceeding EUR 1.4 billion at the end of 2018, compared with EUR 600 million in 2017: brokerage for these transactions determined the increase in traded volumes on the MTS Repo market through Cassa di Compensazione e Garanzia. On the other hand, with regard to collections, the decrease recorded on term deposits was due to the effects of the capital increase. The reduction of the rate levels of the long part of the swap curve confirmed, also for 2018, the interest by the BCC-CR-RAIKAs for the hedging of the rate risk on their loans.The activity in OTC rate derivatives then recorded the closure in 2018 of 40 swap transactions, in line with the previous year, but with an overall notional value in significant increase (EUR 128 million against EUR 26 million in 2017).In 2018 the volume of spot and forward trades in foreign currency confirmed the growth trend of the previous years, exceeding the threshold of EUR 2.2 billion (+10.00% compared to 2017). Overall, the US Dollar remained the most heavily traded currency (80.75% of total volumes), followed at a distance by British Pound (5.26%), Swiss Franc (3.77%), Australian Dollar (2.81%), Norwegian Krone (1.73%) and Turkish Lira (1.46%); on the other hand, the trend in traded volumes of Japanese Yen was up slightly on 2017 (0.64% of total traded volumes). Deposits in foreign currency with the BCC-CR-RAIKAs saw a significant increase in volumes in 2018, both in terms of liabilities and assets: expressed in Euro, the former totalled EUR 236 million (+152.21%), while the latter amounted to EUR 176 million (+69.34%). The most heavily traded currency deposited with BCC-CR-RAIKAs remains the US Dollar (73.76% of total volumes), followed by currencies commonly used for financing, like the Swiss Franc (11.36%) and the Japanese Yen (10.26%).

The year 2018 witnessed a generalised increase in the uncertainty of expansion in the main global economies. However, more than the slowdown of the economic cycle, what affected the dynamic of financial markets were some external factors, mainly political ones: the spiral of the trade tensions between the two economic powers, the United States and China, had a global effect. In consequence, the risk aversion climate impacted on all financial markets: among stock indices, the S&P 500 index dropped 14.00% in the last three months of the year, recording an annual performance of al -7.00%.In Europe the tensions between the new Italian government and the European Union, as well as the lack of agreement on Brexit, undermined investor confidence in the old continent as early as the spring, recording a MSCI index relative to the Eurozone of -14.70% at the end of the year, driven down by the German index (-18.30%).

The domestic bond market also experienced marked volatility, with prices reflecting the growing rift between the Italian government and the European Commission regarding budget choices. At the end of the year the review of the budget law, implemented in order to avoid infringement proceedings, reduced the effects of depreciation to around 3.00% for the 10-year BTP while the spread on the Bund closed the year at 250 basis points, lower than the annual peak reached in November (over 320 basis points). In a similar situation, the only source of diversification was currency exposure, with the American Dollar gaining ground on the Euro by about 4.50%.

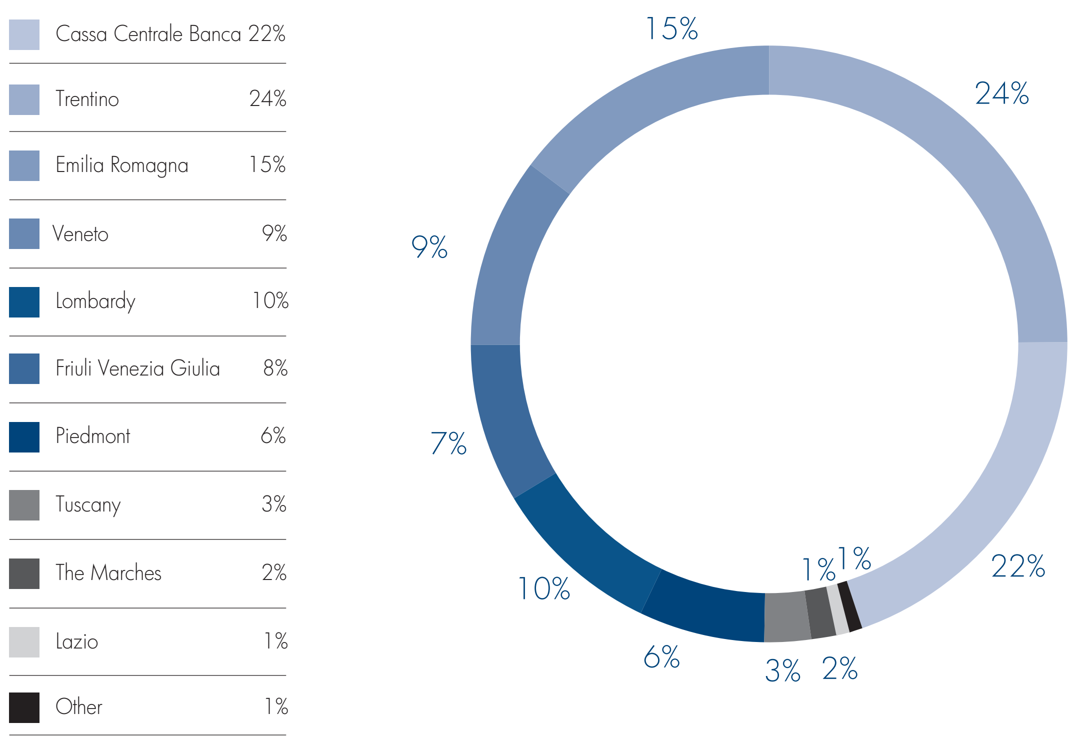
In this context quantitative lines reported a gross annual performance of between -2.60% and -6.33%, while Balanced lines reported negative gross annual results of between -3.75% and -7.21% as a function of its equity exposure.In the Private sectors, the Obbligazionaria Globale line stood out, achieving +4.03% by taking advantage of the revaluation of the greenback.

In spite of adverse conditions on the financial markets, managed assets grew during the year, and the total value recorded an increase of around EUR 120 million compared to 31 December 2017, for a total of EUR 5,340 million. The balance of contributions and withdrawals during 2018 was positive, over EUR 460 million, with an increase of around 5 thousand new active accounts, to reach a total of almost 74 thousand management mandates.

In the second part of the year, three new variable-fee Benchmark lines were implemented, with a strategy broken down into three investment profiles (Prudent, Balanced and Dynamic).The main new feature of these lines, placed from 2019, is the fee structure, which calls for a reduction in management fees applied to the investor if annual performance does not meet certain levels.

Also to be noted, with the entry into force of the MiFID II regulations, is the process of adjustments and profiling of all accounts initiated which saw the redefinition of over 31 thousand positions by placing Banks.

VOLUMES MANAGED BY REGION



2018 was a challenging year for financial markets and, in consequence, for all intermediaries: in addition to the market dynamics, new regulations due to the entry into force of MiFID II also played a part, even though its most significant impacts have yet to become apparent.

In spite of a discouraging market environment, a growing number of Banks started activities to provide Portfolio Advisory services to their retail customers.
The innovations introduced on the entry into force of MiFID II also required a significant increase in management and support activities for the training of consultants for the Banks offering the service.
In the last part of the year, during the final phase of the Group's establishment which in the past had represented a restraining influence for many of the entities contacted for the performance of the service, an increasing number of Banks belonging to the Group started to implement preparatory activities to provide the Portfolio Advisory services to their customers.
The low yield rates, the greater need for investment diversification on the part of investors, together with the search for margins from services on the part of Banks, contributed to a growth in asset management also in 2018, confirming the trend already started a few years ago.
The proposal of financial investment instruments, such as asset management, the NEF fund, the third-party funds through the Funds Partner platform and the certificates, recorded a positive trend overall, although it was highly affected by the various phases of the market, which in 2018 was again characterised by high volatility and negativity, which had an impact on the growth trend, especially in the second part of the year.
The training support given to the Banks network by the commercial contacts of Cassa Centrale Banca proved to be very useful, with updates on market trends and the positioning of the product with respect to customer requirements. There were a total of 650 visits made, allowing the placement Banks to be monitored continuously, which today involve approximately 180 Banks, a reduced number due to the process of aggregation in course among BCC-CR-RAIKAs.
During the year, events targeted at the customers of the partner Banks were also organised, to promote the financial products of Cassa Centrale Banca and network training activities continued, also through the various editions of Club Finanza e Bancassicurazione, taking place three times a year in Trento, Padua, Udine, Bologna, Cuneo, Rome and Bari.
Lastly, in 2018 the twelfth edition of the course entitled 'Financial Advice for Private and Affluent Clients' was held in Bologna, in collaboration with SDA Bocconi.To date, approximately 300 new professionals have been trained, which precede the start of a new higher training initiative in the context of Wealth Management.
Great attention was paid to the issue of ethics, developed in the context of financial instruments. Cassa Centrale became a member of the Forum for Sustainable Finance, a non-profit multi-stakeholder association: members include operators from the financial world and other parties concerned with the environmental and social effects of financial activities.The mission was to promote the knowledge and the practice of sustainable investment, with the objective of spreading the integration of environmental, social and governance (ESG) criteria in financial products and processes. The ethical range of the NEF fund is constituted by 3 products and it is expanding.
The bank assurance activities continued in 2018 in close collaboration with Assicura Group. In particular, the commercial contacts supported the company in developing the activity and the relations outside the Triveneto area, contributing to the start and consolidation of relations with new banks in different regions of Italy.

LOANS

2018 was a problematic and contradictory year for the credit sector, presenting a first half year characterised by a rather sustained growth in the economic trend (1.50% - 1.60%). On the other hand, however, the second half year highlighted a drop in the Gross domestic product (GDP) of 0.20%, giving rise to what in economy is known as technical recession, that is to say two consecutive quarters of negative GDP. Only the data for the first quarter of 2019 (not available to date) will confirm, in case of a negative value, the start of a veritable recession phase. The sharp drop in GDP, recorded in the second half of 2018, was due mainly to two factors: an external factor given essentially by the cooling of the global economy, which for our country involved a slight contraction of exports; the other, an internal one, originating from internal political uncertainties that echoed in the national productive system and the consequent slowdown of investment patterns. The performance of credit demand and, in consequence, of its disbursement, was perfectly correlated to the progress recorded during the year by the economic trend: moderately sustained during the first six months, markedly slower in the second half-year.

The growth in GDP, even though modest on a year on year basis, alongside a significant maintenance of employment levels, facilitated a further and marked slowdown in the national banking system, compared to the previous years, of the new classifications in the categories of problem loans. This reduction of new inflows, combined with the acceleration in recoveries and transfers, allowed a significant reduction in non performing loans towards more contained levels, although not yet in line with the averages of the best European Banks. The First Time Adoption (FTA) adopted in 2018 on occasion of the introduction of the new evaluation criterion of financial assets (IFRS9), represented a very strong stimulus for the entire banking industry to proceed without delay to the disposal of significant amounts of impaired loans.The possibility of increasing provisions on problem loans, favouring their disposal to the market, posting directly a negative reserve to equity, is without doubt a measure that can help significantly in the effort to reduce the level of non performing loans.

In this uncertain situation, Cassa Centrale Banca has pressed even more strongly on the operating lines already adopted in the past, for the assessment and management of problem loans. These lines essentially consists of:

- cautious and rigorous valuations in the classification of loans with a particular focus on guarantees;
- severe write-downs of loans classified as problem with subsequent prudential allocations;
- proactive management chain, with commercial budget allocated with respect to recoveries and containment of legal expenses;
- identification of portfolios of non performing loans to be transferred and securitised.

The reduction in impaired loans continued in 2018 as well; gross impaired loans decreased from EUR 109.1 million at the end of 2017 to EUR 75 million in December 2018, a decline by EUR 34.49 million, accounting for 31.60% of the entire portfolio.

The reduction was achieved by a slightly higher recovery (EUR 36.2 million against 35.3 million in the previous year) against an increase of EUR 2 million. The total amount outgoing from the impaired loan portfolio, i.e. EUR 36.2 million, represents approximately 33.00% of the entire portfolio and it is certainly a positive figure. The number of incoming non performing positions have shown a marked decrease (EUR 1.6 million against 8.3 million in 2017); incoming positions have been in decline for the last four years, confirming that the most acute part of the crisis has now been overcome.

Gross impaired loans	2018	2017	Change %
Gross non performing loans	42,772	64,807	-34.00%
Gross unlikely to pay loans	31,887	42,823	-25.54%
Gross overdue / overrun loans	-	1,525	-100.00%
TOTAL	74,659	109,155	-31.60%

Figures in thousands of euro - Internal management reprocessing

The net impaired positions in the Bank's portfolio, i.e. the gross ones minus the allocated provisions (non performing, unlikely to pay, overdue/overrun) are shown in the following table.

Net impaired loans	2018	2017	Change %
Net non performing loans	6,849	9,889	-30.74%
Net unlikely to pay loans	14,179	21,720	-34.72%
Net overdue / overrun loans	-	1,330	-100.00%
TOTAL	21,028	32,939	-36.16%

Figures in thousands of euro - Internal management reprocessing

While gross problem positions (non performing, unlikely to pay, overdue/overrun) declined by 31.60%, net positions (see table) also recorded a substantial reduction, amounting to 36.16%. This data is explained taking into account both the sustained level of allocations confirmed and the above-mentioned reduction in gross problem positions. In line with the internal, supervisory and statutory legislative provisions, we proceeded as usual during the year with the performance of the formal and substantive procedures of recognition, monitoring, classification, and valuation of non performing loans.
In particular:
- the Risks Committee, after having examined manager relations in depth and discussed them constructively, made provision for prudent classifications and write-downs, also establishing a constant flow of information and proposals to the management body;
- the Tavolo del Credito (Credit Committee) which meets at Credit Area level with the active participation of the Risk Management, prepared analyses of problem cases, submitting them to the Risks Committee through reports containing descriptions and proposals;
- the positions that are problematic or irregular are examined frequently, with transparency and based on concise dialogue within the various levels of the Bank;
- the assessments regarding the presumed losses from problem loans are made strictly and have led to significant write-downs, as well as a flat level of write-downs which are very prudential and definitely higher than the average for the domestic banking system.

The table below provides a clear representation of the above, making it possible to get a sense of the prudent valuation policy adopted by the Bank, especially if commensurate to the average quality of the portfolio and the size and quality of the guarantees acquired.

Indicators (without Claris Leasing and CC&G)	2018	2017
Net non performing loans/total net loans	1.28%	2.09%
Net impaired loans/total net loans	3.94%	6.97%
Level of cover for non performing loans	83.99%	84.74%
Level of cover for impaired loans	71.96%	69.82%
Coverage of performing loans (flat-rate provisions / performing loans)	0.44%	2.70%
Gross non performing loans/gross total loans	7.24%	11.56%
Gross impaired loans/gross total loans	12.70%	19.47%

As can be deduced from the notes at the top of the table, the values reported have a different calculation basis with respect to quality of the loans shown in the Explanatory Notes, which also consider the volumes deriving from uses of the Cassa di Compensazione e Garanzia of EUR 122.96 million and Claris Leasing (new acquisition) of EUR 381.13 million as at 31 December 2018. In order to provide a more targeted and accurate presentation of the incidence of the Bank's impaired positions, these loans were excluded from the calculation basis. In this regard, it should be noted that the operations of Cassa di Compensazione e Garanzia more closely relate to Finance Area activities rather than Credit Area activities, and that the loans granted to Claris Leasing are with respect to a wholly owned subsidiary.

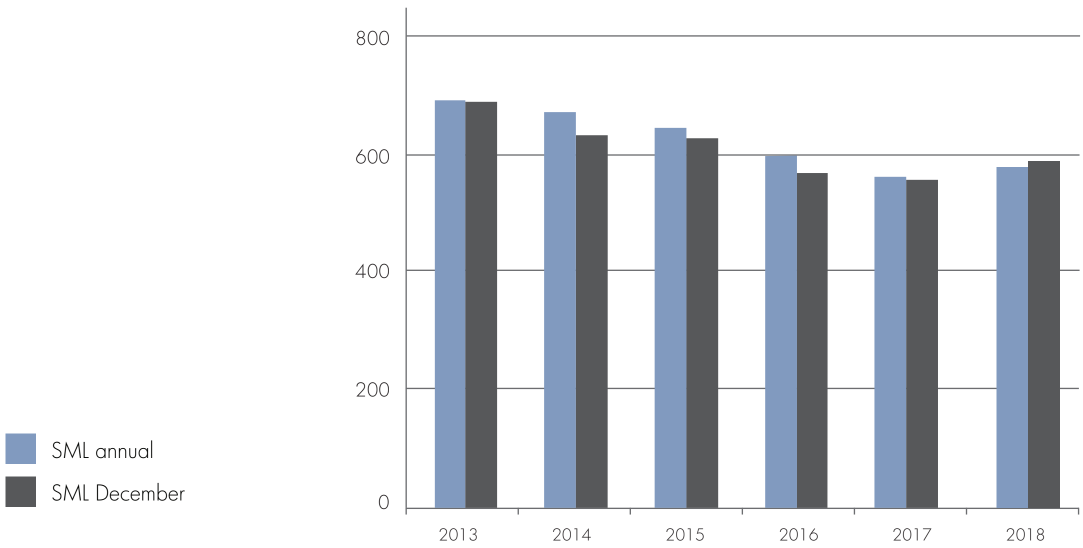
Net non performing loans as a percentage of net loans fell (1.28% in 2018 compared to 2.09% in 2017) due both to the recovery action and to the effect of the allocations; net impaired loans as a percentage of total loans also declined, from 6.97% in 2017 to 3.94% in 2018. The high level of allocations against impaired loans is also confirmed for 2018; the degree of coverage of non performing loans is 83.99% and the degree of coverage of impaired loans is 71.96%. In 2018 too, as regards impaired loans, the methodological approach of the previous year continued; in situations of clear default or difficulty, reference was made to the law concerning corporate crisis management, which is still recent and only partially consolidated in case law. This factor generates widespread legal and operational uncertainty in banks, which is tangibly reflected in prudent and particularly cautious attitudes on the part of them.

Difficulties also persist in establishing efficient and rapid channels of communication with other banks, including at national level: both with respect to sharing a common vision of risk at the granting stage, and in relation to the rigidity and the time needed to manage problematic situations.

In this context, it is necessary to evaluate possible solutions to deal with complex situations: once again, the collaboration with the BCC-CR-RAIKAs proved fundamental as was that with the employees of Mediocredito Trentino Alto Adige, an institution with which almost all the transactions involving large dimensions or complex structures are shared, therefore allowing us to pool mutual experiences and know-how, while respecting the autonomous strategic, credit and financial evaluations.

Given the above, an in-depth examination of the credit portfolio was conducted, new operating and credit requirements were outlined, and a careful review of the skills and aptitudes of our human resources was carried out. In 2018, process started in 2013 and 2014 was definitively consolidated with the strengthening of the Loan Management Department with a view to achieving operating and organisational efficiency and credit and legal professionalism; therefore the work of analytically and accurately verifying each individual problem loan was completed, with all work finalised with the segmentation of the impaired loan portfolio by 'manner of intervention' and not just by regulatory classification. The year 2018 again confirmed a high level of collaboration, in relation to impaired loans, both with Centrale Credit and Real Estate Solutions S.r.l., a company in the Cassa Centrale Banca Group, active in particular in the field of the transfers and securitised NPLs, and with Centrale Soluzioni Immobiliari, also in the Cassa Centrale Banca Group, for the acquisition and placement of properties serving as collateral for positions classified as non performing. In 2018, the REOCO (Real Estate Owned Company) of the Group did not acquire any properties from bankruptcy proceeding, but continued with the goal of enhancing the process of adding value and selling some assets onto the market.
The special attention paid to the management of impaired loans did not stop Cassa Centrale Banca from maintaining and increasing an active local presence on the territory to support BCC-CR-RAIKAs and their corporate clients, by consolidating the network of branches and managers. Following the authorisation for Cassa Centrale Banca to become parent company of the national Cooperative Group, obtained at the end of the year, in 2018 the Corporate network was strengthened with the opening of offices in Udine, Bologna, Rome and Bari. The core business of the Corporate network and of the Structured Finance department remains the work to the service of banks in the territory and their shareholders and customers, in a context coordinated with BCC-CR-RAIKAs.
During 2018, without changing the criteria for granting credit, which remained in line with the previous years', a significant increase (87.90%) of total gross loans was recorded. The total rose from the previous year's EUR 582.4 million to EUR 1,094.6 million in 2018. If we exclude Cassa di Compensazione e Garanzia (EUR 122.9 million in 2018) and the loan to Claris Leasing (a new company within the Group) for EUR 381.1 million, we can in any case record an increase in loans, from EUR 560.5 million in 2017 net of Cassa di Compensazione e Garanzia to EUR 590.6 million in 2018. The growth amounted to EUR 30.1 million, equal to 5.40%, and was more related to the above-mentioned expansion of the Corporate network on the national territory than to the credit demand by enterprises, which remains limited even though the economic situation is showing signs of a modest recovery. Moreover, in granting credit Cassa Centrale Banca always operates in a subsidiary manner, i.e. when requested by the BCC-CR-RAIKAs, and in periods when the demand for credit does not grow or even tends to stagnate, it is adversely impacted to a greater extent than the rest of the banking system. The structure was therefore focused on the management of existing loans, granting new loans for amounts higher than the normal repayment flows. The graph below shows the main figures described above.

TOTAL ORDINARY LOANS



Figures in millions of euro

In addition to the quantitative aspects, we should also bear in mind the qualitative approach traditionally taken by Cassa Centrale Banca when granting and managing loans: attention to credit quality, diversification in terms of the commodity category, area and in particular, size (to spread the risk). The proper understanding of the company's requirements, the ability to offer appropriate responses are elements that go hand in hand with corporate credit activity: they generate value added that the customer appreciates and is willing to recognise, both in economic and loyalty terms. The table below shows the overall balance in the distribution of the loans between the various commodity categories, due to the constant development of the various sectors. The only differences to be noted with respect to previous years are:

- the significant reduction in the share of real estate loans, down from 24.29% of all loans at the end of 2017, to 17.24% in December 2018. The drop in exposures in the sector continues both due to the effect of greater inflows (sales) compared to outflows, and to the effect of the drop in impaired loans relating to real estate positions;
- the share relating to industry and crafts rose from 22.25% to 28.06% last year. The data confirms that, expanding the scope to the entire national territory, cooperation has started with some Banks well established in the manufacturing sectors in Lombardy and Emilia Romagna;
- all the other sectors registered marginal changes compared to the previous year.

2018 LOANS: ECONOMIC SECTORS AND BRANCHES

Sector	Share
INDUSTRY AND CRAFTS	28.06%
REAL ESTATE	17.24%
HOTELS	14.66%
TRADE	8.20%
SERVICES	7.91%
ENTITIES	5.78%
HOUSEHOLDS	5.07%
AGRICULTURE	4.61%
FINANCIAL	4.57%
TRANSPORT	3.90%
TOTAL	100.00%

Also with regard to the real estate sector, which was the hardest hit by the crisis, we manage the current transactions particularly carefully, while for new transactions we operate with consolidated counterparties, paying the utmost attention to the type of operation (residential, craft trade-related, tourist, etc.), by verifying the appetite of the area, demanding the injection of suitable amounts of equity, acquiring adequate guarantees and by sharing with the entrepreneur, from the launch of the new site, a substantial portion of the pre-sales. Particular attention must be paid (when granting the loan as well as for the management of a performing loan or an impaired loan) to the valuation of any properties pledged as guarantee, which must be extremely reasonable and prudential.

In addition to collateral securities, loans are sometimes secured by sureties issued by banks that propose the operation. In keeping with the logic and spirit of the "Credit project", the BCC-CR-RAIKA which proposes the transaction is requested to actually share the risk, in one of two different ways:

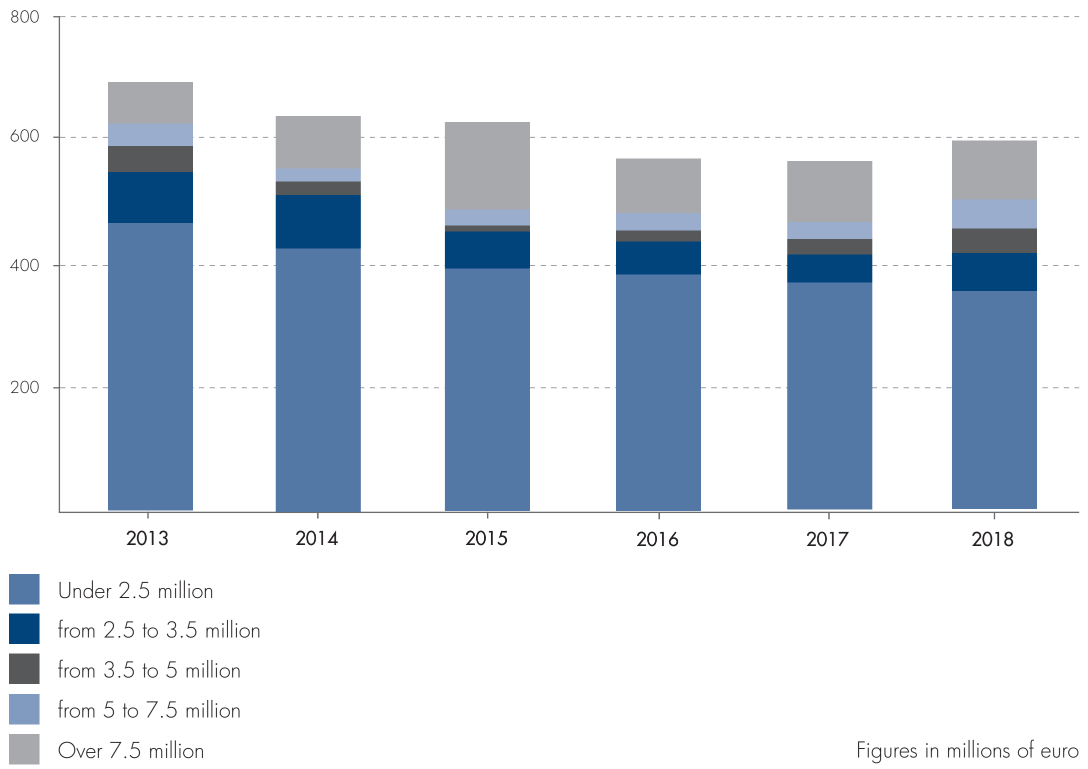
1. issuing of a partial guarantee;
2. cash participation (in a pool).

This can be freely chosen by the BCC-CR-RAIKA, which may opt for the technical format that it considers to be more appropriate for its requirements. Sometimes the surety is agreed with the BCC-CR-RAIKA in the event it is believed that the operation, in order to meet the appropriate requirements of reliability, must be supported by bank guarantees which the BCC-CR-RAIKA is willing to issue, since due to its presence in the area, it is often aware of the business assets (tangible or intangible) of the client which are difficult to discern solely from the documentation produced by the client. On the one hand, this ensures adequate real cover for issuing banks (Cassa Centrale Banca and the other banks participating in the loan pool) and, on the other, it ensures the necessary joint participation in the risk by the BCC-CR-RAIKA which proposes the transaction; at the same time, it also guarantees, for the BCC-CR-RAIKA, recognition of the primary commercial role with respect to the customer, and a substantial and consistent return in financial terms. In line with the evolution of transactions on the credit market, other typical guarantees of structured loans are being managed, such as the transfer of public funding (significant and long-term investment financing), the transfer of revenue from the GSE (renewable energy production plants) and liens on production plants and structures (energy and plant sector) and so on.

Diversification of financial investments, including regional, remains constant, especially significant in terms of the strategic content as well as the credit content. At the end of 2018, more than half the loans of the Bank were allocated outside the Province of Trento (53.66% to be precise), with a growing significance for the new regions where operations started recently in conjunction with the BCC-CR-RAIKAs there present, which rose from 12.75% to 24.03% of total loans.

A policy of segmenting risk was strongly pursued in 2018 too, systematically avoiding concentrating too extensively in any one sector, either by the Bank or the reference cooperative system (BCC-CR-RAIKA). This objective was achieved by placing a prudential maximum amount on credit lines per individual name or group (limits were however flexible in relation to the market particularities and the valence of the individual operation and/or counterparty) and through a constant action toward our associates, where Cassa Centrale Banca was called upon to participate in or coordinate pools involving various BCC-CR-RAIKAs. This approach to the limitation of system risks that was implemented in the full and complete respect of antitrust and transparency laws in the period prior to obtaining the authorisation for the constitution of the Italian Cooperative Group, has become one of the most important undertakings of the Credit Area since the launch of the new Group. The underlying chart provides information on the commitment of Cassa Centrale Banca on the issue of risk segmentation, the vast majority of loans issued falls in the lower than EUR 2.5 million category.

RISK SPLITTING



Control of credit, a prerequisite for proper management, is performed systematically based on 17 different types of check. The main ones are: examination of daily overdrafts, checks on the return flows of the Central Credit Bureau, evidence of unpaid instalments, verification of the contractual covenants and commitments pertaining to building deposits. This system enables a periodic analysis of the credit positions which makes it possible to isolate any performance and credit anomalies, which would otherwise be difficult to identify.
As regards the activities in the subsidised loans sector, the collaboration continues with the main territorial entities and the trade Associations and Consortia for Collective Credit Guarantees in Trentino, Veneto and Friuli Venezia Giulia. In particular, in 2018, certain conventions were stipulated; of these, the most important ones are:

- the FRIE (Friuli Venezia Giulia) convention and the SME Development Fund aimed at the transfer from the Friuli Venezia Giulia BCCs Federation to Cassa Centrale Banca of the representation and administrative support activities of the FVG's BCCs for FRIE and the SME Development Fund;
- cooperation agreement between Cassa Centrale Banca and Warrant Group (now Warrant Hub), with the objective of providing the business customers of the BCC-CR-RAIKAs of the Cassa Centrale Group the possibility of accessing the Italian (local/national) and European concession and/or incentive measures. The stipulation of agreements by the Banks is under way;
- package of various agreements with FILSE (Finanziaria Regionale Regione Liguria), aimed at helping companies accessing credit for the advance payment of public contributions, corporate requalifications and extraordinary works;
- subscription of various agreements with Finpiemonte (Finanziaria Regionale Regione Piemonte), in order to help business customers of the Piedmont Banks access the various regional concession measures designed to support investments in new equipment, research projects at high technological content and new projects with "socially desirable repercussions".

The credit valuation of the counterpart banks which, due to the role carried out by Cassa Centrale Banca, has always been of fundamental significance, assumed an even more strategic role now, with the formal constitution of the Banking Group. This activity evolved over time also thanks to the establishment of frequent meetings for in-depth examination with colleagues in the different areas of the Bank, who work on a daily basis with the BCC-CR-RAIKAs. Through these meetings, General Management also acquired accurate information on the health status of Group which refers to Cassa Centrale and more generally to its financial position and liquidity.

CONSUMER CREDIT

During 2018 the growth trend in households credit continued, even though at a more contained rate than the previous two years and in line with the weakening of growth in durable goods consumption for which loans are most often used.

With regard to the analysis of the national market, in 2018 the overall value of financial operations from Assofin associates, amounting to around EUR 59.5 billion, recorded an increase of 6.20% on the previous year.

With regard to the trend of financial flows in the personal loans segment, after three years of double digit growth, in 2018 this recorded a markedly more modest growth (+5.10%).The slowdown was also confirmed by the contained growth in the number of financed operations (+2.00%) while the refinance segment remained high, supported by the lively competition among operators that motivated households to transfer loans from one institute to another, in search of better conditions.The average ticket in the personal loans segment was around EUR 12,378.

With reference to the distribution channels, the trend in the last few years for a progressive strengthening of the role of counters of generalist Banks distributing products, both directly and through commercial agreements with specialist financial institutions, continued. With particular reference to the personal loan segment, bank branches are the preferred channel and represent almost two thirds of the total financial flows.

The forecasts for 2019 indicate that credit flows to households will continue to growth, even though at a gradually reduced pace. In this market scenario influences due to the tensions on the Italian sovereign debt and the greater uncertainty on economic prospects perceived by operators and households are predicted.

Lastly, the business environment will become progressively more complex due to statutory pressures and the growing competition which will stimulate the acceleration of the change in the service model and new investments in technology.

In the course of 2018 Cassa Centrale Banca, through its specialised business area, established a direct presence in this market segment through the proprietary Prestipay brand, in line with the developments outlined in the initial road map in 2017.

Consumer Credit Area activities concentrated on the following main aspects:

- the contractual agreement and activation of all of the Group's affiliated Banks for the distribution of Prestipay white label consumer credit products, within the scope of a framework agreement defined with Deutsche Bank S.p.A.;
- the consolidation of the service offered to the Group Banks in the segment, with planning and commercial assistance dedicated to the BCC-CR-RAIKAs, through activities intended to energise the sales network;
- the creation of the Prestipay product website equipped with quote and store locator functions, in order to identify the branches located closest to customers;
- the activation of online advertising and marketing campaigns intended to improve brand awareness amongst target customers;
- the definition of a joint venture agreement with Deutsche Bank S.p.A., finalised with the signing of agreements on 20 July 2018, for the establishment of a new company specialised in consumer credit, controlled by Cassa Centrale Banca and invested in by Deutsche Bank.

This agreement, formalised on 5 October 2018 with the establishment of Prestipay S.p.A., 60.00% held by Cassa Centrale Banca and 40.00% by Deutsche Bank S.p.A., calls for the partners to collaborate in setting up the organisation and operations of the company, providing it with the necessary support in their capacity as shareholders.
As at 31 December 2018, 84 Group Banks signed on to the agreement (fewer than in 2017 due to the effect of the combination of institutes) and another 3 of the Cassa Centrale Group's client Banks entered into the agreement and were authorised to place Prestipay brand products. The correct planning of operations allowed the joint activation of all Banks.
With respect to volumes generated, in the course of 2018 more than EUR 170 million in personal loans were disbursed, while with reference to the number of transactions, more than 17,000 thousand customer loan applications were approved, with significant returns for the Group in terms of fees. Over the last two months of 2018, the Consumer Credit Area also activated a test phase at some pilot Banks to place pension and salary backed loans.
Lastly, in 2018, Cassa Centrale Banca provided to consolidate the staff of the Consumer Credit Area Management which, as at 31 December, was composed of 14 resources, of which 8 were assigned to the Marketing Department and the remaining as staff of the management and dedicated to the planning of the start of the operations of Prestipay S.p.A.

PAYMENT SYSTEMS

The main activity that characterised the Payment Systems Area in 2018 was the migration of several Banks in function of the constitution of the New Cooperative Banking Group.

Its integration within the payment services managed by Cassa Centrale Banca required a number of BCC-CR-RAIKA support and coordination activities:

- masterplan migrations with presentation of services to the individual BCC-CR-RAIKAs and organisation of meetings aimed at the sharing of obligations for the membership for the Cassa Centrale Banca services;
- merger process assistance;
- coordination of activities with all interested parties (BCC-CR-RAIKAs, Bank of Italy, ABI, EBA, SIA, Swift, International Mastercard and VISA Networks, Domestic Bancomat Network, Nexi, INPS, the Revenue Agency, Telepass, cash operators, etc.);
- assistance to the BCC-CR-RAIKAs before and after registering for services;
- area reorganisation and strengthening following the increase in volumes handled in all specific segments.

During the year, the start-up phase of the new interbanking "Check Image Truncation" (CIT) was concluded, which replaced the procedure of payment of paper checks with the transmission by the negotiating Bank to the drawing/issuing Bank of only the accounting flows. All the Group Banks are fully operational in the new procedure.

The migration of the new procedure required a complete reorganisation of the transport logistic network and the revision of the outsourced activities to service providers specialised in the overnight processing of cheques; the processing of foreign cheques was also brought back in-house.

In the context of cash management, 25 new BCC-CR-RAIKAs were qualified, with the inclusion of 1,700 service points (Branches, ATMs, large scale distribution), across 66 provinces and linked to 22 peripheral vaults available to the valuables management network.

The data is summarised below:

Service	Number of Transactions/Public entities	Commissions
Electronic portfolio	+ 54.59%	+ 48.40%
Bank Transfers	+ 51.49%	+ 54.21%
E-money	+ 25.61%	+ 27.00%
Public entity treasuries	+ 26.87%	+ 27.07%
Cheques	+ 107.00%	+ 174.52%

During the last year, the activities of the foreign merchandise segment rose by a further 30.00%, leading to overall growth over the last two years to +80.00%. This two-year performance is primarily due to the increase in counterparties that transferred their operations to Cassa Centrale Banca following the founding of the new Banking Group. It is, however, necessary to observe that the operations of individual BCC-CR-RAIKAs, in many cases, have recorded a reduction in the number of transactions carried out, highlighting the historical difficulty of our movement in this specific sector.

Analysing the data in detail, it has been possible to recognise a good increase in transactions linked to import activities (+ 60.00%) and a drop in those linked to export (-2.00%).

During the year, transactions in physical gold were consolidated with the disbursement of 64 gold use loans for a total of 490 kilos and 221 spot sales of gold for goldsmithing.
With regard to the payment segment, there has been an increase in volumes in line with that of non-domestic goods. The number of payments from and to foreign countries processed during the year exceeded 260,000. Special transactions, which are an indicator of the commitment requested from the department, rose from 1,237 in 2017 to 1,963 (+58.00%) in 2018.
During 2018 training activity focused almost exclusively on the preparation of colleagues of the new Banks joining the Group. Interventions of this type were however limited and the resources of the department were prioritised to the growth of ordinary operations.
With regard to the activities relating to the management of securitisation operations, 2018 was less challenging compared to the previous year, and the Department was particularly committed to the closure of the Cassa Centrale Securitisation operation and the definitive liquidation of the vehicle company Cassa Centrale Finance Srl.Again during last year, the European Union adopted a new regulation for securitisation transactions including new information template for eligible transactions.
The Centralised Services Department, constituted at the start of 2018, deals with the following activities:
• Banks reconciliation (movements recorded on current accounts in correspondence with the main Italian Banks);
• centralised reconciliation on current accounts for services rendered by BCC-CR-RAIKAs and Banks subscribing to the payment services of Cassa Centrale Banca;
• reconciliation of current accounts with Foreign Banks (our accounts);
• identification of bank information;
• management of encryption keys with all Banks;
• management of General Data Register;
• checks on Names of Suspects and Politically Exposed People.
With the growth in volumes, relationships and transactions managed following the activation of Banks members of the Group, all the above-mentioned activities also experienced a proportional increase that made it necessary to create a specific operating unit dedicated to the management of these services.
Also in 2018, the Public Entity Treasuries Department was involved in start-up activities of many Entities with agreements with the BCC-CR-RAIKAs which were interested in migrating their payment systems and have decided to outsource Treasury management.
The total number of entities at year-end was 883 (893 at the end of January 2019).
This year, too, the regulations that transferred the Entities' liquidity to the Bank of Italy affected certain Banks' participation in the tenders. At the end of 2018, as many as 84 Entities (46 at the end of 2017) extended the service and will have to call the new tenders soon.
The project to "harmonise accounting systems and financial statements layouts", started in 2016, is still being consolidated as many Entities are not yet ready to provide the new information necessary.
The adoption of SIOPE+ by many Entities continued in 2018.
The Entities that adopted the IT mandate rose to 529 (they were 378 at the end of 2017) confirming the Department's constant effort in the introduction of more modern methods for the performance of the service.
Support was also provided to the Banks for participation in 83 tenders (67 won and 16 lost).
Details of the entities by type and geographic distribution are shown below.

Type of Entity	2018	2017	2016	2015	2014	2013	2012
Municipalities	291	212	212	248	238	231	220
Nursing homes	68	64	64	58	47	45	43
Comunità di Valle (territorial divisions)	5	6	5	5	5	4	4
ASUC	67	66	60	51	49	46	46
Consortia	218	184	164	142	150	147	146
Schools	206	146	144	140	125	135	137
Other Institutes	28	18	21	17	13	14	7
TOTALS	883	696	670	661	627	622	603

DISTRIBUTION OF ENTITIES BY PROVINCE

PROVINCE	2018	2017	2016	2015	2014	2013	2012
Trento	442	401	371	365	358	344	344
Brescia	44	44	43	26	23	22	25
Treviso	42	42	43	46	55	64	77
Pordenone	33	2	2	1	1	1	4
Rovigo	31	29	31	33	38	38	18
Rimini	29						
Reggio Emilia	23						
Trapani	22	24	22	19			
Venice	21	23	25	17	13	14	14
Rome	20						
Verona	19	19	16	14	13	3	4
Gorizia	16	15	17	15	15	14	11
Belluno	16	13	13	15	14	11	8
Palermo	15	14	15	16			
Udine	13	14	20	26	28	27	27
Florence	10	10	11	11	8	8	8
Livorno	10						
Latina	10						
Padua	9	11	12	23	27	33	39
Bologna	8						
Vicenza	8	8	6	11	11	11	9
Lodi	7						
Isernia	5	5	5	5	5	6	
Catania	4	3				3	3
Monza-Brianza	3	3	4	4	2	2	3
Bari	3						
Bolzano	2						
Campobasso	2	2	3	4	5	8	
Chieti	2	2	2	2	3	3	

PROVINCE	2018	2017	2016	2015	2014	2013	2012
Prato	2	2	2				
Caltanissetta	2	2	1	1	2	4	3
Messina	2	2					
Enna	1	1	1	1	1	1	1
Ferrara	1	1	1	1	2	4	3
Milan	1						
Pisa	1	1	1	1	1		
Pesaro-Urbino	1						
Ragusa	1	1	1	1			
Siena	1	1	1	1			
Varese	1	1	1	1	1	1	
Frosinone				1	1		
Ravenna							1
Trieste							1
TOTAL	883	696	670	661	627	622	603

The activity of the E-money Department is mainly directed at supporting the Banks that subscribed to the 'ABI Unico 3599' service (debit and credit) and that place Cassa Centrale Banca's prepaid products.
Transactions exceeded EUR 169 million with a 29.00% increase compared to the previous year.
At the end of 2018, there were approximately 1,046,000 debit cards, a 22.00% increase. Of these, 79.25% is available for customers on supports migrated to the contactless technology.
Prepaid cards also increased by 23.00%.
Of great interest is also the increase in the number of prepaid cards reserved for legal entities which reached 19,700 (+44.00%).
At the end of the year, there were 90,000 active APPs for the management of Prepaid Cards (+70.00% compared to the previous year). Apps on Android devices accounted for 60.00% compared to 40.00% for IOS devices.
The assistance activity for the prepaid cards service, in addition to the traditional telephone, is also offered through a specific "software" that in 2018 received 18,786 assistance requests. With the entry into force of the PSD2 regulations, the process of reimbursement of transactions disclaimed by customers also required a significant effort for the revision, reorganisation and standardisation of the entire process. In this context the requests received and answered in compliance with the stringent timetable were 1,277. Another significant element is represented by charge back requests: 184.
Of the main innovations that characterised 2018, the following are highlighted:

- adjustments to the new PSD2 regulations which have required interventions both on contracts and on the reimbursement procedures for transactions disclaimed by customers;
- all the new cards promoted by Cassa Centrale Banca (debit and prepaid) were provided of the new 'contactless' function for the PagoBANCOMAT® network which will allow the cardholder to make contactless payments also using the domestic network;

- the management of the 'on-us' regulations was activated for cash withdrawal transactions made on international networks, on '3599' ATM/WEBs with '3599' cards, which determined a containment of costs for participating Banks;
- with regard to the prevention of fraud in prepaid cards e-commerce transactions, new regulations were introduced and important measures activated which allowed a significant reduction in amounts fraudulently taken;
- in order to counteract the incorrect uses of prepaid cards (Ricarica and oom+), new expenditure limits were introduced with relative controls;
- always in the context of prevention of fraud and with the objective to reduce alerting costs, notifications relative to the use of credit card through the Notify App were activated;
- to make the "carteprepagate.cc" website more functional and intuitive, the public area was restyled and some of the Prepaid Cards App functions were updated (e.g.:Touch ID for Android, Face ID for IOS, etc.);
- the close cooperation with Nexi allowed to activate new payment services (e.g.: Samsung Pay, Google Pay, etc.) and to activate significant initiatives, promotions and contests to incentivise the use of payment instruments.

Regarding the MyBank product, payer segment, we point out the participation in the service by 67 Banks and the execution of approximately 48,000 (+71.00%) payment transactions for a value of around EUR 152 million (+230.00%). The growth trend is extremely important and confirms that the instrument is particularly appreciated in B2B operations with an average ticket of around 3,166 Euro.

The situation as at 31 December 2018 is shown below, compared with the situation in the previous two years:

	2018	2017	2016
Debit cards	1,046,000	855,900	808,500
ATM	2,115	1,486	1,395
POS	52,845	44,152	41,642
Prepaid cards	287,065	231,810	211,885

PLANNING AND ORGANISATION AREA

The process of establishing the Cassa Centrale Banca Cooperative Banking Group involved the Strategic Planning and Coordination Department to a significant extent, directly involving it in meetings of many Working Groups with consultancy companies, the Group's BCC-CR-RAIKAs and the Software Houses.

There were also meetings with the Group's BCC-CR-RAIKAs to share the guidelines of the Group's business plan, to provide support in drafting strategic plans and in following the main merger projects activated throughout 2018.

In the second half of 2018, the Department also made a significant effort in defining the operating and strategic planning process to ensure that the Cooperative Banking Group has the procedures and processes necessary to manage the Group's business development. With the involvement of some of the Group BCC-CR-RAIKAs, an ad hoc IT platform was implemented which will provide, from as early as the first few months of 2019, a new planning procedure, available to all Group companies (BCC-CR-RAIKAs, instrumental companies and CCB), within a structured process workflow, with the objective of ensuring consistency between the planning data of every individual company and those of the Group overall.

The Marketing Department was mainly involved in the project of evaluating the present and future identity of the Cooperative Banking Group, characterised by an activity of analysis of the main international experiences, studies on the competitive positioning, legal and regulatory verifications, creative proposals, etc.

Following the anticipated resolution of the Directory of the Bank of Italy of 18 December 2018, which authorised the registration of the Cassa Centrale Banca Cooperative Banking Group in the Banking Group Register from 1 January 2019, we proceeded with the rebranding of the Parent Company's logo and the new Group brand was subsequently introduced.

To express a first development signal, a pictogram symbolically representing all of the Group's members in a modern and original layout was inserted alongside the name.

To celebrate this important turning point, a mini-website, www.gruppo.cassacentrale.it, was also created to briefly tell our story and outline our first steps as a Group.

Maintenance and management activities also continued on the www.ilnuovonoi.it portal, an interactive web space dedicated to the new Cooperative Banking Group which, on the public side, tells the story of the evolution of the project under way and, in the reserved area, acts as a repository for documents as well as an interactive instrument to involve and communicate with all the member banks to support them in this transitional phase.

For its innovative characteristics, the "IlNuovoNoi" portal achieved a special mention at the Financial Innovation - Italian Award assigned AIFIn, among the projects presented by the main Italian Banks.

To further facilitate the coherence of communications of all the Banks of the future Cassa Centrale Group regarding the promotion of system products and services through their own information channels, the new Promotional Materials function was made available within the reserved area of the website www.cassacentrale.it: a database with files relative to promotional and publicity materials.

Again in the digital world, the first tests were started with the pilot Banks on the new platform (MyCMS) for the realisation of institutional internet sites which in the first few months of 2019 will be available to group the sites of interested Banks affiliated to the Banking Group.The platform is realised with open source technology located on a cloud server which guarantees the highest standards in terms of security.

During the year a prize competition was launched, aimed at members, customers and prospects of Trentino Rural Banks, focused on the promotion of knowledge of products and services on offer and rewarding the luckiest customers.

The main objective was the realisation of a local synergic action, as first pilot initiative for Trentino Rural Banks, to be extended at a later stage to the Group Banks, creating a motivation and engagement opportunity with regard both to the actual customers, with the subscription of new products and services (customer retention and cross-selling), and of potential customers, to bring them closer to the offer of Trentino Rural Banks (acquisition and development).
The competition took place from 1 October to 31 December 2018 and was aimed at all adults subscribing to one or more products, from those indicated in the regulations, at one of the branches of Trentino Rural Banks. There was also a specific focus on people under 35: a prize draw was reserved for customers in this age band in order to retain a very delicate and difficult to engage segment.
To take part in the prize draw customers had to register on the website www.partiinquita.it, insert the game code received at the branch and specify the type of product/service selected. The customer was thus able to take part in the prize draws planned on the basis of the date of registration on the website.
80 lucky winners were selected in the November and December prize draws and received prizes, including 40 Coop vouchers of the value of EUR 200, 20 iPhones X and, only for those under 35, 20 iPads. The prize on the final draw on 15 January 2019 was a FIAT 500.
The results allowed to reach the set targets with the participation of almost 10,000 customers, 45.00% of which were under 35 years of age.
In the area of payments, cooperation continued with Nexi to expand the mobile payment offer (Nexi Pay, Apple Pay, Samsung Pay and Google Pay), to promote the IO VINCO (I Win) competition which rewarded purchases made with the Nexi credit card or directly with a smartphone and the new 'Easy Shopping' function, a new 'instalment on demand' function activated without the need of new credit lines and available for individual purchases, even occasionally, without any obligation to make instalment payments on the entire monthly balance.
The graphics for the public area of the website www.carteprepagate.cc, the portal dedicated to prepaid Ricarica, Ricarica EVO and oom+ cards, were updated.
Activities were coordinated in relation to the sponsorship of the 91st meeting of the Alpini corps, which took place in Trento from 10 to 13 May 2018, to which the Group subscribed, identifying itself in the spirit and values of the corps.
The books "L'economia raccontata ai bambini" (Economy for children) and "Il diario delle gite" (Excursions diary) for children of up to 10 years were reviewed in more modern formats in the context of the Risparmiolandia project. The section on the website www.risparmiolandia.it dedicated to "Local initiatives", where the user can find, in addition to Trentino mysteries, also family itineraries, constantly updated and published weekly as additional innovation and advice for families, was reviewed.
For the band from 11 to 20 years, in connection with the oom+ product, a new promotional video was launched and the final of the fourth 'I love 90s' competition was held, which was a great success with the participating public.
With regard to the area of wealth management, a new brochure was produced in cooperation with the Finance Area, the promotional materials for the life policy Sicresce Sereno were updated as were those for the supplementary Pensplan Plurifonds "Per un domani Sicuro" (For a safe tomorrow), in cooperation with Assicura Agenzia.

The collaboration with the Autonomous Province of Trento continued in relation to "Contributi Casa 2018" (Home Contributions 2018) and the Agreement Protocol between the Autonomous Province of Trento, Banks, Intermediaries and Confidi for the support of the population and companies in Trentino affected by the exceptional weather conditions in October 2018 with the realisation of ad hoc information materials as well as the participation to the "Investiamo su di loro" (Let's invest in them) initiative for the promotion of a build-up of capital on the part of families aimed at allowing, already in the course of the son/daughter's normal education, to save for third level academic and non-academic education, with the provision of a bonus by the Province.

Very positive also the results for Etika, the initiative launched by the collaboration of Trentino organisations (Federazione Trentina, Cassa Centrale Banca, Sait, Consolida and La Rete) with Dolomiti Energia. Around 42 thousand contracts were signed in two years, which allowed:

- families to save on utility bills thanks to discounts applied for over EUR 1,750 thousand;
- Dolomiti Energia to donate EUR 674,110 to humanitarian projects focused on independent living for people with disabilities;
- to save 14,742 tons of CO_2, which would require 2,117 hectares of woodland.

In 2018, the Organisational Development Department was engaged in many projects and activities, both with a view to the continuous evolution and innovation of the offering intended for Banks and customers, and to upgrade the various products, processes and services for compliance with the regulations issued over time by the Supervisory Authorities.

The affiliation of numerous Banks to the Cooperative Banking Group also required a significant effort in the first half of the year for the coordination and planning of many meetings with the BCC-CR-RAIKAs, aimed at the presentation of the overall offer of the Parent Company in the different areas of operations. After this, in agreement with Cassa Centrale Banca's various business areas, a timetable for the activation of payment services (Target 2, Sepa, Foreign, Commercial Collections, Pensions, Telepass, etc.), e-money (cards, POS, ATM) and Finance (Securities Trading and Administration, Funds and Sicavs, Advanced Advisory, Asset Management) was defined, which allowed to 'migrate' most of the BCC-CR-RAIKAs' services to the Parent Company, excluding some e-money projects that require longer lead times due to the need for new service contracts with cardholders and the merchant POSs.

The Department's resources were significantly involved in the design and planning of solutions needed for the aggregation of data, information and controls deriving from the constitution of the Banking Group. With reference to the management function of the SIB2000 IT system used by the Parent Company, the support provided to the subsidiary IT companies for the definition of the project requirements necessary to the realisation of the Group General Data Register, the creation of registers and controls relative to the operations with Affiliated Subjects, the preparation of verification mechanisms and thresholds of tasks linked to the provision of Group credit and the composition of the new Risk Groups, was particularly significant.

In the field of payment systems, after the initiatives carried out last year to upgrade bank and cashiers' cheques for compliance with the new security measures prescribed by ABI, collaboration continued with the Phoenix and IBT software houses for fine tuning activities for the management of the new standardised procedure known as "CIT" (Check Image Truncation) for the new telematic treatment of checks.

With regard to the implementations anticipated for the PSD2 project, the contractual framework was amended to accommodate the new regulatory provisions and the strengthening of the Strong Customer Authentication (SCA) mechanisms with the introduction of the dynamic linking requirement. The work for the connection to Third Party accounts through the dedicated interface of the 'CBI Globe' platform developed with the partner Nexi was also started.

In the field of e-money, work continued for the graphic and functional restyling of the 3599 Virtual POS platform, directed at the general modernisation of the architectural set-up of the e-commerce service, also taking into consideration the possibility to add further advanced solutions to be aimed at the most demanding retailers who need to collect through alternative channels, such as, for example, PayPal or Amazon.

Activities were concluded for the issue of new debit card with contactlesstechnology on the PagoBANCOMAT® domestic network, a technology that is added to that already consolidated on international networks; in consultation with the Group Terminals Manager, Phoenix Informatica Bancaria, interventions were subsequently scheduled for updating the Abi Unico 3599 POSs to allow the acceptance of contactless transactions on the PagoBANCOMAT® network.

In terms of mobile payments, the Bank has also actively participated in the 'Bancomat Digit' project, successfully taking part in the Close Beta Test which led to the execution of the first transactions with domestic PagoBANCOMAT® cards virtualised on Samsung smartphones using the Samsung Pay proprietary App.The project will continue according to the steps set forth by Bancomat S.p.A. for the progressive roll-out of new functions on Android and Apple devices.

In the area of security, the new fraud detection instrument for the proactive monitoring of 3599 prepaid cards spending on e-commerce sites allowed to intercept several fraudulent transactions, so significantly reducing the impact of on line fraud.

In the second half of the year, analyses were started to identify the best solution, from a technological, economic and strategic point of view, for linking Public Entities managed in Cassa Centrale Centralised Treasury to the Pago PA payment node through the 3599 POS network; once a solution is identified, the project will see the development of the amendments necessary for the link of POSs for a first group of pilot entities in the second half of 2019.

In cooperation with the Group's software houses, a project was also started for the management of instant payments, through the RT1 platform of EBA Clearing, to implement the connectivity to high performance dedicated machines installed at the data centre of Phoenix Informatica Bancaria and to manage the consequent impact on information systems. The launch of the production service is planned for the second half of 2019.

In the area of finance, activities have continued for the management of the migration of BCC-CR-RAIKA Funds and Sicavs to the corresponding Bank procedure managed by the Group through the new "Fund Partner" agreement. During the year the Target 2 Consolidation project was also launched, in compliance with the timetable set out by the Bank of Italy with the final objective to merge the T2 and T2 Securities platforms and the transition at the same time of messaging to the XML ISO 20022 standard.The new data and technical infrastructure environment was also prepared to allow the Assets Management Department to handle the financial management of the Plurifonds Funds on behalf of the partner ITAS Assicurazioni, as were further interventions to comply with the MiFID II regulations relating to transparency of fees and charges.

During 2018 the affiliated Banks were supported in several initiatives for the outsourcing of determined corporate functions to the Group Services Centres, typically with regard to the execution of finance, administration and notifications, collections and payments, information systems, payroll services, ATM monitoring and maintenance back office activities, with a view to the progressive and continuous efficiency improvement and streamlining of operations.

The Organisational Development Department launched a project to map banking processes in collaboration with several pilot Banks, in order to define the map of processes for affiliated Banks and the Parent Company, an approach aiming for standard and uniform terminology and content. Such map represents the starting point for the execution of several activities including, for example, the Group's Business Impact Analysis, the mapping of first-level risks and control, etc.

Constant attention was paid to the assistance and support service in the business areas of the Bank as well as directly for affiliated and client banks, also on the occasion of the numerous processes of aggregation (mergers or incorporations) which affected cooperative credit during the year.As usual, active participation continued to focused Working Groups at Phoenix Informatica Bancaria, to the national Working Groups coordinated by ABI, EBA Clearing, Bancomat/CBI, and in the observatory on Mobile & Electronic Payments chaired by the Milan Polytechnic.

The Systems and Information Technology Departments are part of this area, which always keeps a keen eye on the developments of IT and information systems, searching for the most advanced technologies with a particular focus on security standards and business continuity.

The need for guarantees of the value generated by Information and Communications Technology (ICT), the management of ICT-related risk and the increasing number of requirements to comply with regarding the control of information are key elements of the activities carried out by the two Departments.

In 2018, the efficiency and effectiveness of the technological infrastructure was improved with a technological upgrading of storage, of Servers, video-conference system, used applications, remote access systems for 'Mobile' users, in Cloud systems and networking infrastructures of the Bank and Group's companies also with regard to the PCI (Payment Card Industry) DSS (Data Security Standard) certification, a PCI-DSS standard developed to promote and improve the protection of cardholders' data.Efficiency of the Disaster Recovery architecture was improved with the strengthening of the data lines for the backup and copying system.The business continuity plan demonstrated, through the disaster test performed in May along with the Phoenix Informatica Bancaria test, the blackout test, the intrusion test and the escalation test, that the Bank and Group's companies are able to resume operations in just a few hours.

Connectivity with external sites has been defined and improved, for a more efficient and effective use of staff employed.

With regard to security, a SIEM (Security Information and Event Management) was introduced as a system for managing security-related information and events.

Collaboration with the areas of the Bank continued for the improvement of operational effectiveness and efficiency with the design of new functionalities for the portals of Cassa Centrale Banca, NEF, MyGP, leasing and company's intranet: the ICT projects for the Banking Group, the consolidation of the data in a Dataware-House, Business Intelligence, the CRM (Customer Relationship Management), the operating plan and the mapping of bank processes.

MEASUREMENT AND CONTROL OF RISKS

The new Internal Control System layout adopted by Cassa Centrale Banca in view of the start of the Group and the outsourcing of the affiliated Banks Compliance Department required an overall review of the Department organisational structures.

The Department includes, in addition to the Manager (Chief Compliance Officer), four Services (Procedures, Planning and Reporting Service – Consultancy and Training Service – Risk Assessment and Control Service – Data Protection Officer Service), operating also in the territorial units located on the national territory.

According to a risk-based approach, the Department manages non compliance risk in relation to the overall corporate activity. It does so through the assessment of the adequacy and efficiency of the internal procedures designed to prevent the violation of applicable external (laws and regulations) and internal rules (Articles of Association, Cohesion Contract, Code of Conduct).

The Compliance Department, for the management of determined regulatory areas according to which the activities of the Department are allowed and for the fulfilment of specific obligations, can avail itself of specific specialist Compliance procedures and/or supports, remaining in any case responsible for the risk assessment procedures.

The Department has updated its own Regulations aimed at outlining the responsibilities, tasks, assessment procedures as well as the organisational procedures adopted in order to manage the risk of non compliance, taking into account the current statutory provisions and the relative best practices.

In the course of 2018, advisory and assistance activities were offered to the competent structures of Cassa Centrale Banca and the Group Companies in relation to the following main areas: project for the constitution of the Cooperative Banking Group, the outsourcing of corporate functions, transparency of banking services, investment services, the 2014/49/EU Directive on deposit guarantee schemes (so-calledDGS Directive), insurance distribution, remuneration and incentive systems, corporate governance, privacy, administrative responsibility of entities, usury, governance and conflicts of interest.

There was also significant involvement in the work groups activated to define new products, services and markets in order to evaluate the connected regulatory impacts. During 2018 it has mainly supplied opinions in relation to mortgages guaranteed by the SME Guarantee Fund, discounted documented credit without recourse, the constitution of a new company for the creation and distribution of consumer credit products (Prestipay), the offer to customers of new lines of assets management, the promotion and placement of property leasing products issued by the subsidiary Claris Leasing S.p.A.

The activities of audit of adequacy and/or efficacy carried out on Cassa Centrale Banca were related to: assets management, usury, related parties and directors' interests, transparency and privacy.The outcomes of the activities were formalised in specific reports brought to the attention of the interested structures and corporate bodies.

The Department has also initiated the necessary information and communication flows to and from the Group Companies equipped with their own internal or outsourced Compliance Departments.

In the area of training, in order to allow the maintenance of an adequate professionalism level, suitable professional growth and continuous technical and specialist ongoing training, the Department's personnel accesses the training programmes deemed to be most appropriate in relation to the scope of the responsibilities assigned. Furthermore, the Department cooperates with the Human Resources Training and Development Department in the identification of training needs of corporate resources, assessing the completeness of the subjects covered with respect to the training needs and the compliance with regulatory obligations relating to training.

With regard to the Group organisation, the Cooperative Credit reform law pursuant to Law Decree no. 18 of 14 February 2016, converted into Law no. 49 of 8 April 2016, required the corporate control functions of the affiliated Banks to be outsourced to the Parent Company (or other Group companies) to ensure the uniformity and effectiveness of the Cooperative Banking Group's control systems.

All this considered, it was deemed to be strategic to progressively start to outsource the corporate control functions, allowing the Banks to outsource the activities of their own Compliance Departments to Cassa Centrale Banca from 1 July 2018.

In relation to the outsourcing of the Compliance Department of Group Banks, Cassa Centrale Banca carried out the following activities:

- the creation and gradual IT implementation of a uniform methodology at Group level;
- regulatory management, consistent with the update and maintenance of the Banks' legal inventory in consequence of the amendment/update of the applicable regulatory framework, dispatch of regulatory alerts to Banks, impact analysis, the issue of guidelines and participation to working groups for new regulations;
- consultancy to the Banks' corporate bodies and organisational structures on aspects relating to regulatory compliance, the drafting of compliance opinions on occasion of the launch of new products or services and in case of activation of innovative projects or access to new markets, amendments of contractual conditions, etc.;
- verification in accordance with the annual plans adopted by each bank, with the identification of any critical issues and corrective actions;
- reporting of the outcomes of the compliance activities carried out;
- risk-based preparatory to planning risk assessment and definition of the annual programme of compliance activities;
- drafting of the templates for annual reports;
- support to training.

As at 31 December 2018, the Compliance Department was outsourced for 78 of the affiliated Banks. For another 8 Banks outsourcing started with the launch of the Group.

The Internal Audit Department is directed, on the one hand, from a third level point of view, to supervise the regular activity of operations and the evolution of risks and, on the other hand, to evaluate the completeness, adequacy, functionality and reliability of the organisational structure and of the other components of the internal control system, bringing to the attention of corporate bodies any possible improvements. In implementing the 2018 Audit Plan approved by Board of Directors, the activity of the Department mainly involved the Finance and Payment Systems business areas. Specific initiatives involved the remuneration and incentive policies, liquidity risk and important outsourced operating departments.

The final outcomes of every intervention were reported to the competent departments and to the General Management for the adoption of corrective and improvement measures. The department, in accordance with current regulations, has regularly informed the Board of Directors, the Board of Statutory Auditors and the Board's Risks Committee on the outcomes of verifications carried out and the consequent risk valuations.

During 2018 the risk control function was subject to significant changes, linked to the constitution of the Cooperative Banking Group. The appointment of a new Chief Risk Officer from April represented the starting point for the constitution of a more complex and structured organisational framework, needed to support the activities linked to the outsourcing of the risk control activities by the affiliated Banks from 1 January 2019.

The objective of the activities pertaining to the Risk Management Department is to identify, measure and monitor risks to promote sound and prudent company management. During the year, the ordinary risk monitoring activity to which Cassa Centrale Banca is subject continued, with a special focus on the loan, liquidity and interest rate risk profiles. The Risk Management Department, within the scope of credit risk, coordinated the periodic meetings of the Risks Committee that make it possible to effectively examine the performance of the individual positions which present anomalies in order to identify the appropriate actions to be taken. In the area of liquidity risk, the dispatch of periodical notifications to the Trento and Rome branches of the Bank of Italy continued on a monthly basis; starting from June, daily notifications were also activated, linked to the impacts of the increase in the spread between Italy and Germany. The results of the risk analyses carried out by the Bank in collaboration with the various departments of Cassa Centrale Banca were widely shared within the Risks Committee, the body in charge of assessing the company's risk. Extensive reports were also produced both for the Board of Directors and its Risks Committee. As usual, the Department coordinated the drafting of the ICAAP and ILAAP Reports and Public Disclosures. Lastly, the opinions required from the Department were prepared both for the Transactions of Major Relevance and for the activation of new products/services.

In parallel with the ordinary activity described above, a significant effort was made to draft the regulations, processes and procedures required to start up the Cooperative Banking Group, both on aspects for which the Department is directly responsible, as well as in collaboration and in support of more transversal topics. The first informal meetings with the European Supervisory Authorities were also started in order to assess the expectations of these in relation to the birth of the new Group.

The Anti-Money Laundering Department adopts a risk based approach in overseeing the management of the risks of money laundering and financing of terrorism with regard to the company's activities by evaluating the adequacy of internal procedures intended to prevent the violation of applicable external and internal regulations. The Department, which during the year was articulated into three services (AML governance and risk assessment, AML controls and monitoring, Notification of suspected AML transactions) in 2018 continued the project activities finalised at the outsourcing of the Anti-Money Laundering Department by the user Banks, interfacing with the IT outsourcers Phoenix and IBT and with the SBA service centre, for the implementation of IT interventions.

In this context, the Department took responsibility for configuring the new customer risk profiling system, transferring to a new provider of lists of names subject to anti-money laundering and financing of terrorism monitoring, reviewing the control system and creating a process for the centralised management of suspicious transaction reporting.

In order to implement the regulatory amendments following the entry into force of Italian Legislative Decree 90/2017, amending Italian Legislative Decree 231/2017, as well as the amendments made to the organisational structure, the "Policy for the management of money laundering and terrorism financing" and the "Regulations of the Anti-Money Laundering Department" were also drawn up and approved by the competent bodies.

Finally, similarly to previous years, the Department prepared the "Document for the self-assessment of the money-laundering and terrorism financing risks", in accordance with the measure of the Bank of Italy pertaining to organisation, procedures and internal controls against money laundering and in accordance with communication Doc. no. 1093743/15 of 16 October 2015.

HUMAN RESOURCES

At the end of 2018, the workforce numbered 403 employees, 171 more than at the end of 2017, the result of the recruitment of 182 resources and the termination of 11.

The hiring of new staff continued in keeping with the company objectives of constituting the Cooperative Banking Group and with the budget. The most interested areas were the control functions, with the addition of 106 resources. The remaining appointments (76 units) related generically to all Areas.

Overall there were 152 recruitments on a permanent basis and 30 on a fixed-term basis, terminations amounted to 11, of which 8 were voluntary resignations, 3 was due to the end of a fixed-term contract.

The employment contracts of 10 workers were stabilised in 2018, making them permanent.

Also in 2018, the professional orientation of the young persons of the work force actively continued through continuous collaboration with the University of Trento and the main universities of north-eastern Italy. During 2018, 10 interns completed a training period of at least two months and no longer than six months. Supervised by internal tutors, the interns were able to gain a first direct experience of work in a company, a fundamental chance to verify and further consider their aptitudes and inclinations. For six of them, the experience led to hiring with fixed-term contracts.

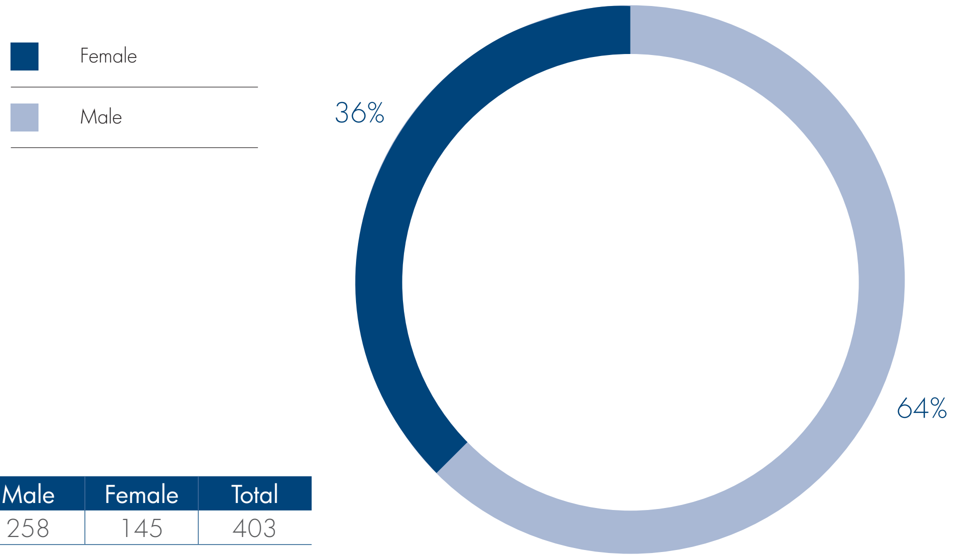
At the end of the financial year, the distribution of resources by Departments/Areas was as follows:

- 20 employees working in the General Management offices.
- 8 employees working in the General and Legal Affairs Area;
- 21 employees working in the Anti-Money Laundering Department;
- 28 employees working in the Compliance Department;
- 49 employees working in the Internal Audit Department;
- 22 employees working in the Risk Management Department;
- 53 employees working in the Credit Area (now including the former Commercial Area);
- 15 employees working in the Consumer Credit Area;
- 47 employees working in the Finance Area;
- 34 employees working in the Operations Area;
- 47 employees working in the Planning and HR Area;
- 59 employees working in the Payment Systems Area;

The table below shows the breakdown of the staff job roles.

Job qualification	2018	2017	2016
Executives	21	10	6
Middle managers	148	82	70
Professional Areas	234	140	137
TOTAL	403	232	213

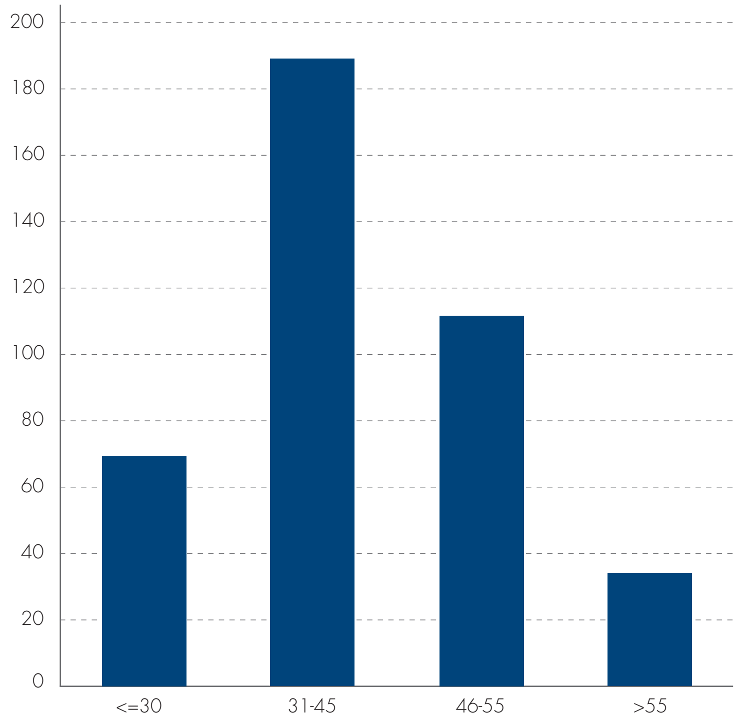
BREAKDOWN OF EMPLOYEES



Male	Female	Total
258	145	403

EMPLOYEES BY AGE GROUP

Age bands	CCB
00 - 30	67
31 - 45	189
46 - 55	112
>55	35
Overall total	403



In a constantly evolving market environment and in an industry such as the banking sector, where change is increasingly a decisive competitiveness factor, it is essential to strengthen the most important asset of every company: its people.

The long-term strategy of the Cassa Centrale Banking Group remains our focus on the quality of human resources, with a primary commitment in promoting the constant development of individual and group capabilities and skills.

The main guidelines followed by the Group are valuing initiative and flexibility, supporting growth opportunities through adequate development paths and promoting active participation in the implementation of projects, providing instruments and methods for the emergence of innovative contributions to be made available to the company.

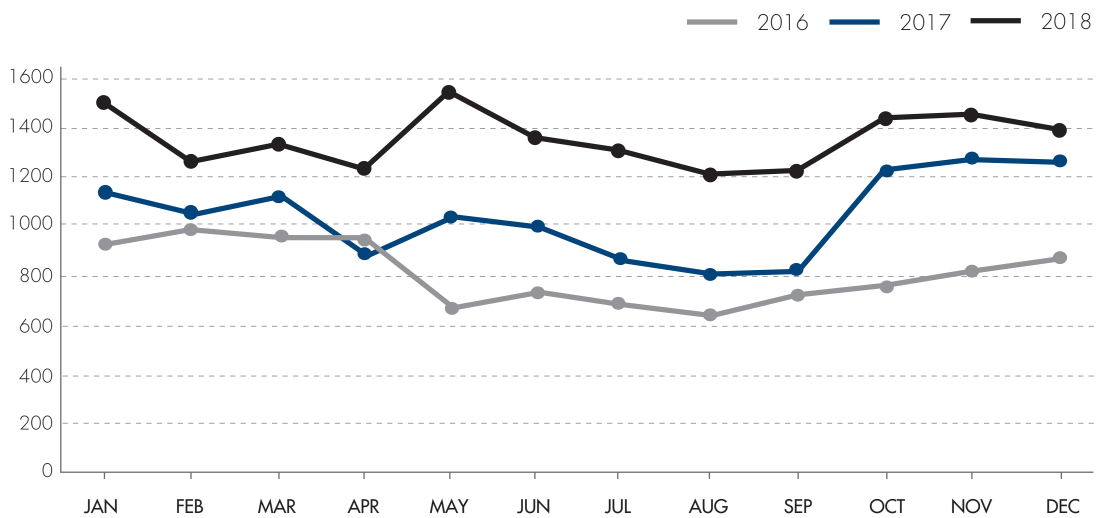
As in the past, collaboration continued with several specialised training entities (ABI Formazione, SDA Bocconi, Universities, etc.) to administer both specialist and managerial training courses, activities now managed by the new Human Resources Training and Development Service.

Furthermore, improvement of the English language continued with mother tongue teachers.

EUR 135 thousand were invested in training in 2018, for a total of roughly 3,135 hours of training, almost all of which during work hours. However, it is necessary to take into account that, during 2018, the structure was almost exclusively involved in the preparatory activities first, and development activities later, needed for the constitution and launch of the new Banking Group, activities that compelled the resources to benefit in a limited manner from training activities.

With reference to the total number of hours worked and in particular to overtime hours, highlights are provided in the chart, whilst the table shows in detail the different reasons for the missed work days.

OVERTIME HOURS



	Total			Per head		
	2018	2017	Change %	2018	2017	Change %
Holidays taken	7,239	5,884	23.0%	17.96	25.36	-29.2%
Sick days	1,428	1,130	26.4%	3.54	4.87	-27.3%
Leave (art. 118/banks hours/other)	1,133	1,059	7.0%	2.81	4.56	-38.4%
Maternity	188	238	-21.0%	0.47	1.03	-54.5%
Doctor's visits	187	121	54.5%	0.46	0.52	-11.0%
Marriage leave	70	50	40.0%	0.17	0.22	-19.4%
Blood donation	49	42	16.7%	0.12	0.18	-32.8%
Time off for union duties	17	14	21.4%	0.04	0.06	-30.1%
Strike	-	-	-	-	-	-
TOTAL ABSENCES	10,311	8,538	20.8%	44.44	40.08	10.9%

Data in standard working days

MANAGEMENT ACTIVITY OF CASSA CENTRALE BANCA

CASSA CENTRALE BANCA

We provide some explanatory notes and considerations on the capital and financial performance of Cassa Centrale Banca below, comparing the figures as at 31 December 2018 with the restated financial position figures as at 1 January 2018 and the income statement figures as at 31 December 2017. Please refer to the Explanatory Notes for further details.

RECLASSIFIED FINANCIAL STATEMENTS

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	Assets	31.12.2018	01.01.2018	Changes	Change %
10.	Cash and cash equivalents	123,873	697,145	-573,272	-82.23
20.	Financial assets measured at fair value through profit or loss	88,900	90,597	-1,697	-1.87
	a) Loans to banks	-	-	-	-
	b) Loans to customers	21,001	20,437	564	2.76
	c) Securities	67,899	70,160	-2,261	-3.22
30.	Financial assets measured at fair value through other comprehensive income	1,808,715	1,847,501	-38,786	-2.10
40.	Financial assets measured at amortised cost	4,343,215	3,256,183	1,087,032	33.38
	a) Loans to banks	1,977,027	1,670,679	306,348	18.34
	b) Loans to customers	1,017,361	476,024	541,337	113.72
	c) Securities	1,348,827	1,109,480	239,347	21.57
70.	Equity investments	207,586	161,340	46,246	28.66
80.	Tangible assets	13,888	13,231	657	4.97
90.	Intangible assets	1,055	656	399	60.75
100.	Tax assets	37,656	35,612	2,044	5.74
	a) current	195	3,994	-3,799	-95.11
	b) deferred	37,461	31,618	5,844	18.48
120	Other assets	224,741	87,727	137,014	156.18
	TOTAL ASSETS	6,849,629	6,189,992	659,637	10.66

Figures in thousands of euro

	Liabilities and Equity	31.12.2018	01.01.2018	Changes	Change %
10.	Financial liabilities measured at amortised cost	5,322,802	4,740,107	582,695	12.29
	a) due to banks	2,588,730	3,443,811	-855,081	-24.83
	b) due to customers	2,723,984	1,286,207	1,437,777	111.78
	c) debt securities in issue	10,087	10,088	-1	-
20.	Financial liabilities held for trading	11,597	11,341	256	2.26
30.	Financial liabilities measured at fair value	9,449	9,790	-341	-3.49
60.	Tax liabilities	6,778	2,693	4,085	151.66
	a) current	6,297	1,744	4,553	260.98
	b) deferred	481	949	-468	-49.30
80.	Other liabilities	388,535	313,696	74,840	23.86
90.	Provision for severance indemnity	2,384	2,410	-26	-1.08
100.	Provisions for risks and charges:	21,045	26,534	-5,489	-20.69
	a) commitments and guarantees issued	7,813	13,487	-5,674	-42.07
	c) other provisions for risks and charges	13,231	13,047	184	1.41
110.	Valuation reserves	-16,363	10,769	-27,132	-251.95
140.	Reserves	101,324	88,160	13,164	14.93
150.	Share premium	19,029	19,029	-	-
160.	Share capital	952,032	952,032	-	-
180.	Profit (loss) for the year (+/-)	31,017	13,431	17,586	130.94
TOTAL EQUITY		1,087,039	1,083,421	3,618	0.33
TOTAL LIABILITIES		6,849,629	6,189,992	659,637	10.66

Figures in thousands of euro

The figures provided in the 1 January 2018 column are those provided in Part A Section 4 - Other matters - Accounting and regulatory impacts of the first-time application of IFRS 9.

RECLASSIFIED INCOME STATEMENT

	Income statement	31.12.2018 IFRS 9	31.12.2017 IAS 39	Changes	Change %
10+20+140	Interest margin	20,838	10,205		
45+50	Net commissions	63,822	46,875	16,947	36.15
70	Dividend and similar income	12,938	1,126	11,813	1,049.52
80+100+110	Net result from trading, disposal/ acquisition and assets/liabilities measured at fair value through profit or loss	17,529	15,136		
200	Other operating charges/income	6,160	454	5,706	1,255.86
	Operating income	121,287	73,796		
160 a)	Personnel costs	(28,683)	(18,421)	10,262	-55.71
160 b)	Other administrative expenses	(55,097)	(38,973)	16,124	-41.37
180+190	Net value adjustments/write-backs to tangible/intangible assets	(1,879)	(1,635)	244	-14.96
	Operating charges	(85,659)	(59,029)		
	Profit (loss) from operations	35,628	14,766		
130	Net value adjustments/write-backs due to credit risk of:	(924)	4,978		
130 a)	- financial assets measured at amortised cost - banks	(3,940)	-		
130 a)	- financial assets measured at amortised cost - customers	5,696	5,032		
130 a)	- financial assets measured at amortised cost - securities	(1,203)	-		
130 b)	- financial assets measured at fair value through other comprehensive income	(1,477)	(54)		
170 a)	Net allocations to provisions for risks and charges - commitments and guarantees issued	7,142	(336)		
170 b)	Net allocations to provisions for risks and charges - other net allocations	(890)	-		
220+250	Profit (loss) from disposal of investments and equity investments	25	(1)	24	-1,914.70
260	Profit (loss) before tax from current operating activities	40,982	19,407		
270	Income taxes for the year on current operating activities	(9,965)	(5,976)	3,989	-66.75
300	Profit (loss) for the year	31,017	13,431	17,586	130.94

The results of the two years are based in part on two different accounting standards, so the figures are not fully comparable.

Notes regarding the drafting of the financial statements

The compulsory financial statements were drafted on the basis of Bank of Italy Circular no. 262/2005 of 22 December 2005 as introduced by the 5th update of 22 December 2017. The latter updated the statements primarily to take into consideration the introduction of IFRS 9 Financial Instruments, which replaced IAS 39 Financial instruments: recognition and measurement as of 1 January 2018.
Therefore, the compulsory financial statements are different from those used for the financial statements of Cassa Centrale Banca as at 31 December 2017. For the details, please refer to Part A Section 4 - Other matters - Transition to IFRS 9 in these Financial Statements.
To make it possible to provide comments on the financial position and income statement figures, reclassified statements (unaudited) have been drafted on the basis of the statements provided in the 5th update of Bank of Italy Circular no. 262/2005. More specifically:

- in terms of the financial position, the items specifically concerned by the application of IFRS 9 have been detailed by type of financial instrument and counterparty;
- in the income statement, the comparative values for the year 2017 were determined in application of IAS 39 and, therefore, although such values are expressed in compliance with the measurement rules laid out in that standard, to allow for a better comparison they have been reclassified as shown below:

IAS 39	IFRS 9
Reclassified statements pursuant to the 4th update of Bank of Italy Circ. 262/2005	Reclassified statements pursuant to the 5th update of Bank of Italy Circ. 262/2005
(10. - 20.) Interest margin	(10. - 20. -140.) Interest margin
(80.+90.+100.+110.) Net result from trading, hedging, disposal/repurchase and assets/liabilities measured at fair value	(80.+90.+100.+110.) Net result from trading, hedging, disposal/repurchase and assets/liabilities measured at fair value through profit or loss
(130a.) Net value adjustments for impairment of: loans	(130a.) Net value adjustments/write-backs due to credit risk relative to: financial assets measured at amortised cost: - loans to banks - loans to customers - securities
(130b.) Net value adjustments/write-backs for impairment of financial entities available for sale	(130b.) Net value adjustments/write-backs due to credit risk relative to: financial assets measured at fair value through other comprehensive income
(130d.) Net value adjustments/write-backs for impairment of: other net financial operations of value for impairment of loans	(170a.) Net allocations to provisions for risks and charges: commitments and guarantees issued

With respect to the income statement figures for 2018, to allow for a more consistent view with the operating profile, Cassa Centrale Banca drafts its reclassified financial statements in application of the following rules:

- the interest margin includes the result of item 140 (Profits/losses from contractual changes without derecognitions) of the accounting statement to guarantee consistency with future reporting, as the release of the discounting will be recognised in the interest margin. The result of this item is included in a dedicated row in the interest margin;

- recoveries of taxes recognised in item 200 of the accounting statement (other operating charges/income) are reclassified as a reduction from indirect taxes included under other administrative expenses;
- the item net value adjustments on tangible and intangible assets includes items 180 and 190 of the accounting statement, as well as the amortisation for the period of costs incurred for improvements to third-party assets classified in item 200.

INCOME STATEMENT

The income statement figures commented on refer to the reclassified income statements provided in this chapter, with which the detailed tables below have also been brought into line. For a description of the changes made, refer to the Notes following the reclassified statements.
The year 2018 closed with a net result of 31.017 million.
During the year, operating income amounted to 131.6 million, due to the factors described below.
The interest margin had a balance of 20.8 million. It rose by 10.6 million compared to the end of 2017 (+104%). The recomposition of the deposits of Group Banks, following the current account rate update, and the increase in balances on the securities portfolio and on customer loans, are the main reasons for the increase in margins compared to the previous year.

Interest income and similar revenues: breakdown

Figures in thousands of euro	Debt securities	Loans	Other transactions	Total 2018
1. Financial assets measured at fair value through profit or loss:	194	127	-	322
1.1 Financial assets held for trading	-	-	-	-
1.2 Financial assets measured at fair value	193	-	-	193
1.3 Other financial assets obligatorily measured at fair value	1	127	-	128
2. Financial assets measured at fair value through other comprehensive income	5,177	-	-	5,177
3. Financial assets measured at amortised cost:	8,627	10,626	-	19,253
3.1 Loans to banks	1,872	584	-	2,456
3.2 Loans to customers	6,755	10,043	-	16,798
4. Hedging derivatives	-	-	-	-
5. Other assets	-	-	-	-
6. Financial liabilities	-	-	-	9,783
TOTAL	13,998	10,753	-	34,535
of which: interest income from impaired financial assets	-	249	-	249

Interest expenses and similar charges paid: breakdown

Figures in thousands of euro	Payables	Securities	Other transactions	TOTAL 2018
1. Financial liabilities measured at amortised cost	(5,694)	(300)	-	(5,994)
1.1 Due to central banks	-	-	-	-
1.2 Due to banks	(3,641)	-	-	(3,641)
1.3 Due to customers	(2,053)	-	-	(2,053)
1.4 Debt securities in issue	-	(300)	-	(300)
2. Financial liabilities held for trading	-	-	-	-
3. Financial liabilities measured at fair value	-	(502)	-	(502)
4. Other liabilities and provisions	-	-	-	-
5. Hedging derivatives	-	-	-	-
6. Financial assets	-	-	-	(7,229)
TOTAL	(5,694)	(801)	-	(13,725)

Dividend and similar income collected during the year amounted to 12.9 million. As shown in the table, the most consistent contribution is linked to dividends received from the equity investments held in other Group Companies, particularly Phoenix Informatica Bancaria S.p.A.

Dividend and similar income

Figures in thousands of euro	31.12.2018
Phoenix Informatica Bancaria S.p.A.	12,051
Nord Est Asset Management S.A.	400
Dividends received from item 70 Equity investments	12,451
Dividends received from item 20 'Financial assets measured at fair value through profit or loss'	97
Dividends received from item 30 'Financial assets measured at fair value through other comprehensive income'	389

Net commissions amounted to 63.8 million. More specifically:

- 'management, trading and consulting services' generated 25.5 million, which primarily benefitted from 'individual portfolio management' (12.8 million), 'order receipt and transmission' (4.9 million) and the 'distribution of third party services' (5.2 million), in particular in relation to consumer credit products (4.5 million);
- the banking business contributed 38.2 million, with revenues linked to collection and payment services of 25.3 million and other services of 12.4 million, net.

Commission income: breakdown

Figures in thousands of euro	31.12.2018
a) guarantees issued	369
b) credit derivatives	-
c) management, trading and consulting services:	64,894
1. trading of financial instruments	75
2. foreign currency trading	22
3. individual portfolio management	49,822
4. custody and administration of securities	3,032
5. custodian bank	-
6. placement of securities	1,576
7. order receipt and transmission	4,948
8. consulting	153
8.1. pertaining to investments	153
8.2. pertaining to financial structures	-
9. distribution of third party services	5,265
9.1. portfolio management	-
9.1.1. individual	-
9.1.2. collective	-
9.2. insurance products	32
9.3. other products	5,233
d) collection and payment services	48,832
e) servicing activities for securitisation operations	-
f) services for factoring operations	-
g) collection and receiving operations	-
h) activities for the management of multilateral trading systems	-
i) current account maintenance and management	146
j) other services	13,696
TOTAL	127,937

Commission expense: breakdown

Figures in thousands of euro	31.12.2018
a) guarantees received	(39)
b) credit derivatives	-
c) management and trading services:	(39,301)
1. trading of financial instruments	(1,133)
2. foreign currency trading	-
3. portfolio management:	(36,968)
3.1 own portfolios	(36,949)
3.2 delegated to third parties	(19)
4. custody and administration of securities	(1,036)
5. placement of financial instruments	(164)
6. out-of-branch offer of financial instruments, products and services	-
d) collection and payment services	(23,520)
e) other services	(1,255)
TOTAL	(64,115)

The net result of financial activities came to 17.5 million, as a result of the following factors:

- trading provided a positive contribution of 2.2 million due primarily to -0.5 million for equities, +2.3 million for assets in foreign currency, as well as +0.4 million for derivatives on debt securities and interest rates (profits/losses, capital gains/losses and accruals). The latter reflect the valuation of the derivatives themselves (always matched in the market), as well as the accrual of the relative spreads;
- the disposal/repurchase of financial assets/liabilities generated profit of 14.9 million, fully relating to the sale of financial assets, of which:
  - 4.8 million from the sale of receivables (non performing loans)
  - 10.1 million from the disposal of government securities classified in financial assets measured at fair value through other comprehensive income;
- measurement at fair value resulted in profit of 0.4 million, ascribable to financial assets/liabilities measured at fair value for 0.3 million (-0.2 financial assets and +0.5 million financial liabilities) and financial assets/liabilities obligatorily measured at fair value for 0.1 (primarily referring to the Loans component).

Net result from trading (Item 80)

Figures in thousands of euro	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	71	95	(691)	(23)	(548)
1.1 Debt securities	-	19	-	(4)	15
1.2 Equities	71	76	(691)	(19)	(563)
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange rate differences	-	-	-	-	(1,679)
4. Derivative instruments	6,691	4,329	(6,321)	(4,263)	4,424
4.1 Financial derivatives:	6,691	4,329	(6,321)	(4,263)	4,424
- On debt securities and interest rates	6,691	4,329	(6,321)	(4,263)	437
- On equities and stock market indices	-	-	-	-	-
- On currencies and gold	-	-	-	-	3,988
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	-	-	-	-	-
TOTAL	6,762	4,424	(7,013)	(4,286)	2,197

Profit (loss) from disposal/repurchase (Item 100)

Figures in thousands of euro	Total 2018		
	Profit	Loss	Net result
A. Financial assets			
1. Financial assets measured at amortised cost:	4,853	-	4,853
1.1 Loans to banks	-	-	-
1.2 Loans to customers	4,853	-	4,853
2. Financial assets measured at fair value through other comprehensive income	10,067	-	10,067
2.1 Debt securities	10,067	-	10,067
2.2 Loans	-	-	-
TOTAL ASSETS	14,920	-	14,920
Financial liabilities measured at amortised cost	-	-	-
1.1 Due to banks	-	-	-
1.2 Due to customers	-	-	-
1.3 Debt securities in issue	-	-	-
TOTAL LIABILITIES	-	-	-

Net result of other financial assets and liabilities measured at fair value through profit or loss (Item 110)

Figures in thousands of euro	Capital gains (A)	Profit on sale (B)	Capital losses (C)	Loss on sale (D)	Net result [(A+B) - (C+D)]
Net result of other financial assets and liabilities measured at fair value through profit or loss	1,778	28	(1,381)	(12)	413

Other operating income and charges came to 6.1 million.

Other operating income and charges

Figures in thousands of euro	31.12.2018
Other operating charges	(80)
Non-existent items and contingencies not ascribable to own items	(64)
Allowances payable and rounding down	(9)
Other operating charges - other	(7)
Other operating income	6,240
Receivable rents and payments	1
Recovery of other expenses	5,940
Non-existent items and contingencies not ascribable to own items	268
Other operating income - other	32

In particular, 'Recovery of other expenses' refers primarily to the share attributable to CR-BCCs for internal audit, compliance and data protection officer services that they outsource to Cassa Centrale Banca.

In terms of costs, operating charges totalled 96 million, including:

- personnel costs, equal to 28.7 million, up significantly due to the number of people hired (171) during the year to meet requirements linked to the establishment of the Banking Group;
- other administrative expenses, of 55.1 million, inclusive of allocations to the Resolution Fund of 1.8 million and to the DGS of 0.3 million.

Amongst the most significant amounts, the following rose: 'professional and consulting services' (+11.5 million) for project charges expensed during the period, mainly linked to the establishment of the Banking Group and regulatory matters, and 'advertising and entertainment expenses' (+1 million).

- net value adjustments on tangible and intangible assets of 1.9 million.

Due to the trends described above, the profit from operations came to 35.6 million.

Personnel costs: breakdown

Figures in thousands of euro	31.12.2018
1) Employees	(27,965)
a) salaries and wages	(19,673)
b) social security charges	(5,260)
c) severance indemnity	(1,077)
d) social security expenses	-
e) provision for employees' severance indemnity	(131)
f) allocation to retirement and similar obligations:	-
- with defined contribution	-
- with defined benefit	-
g) payments to external supplementary pension funds:	(766)
- with defined contribution	(766)
- with defined benefit	-
h) costs deriving from payment agreements based on own equity instruments	-
i) other benefits in favour of employees	(1,057)
2) Other operating personnel	(11)
3) Directors and Auditors	(694)
4) Retired personnel	-
5) Recovery of expenses for employees seconded to other companies	83
6) Reimbursement of expenses for third party employees seconded to the company	(96)
TOTAL	(28,683)

Other administrative expenses: breakdown

Figures in thousands of euro	Total 2018
Administration expenses	(54,423)
ICT expenses	(8,114)
IT expenses	(194)
Financial information	(2,704)
Data processing	(1,824)
Interbank network costs	(2,140)
Software maintenance	(1,113)
Telephone expenses	(140)
Advertising and entertainment expenses	(2,554)
Advertising & promotional expenses	(748)
Entertainment expenses	(1,806)
Expenses for real estate and furnishings	(1,558)
Expenses for real estate	(31)
Real estate property rentals	(310)
Cleaning	(172)
Utilities and heating	(233)
Maintenance	(673)
Other rentals	(138)
Expenses for security and transportation of valuables	(303)
Security	(22)
Counting and transportation of valuables	(281)
Expenses for insurance	(329)
Premiums for fire and theft insurance	(293)
Other insurance premiums	(36)
Expenses for professional services	(32,230)
Expenses for professional and consulting services	(31,170)
Certifications and ratings	(679)
Debt collection expenses	(381)
Association contribution expenses	(3,463)
Association contributions	(1,341)
Contributions to the National Resolution Fund and to the Deposit Guarantee System	(2,121)
Other expenses for the purchase of goods and services	(5,872)
Stationery	(383)
Postal and transport expenses	(1,305)
Other administrative expenses	(4,184)
Expenses for indirect taxes and duties indirect taxes and duties	(674)
- of which stamp duty	(333)
- of which property taxes	(101)
- other taxes	(240)
TOTAL OTHER ADMINISTRATIVE EXPENSES	(55,097)

During the year, a total of 0.6 million was recognised in item 130. a) net value adjustments due to credit risk relative to financial assets measured at amortised cost.
In particular:
- 3.9 million in net value adjustments on loans to Banks, all relating to positions classified in the first/second stage;
- 3.8 million in net value adjustments on loans to Banks;
- 5.7 million in net write-backs on loans to customers. This item reflects 6.4 million in net analytical write-backs on exposures classified in the third stage, against 0.7 million in net value adjustments on exposures in the first/second stage;
- 1.2 million for the net adjustment on debt securities (rows A. and B. in the table).

Net value adjustments/write-backs due to credit risk relative to financial assets measured at amortised cost

Figures in thousands of euro	Value adjustments/ write-backs		31.12.2018
	First and second stage	Third stage	
A. Loans to banks	(3,766)	-	(3,766)
- loans	(3,940)	-	(3,940)
- debt securities	174)	-	174
Of which: impaired loans acquired or originated	-	-	-
B. Loans to customers:	(2,071)	6,391	4,319
- loans	(694)	6,391	5,696
- debt securities	(1,377)	-	(1,377)
Of which: impaired loans acquired or originated	-	-	-
TOTAL	(5,837)	6,391	553

Item 130. b) - net value adjustments/write-backs due to credit risk relative to financial assets measured at fair value through other comprehensive income – includes the net valuations of expected losses relating to debt securities recognised in Statement of Financial Position item 30. Value adjustments on performing securities acquired during the year which, pursuant to IFRS 9, require the immediate recognition of the expected loss, also contribute to that balance. During the year, there was a net adjustment of 1.5 million in this item.

Net value adjustments/write-backs due to credit risk relative to financial assets measured at fair value through other comprehensive income

Figures in thousands of euro	Value adjustments/write-backs		31.12.2018
	First and second stage	Third stage	
A. Debt securities	(1,477)	-	(1,477)
B. Loans	-	-	-
- to customers	-	-	-
- to banks	-	-	-
TOTAL	(1,477)	-	(1,477)

The following were also included in the Income Statement as at 31 December:

- +6.2 million in net write-backs on provisions for risks and charges. With respect to credit risk, there was a net write-back of 7.1 million during the year for credit risk relating to guarantees/commitments while, as regards other provisions for risks and charges, there was an allocation of 0.9 million relating to the item 'legal disputes';
- +0.02 million as the net profit from the disposal of investments and equity investments related to the sale of real estate during the year.

As a result of the trends described above, the profit from current operations gross of taxes came to 41 million. Income taxes for the year on current operating activities totalled 10 million.

BROKERAGE ACTIVITIES

The data as at 31 December 2018, inclusive of the effects of the application of IFRS 9, are compared with those as at 1 January 2018 to allow for a comparison of the aggregates. As concerns the reconciliation between the figures as at 31 December 2017 and those as at 1 January 2018 from the first time adoption of the new standards, refer to Part A - Section 4 "Entry into force of IFRS 9" in the Explanatory Notes.

Operations in the interbank market

Cassa Centrale Banca had a negative net interbank position as at 31 December 2018 of roughly 612 million, compared to -1,773 million as at 1 January 2018.

Net interbank position

Figures in thousands of euro	31.12.2018	01.01.2018
Loans to banks measured at amortised cost (Item 40.1 of the reclassified Statement of Financial Position Assets)	1,977,027	1,670,679
of which loans to Central Banks	173,126	669,070
Due to banks measured at amortised cost (Item 10.a) of the reclassified Statement of Financial Position Liabilities)	2,588,730	3,443,811
of which due to Central Banks	297,177	299,450
Net interbank position	- 611,703	-1,773,132
Loans excluding Central Banks	1,803,901	1,001,609
Payables excluding Central Banks	2,291,553	3,144,361
Net interbank position excluding Central Banks	- 487,652	- 2,142,752

Loans to banks at the end of the year totalled 1,977 million (1,671 million at the beginning of January), consisting of 173 million in liquidity deposited in the centralised obligatory reserve account, down by 496 million, and exposures to other Banks of 1,804 million (up 802 million). The following trends were recorded in terms of type:

- substantial stability in 'current accounts and deposits on demand' at roughly 79 million;
- a decrease in 'fixed-term deposits' (-54 million), resulting in a balance of 117 million;
- a significant increase (+854 million) in the item 'other loans', with a balance of 1,608 million, which consists of loans secured by eligible ECB securities offered to the BCC-CR-RAIKAs as part of the 'Collateral Account' service, activated in order to intermediate the BCC-CR-RAIKAs not only on the refinancing transactions by the European Central Bank but also on the repo market.

Bank funding, 2,589 million, down (-855 million) from 3,444 million at the start of the year, includes the 297 million exposure to the ECB relating primarily to TLTRO II financing.

This change is attributable to payables to other Banks, down by 853 million during the year. More specifically:

- current accounts and demand deposits have a balance of 1,433 million, a significant decline compared to roughly 2,157 million at the start of the year;
- fixed-term deposits of 813 million, down compared to 987 million;
- loans of 46 million (zero at the start of January) relating to repos payables.

FUNDING

At year end, direct bank funding amounted to 2,734 million, marking an increase of 1,438 million. This trend was caused first and foremost by repos (+1,359 million).
Debt securities in issue, close to 10 million, remained the same as at the start of the year.

Direct bank funding from customers

Figures in thousands of euro	31.12.2018	% Impact	01.01.2018	% Impact
Current accounts and deposits on demand	372,929	13.64%	354,068	27.31%
Fixed-term deposits	35,943	1.31%	38,890	3.00%
Loans	2,041,812	74.68%	682,880	52.68%
- repos	2,040,923	74.65%	682,505	52.65%
of which: repos with CCG	2,040,923	74.65%	682,505	52.65%
- other	889	0.03%	375	0.03%
Other payables	273,300	10.00%	210,369	16.23%
Total due to customers (Item 10.b) Statement of financial position liabilities)	2,723,984	99.63%	1,286,207	99.22%
Bonds	10,087	0.37%	10,088	0.78%
Total debt securities in issue (Item 10.c) Statement of financial position liabilities)	10,087	0.37%	10,088	0.78%
TOTAL DIRECT FUNDING	2,734,071	100.00%	1,296,295	100.00%

LOANS

Cassa Centrale Banca has a portfolio of loans originated to finance companies for their business activities as well as households. The "hold to collect" business model was adopted to manage almost the entire loan portfolio. Typically, the contractual characteristics of loans to customers are such so that they pass the SPPI Test and therefore they are primarily classified under financial assets measured at amortised cost [item 40 of the Statement of Financial Position Assets] with value adjustments/write-backs determined in compliance with the provisions on impairment set forth in IFRS 9 recognised in the income statement.
On the other hand, loans that do not envisage cash flows represented solely by payments of principal and interest on the principal outstanding at specific dates, or when the SPPI test is not passed, are measured at fair value with changes in value recognised in the income statement [item 20 of the Statement of Financial Position Assets].
The data as at 31 December 2018, inclusive of the effects of the application of IFRS 9, are compared with those as at 1 January 2018 to allow for a comparison of the aggregates on a like-for-like basis. As concerns the reconciliation between the figures as at 31 December 2017 and those as at 1 January 2018 from the first time adoption of the new standards, refer to Part A - Section 4 "Entry into force of IFRS 9" in the Explanatory Notes.

Total loans to customers

Figures in thousands of euro	31.12.2018	% Impact	01.01.2018	% Impact	Changes	
					in value	in %
Loans to customers measured at fair value through profit or loss (Item 20.b of the Reclassified Statement of Financial Position Assets)	21,001	2.02%	20,437	4.12%	564	2.76%
Loans to customers measured at amortised cost (Item 40.b of the Reclassified Statement of Financial Position Assets)	1,017,361	97.98%	476,024	95.88%	541,337	113.72%
TOTAL	1,038,362	100.00%	496,461	100.00%	541,901	109.15%

As at 31 December 2018, the stock of Bank loans totalled EUR 1,038 million (+542 million in the twelve months) which, as explained in the introduction, were basically classified as 'Financial assets measured at amortised cost' and, to a very limited extent, as 'Financial assets measured at fair value through profit or loss'.

Loans to customers measured at fair value through profit or loss

Item 20. b) of the Reclassified Statement of Financial Position Assets

As can be seen in the 'Total loans to customers' table, at the end of the year loans that did not pass the SPPI test, and therefore were classified as 'Financial assets measured at fair value through profit or loss', amounted to 21,001 million, an increase of 564 million compared to January.

These exposures were marginal compared to the overall dimensions of Cassa Centrale Banca's lending activities.

Loans to customers measured at amortised cost

Item 40. b) of the Reclassified Statement of Financial Position Assets

Financial assets measured at amortised cost are classified in accordance with the provisions of IFRS 9 in three different risk stages based on the creditworthiness of the financial instrument at the measurement date compared to the date of disbursement. More specifically:

- performing exposures are broken down into First stage (loans for which there has not been a significant rise in credit risk compared to the date of initial recognition) and Second stage (loans that have a significant increase in credit risk compared to the date of initial recognition);
- impaired loans (past-due exposures, unlikely to pay and non performing loans) are placed in the Third stage (loans that have objective evidence of impairment).

Evolution of the loan portfolio

Breakdown of loans to customers measured at amortised cost

Figures in thousands of euro	31.12.2018				01.01.2018				Changes	
	First and second stage	Third stage	Total	% Impact	First and second stage	Third stage	Total	% Impact	in value	in %
	A	B	A+B		A	B	A+B			
Current accounts	40,320	3,443	43,763	4.30%	28,338	5,123	33,461	7.03%	10,302	30.79%
Mortgage loans	827,437	15,523	842,960	82.86%	362,832	23,845	386,677	81.23%	456,283	118.00%
Other loans	128,769	1,870	130,639	12.84%	52,111	3,774	55,885	11.74%	74,754	133.76%
TOTAL ITEM 40.2) OF THE RECLASSIFIED STATEMENT OF FINANCIAL POSITION ASSETS	996,526	20,836	1,017,362	100.00%	443,281	32,742	476,023	100.00%	541,339	113.72%

As at 31 December 2018, loans to customers measured at amortised cost totalled EUR 1,017 million, marking a positive annual change of 541 million (+113.7%) due primarily to the increase in performing loans.

The decline in the stock of impaired loans (-11,906 million; -36.3%) incorporates: on one hand accounting deconsolidation linked to disposals during the year of some packages of non performing loans, and on the other hand the effects of internal debt collection activities and disposals of individual positions.

As shown in the table, net performing loans, represented by the First and second stage of risk and also intended to finance Group Companies, totalled 996.5 million, recording an increase of 553 million compared to the beginning of January (+124.8%), primarily as a result of a loan disbursed to the new subsidiary Claris Leasing S.p.A.

In terms of type, trends on an annual basis show an increase for all kinds of loans, particularly for 'Mortgages' (+456 million; +118%), which incorporates the loan granted to the subsidiary company Claris Leasing S.p.A.

As regards 'large exposures', the report for December 2018 indicated 48 exposures for Cassa Centrale Banca, cash and unsecured, in an amount equal to or higher than 10% of the eligible capital for a total of EUR 15,213 million.

More specifically:

- 3,019 million with the Ministry of Economy and Finance, mainly for investments in government securities and on a residual basis for current and deferred tax assets;
- 173 million relating to cash deposited at the Bank of Italy;
- 2,232 million relating to transactions with Cassa Compensazione Garanzia;
- 9,789 million for transactions primarily with banking counterparties, of which nearly all referring to CR-BCCs.

Lastly, the financial guarantees issued, subject to IFRS 9 impairment rules, amounted to EUR 59.8 million at the end of the year.

Risk

The entry into force of IFRS 9 resulted in the revision of methods for determining impairment on loans, transitioning from a concept of incurred credit loss to one of expected credit loss (ECL). This standard requires a different quantification of impairment (ECL) depending on the deterioration of credit quality: ECL at 1 year for positions classified in the First stage and ECL over the lifetime of the instrument for those included in the Second and Third stage.

At year end, impaired assets gross of impairment amounted to 74 million, down by 34 million compared to the beginning of January (-31.3%). The trend over the twelve months, fuelled by disposals during the year and the results of internal management, concerned non performing loans (22 million), unlikely to pay (10 million) and past-due exposures (1 million).

Likewise, net impaired loans - equal to 21 million and over 75% of which referring to 'Mortgage loans and other medium/long-term loans' - recorded a reduction of 12 million, referring essentially to non performing loans (-3 million), unlikely to pay (-8 million) and past-due exposures (-1 million).

As a result, impaired exposures amounted to 6.94% of total loans in gross terms and 2.05% net.

Loans to customers measured at amortised cost as at 31 December 2018

Figures in thousands of euro	Gross exposure		Value adjustments		Carrying amount		Level of cover
Impaired loans (Third stage)	74,466	6.94%	53,630	95.97%	20,836	2.05%	72.02%
- Non performing	42,772	3.99%	35,922	64.28%	6,850	0.67%	83.98%
- Unlikely to pay	31,694	2.95%	17,708	31.69%	13,986	1.37%	55.87%
- Past due	-	0.00%	-	0.00%	-	0.00%	-
Performing loans	998,779	93.06%	2,253	4.03%	996,526	97.95%	0.23%
TOTAL ITEM 40.2) OF THE RECLASSIFIED STATEMENT OF FINANCIAL POSITION ASSETS	1,073,245	100.00%	55,883	100.00%	1,017,362	100.00%	5.21%

Loans to customers measured at amortised cost as at 1 January 2018

Figures in thousands of euro	Gross exposure		Value adjustments		Carrying amount		Level of cover
Impaired loans (Third stage)	108,493	19.53%	75,750	95.12%	32,743	6.88%	69.82%
- Non performing	64,807	11.66%	54,918	68.96%	9,889	2.08%	84.74%
- Unlikely to pay	42,161	7.59%	20,637	25.92%	21,524	4.52%	48.95%
- Past due	1,525	0.27%	195	0.24%	1,330	0.28%	12.79%
Performing loans	447,164	80.47%	3,883	4.88%	443,281	93.12%	0.87%
TOTAL ITEM 40.2) OF THE RECLASSIFIED STATEMENT OF FINANCIAL POSITION ASSETS	555,657	100.00%	79,633	100.00%	476,024	100.00%	14.33%

The level of cover of total impaired loans was 72.02%, compared to 69.82% at the start of the year, reflecting a reduction for non performing loans (from 84.74% to 83.98%) - also as a result of disposals in the course of the year - against an increase in unlikely to pay positions (from 48.95% to 55.87%), while past due loans were eliminated. The cover of performing loans was 0.23% (0.87% at the start of January).

FINANCIAL BUSINESS

The data as at 31 December 2018, inclusive of the effects of the application of IFRS 9, are compared with those as at 1 January 2018 to allow for a comparison of the aggregates. As concerns the reconciliation between the figures as at 31 December 2017 and those as at 1 January 2018 from the first time adoption of the new standards, refer to Part A - Section 4 "Entry into force of IFRS 9" in the Explanatory Notes.

As at 31 December 2018, financial assets of Cassa Centrale Banca totalled EUR 3,225 million, from 3,027 million at the start of 2018.

Excluding financial liabilities of 12 million, net financial assets came to 3,213 million (3,016 million on 1 January). The following significant changes year on year are shown in the detailed table:

- a decline of 3.2% to 68 million in 'Financial assets measured at fair value through profit or loss', caused primarily by disinvestments of 'Financial assets obligatorily measured at fair value' (-6.8% to 49 million);
- a decrease of 2.1% to 1,809 million in 'Financial assets measured at fair value through other comprehensive income', as the net effect of sales/acquisitions in the twelve-month period;
- an increase of 21.57% in 'Financial assets measured at amortised cost', which reached a balance of 1,349 million as at 31 December.

Government securities, almost exclusively Italian, totalled 2,986 million as at 31 December 2018, against 2,863 million at the start of 2018.

Financial assets/liabilities

Figures in thousands of euro	31.12.2018		01.01.2018		Changes	
	Carrying amount	% Impact	Carrying amount	% Impact	in value	in %
Financial assets measured at fair value through profit or loss (Item 20.c of the Reclassified Statement of Financial Position Assets)	67,899	2.11%	70,160	2.32%	- 2,261	-3.22%
Financial assets held for trading	15,670	0.49%	14,278	0.47%	1,392	9.75%
of which: financial derivative contracts	12,361	0.38%	11,257	*0.37%*	1,104	9.81%
Financial assets measured at fair value	3,098	0.10%	*3,139*	0.10%	- 41	-1.31%
Financial assets obligatorily measured at fair value	49,131	1.52%	52,743	1.74%	- 3,612	-6.85%
Financial assets measured at fair value through other comprehensive income (Item 30 of the Reclassified Statement of Financial Position Assets)	1,808,714	56.08%	1,847,501	61.03%	- 38,787	-2.10%
Financial assets measured at amortised cost (Item 40.c of the Reclassified Statement of Financial Position Assets)	1,348,827	41.82%	1,109,480	36.65%	*239,347*	21.57%
Financial assets (a)	3,225,440	100.00%	3,027,141	100.00%	198,299	6.55%
of which:						
- debt securities	3,105,792	96.29%	2,917,881	96.39%	187,911	6.44%
- equities	58,156	1.80%	46,501	1.54%	11,655	25.06%
- UCITS units	49,131	1.52%	49,373	1.63%	- 242	-0.49%
- financial derivative contracts	12,361	0.38%	11,257	0.37%	1,104	9.81%
Financial liabilities held for trading (b)	11,597	100.00%	11,341	100.00%	256	2.26%
of which: financial derivative contracts	11,597	100.00%	11,341	100.00%	256	2.26%
NET FINANCIAL ASSETS (a-b)	3,213,843		3,015,800		198,043	6.57%

Financial assets measured at fair value through profit or loss

'Financial assets measured at fair value through profit or loss', Item 20 of the Statement of Financial Position Assets, consists of the following categories:

- 'Financial assets held for trading' [Item 20 a)], or:
  - financial instruments held with a view to realising cash flows through their sale as:
  - (i) they were acquired or incurred primarily with a view to selling or repurchasing them in the short term; (ii) they were part of a portfolio of identified instruments managed on a unitary basis and for which there is the proven existence of a recent and effective strategy aimed at obtaining profits in the short term;
  - trading derivatives;
- 'Financial assets measured at fair value' [Item 20 b)]: financial instruments classified in this category in application of the Fair Value Option (FVO);
- 'Other financial assets obligatorily measured at fair value' [Item 20 c)]: financial instruments (i) whose management strategy is determined based on fair value or (ii) with objective characteristics, or contractual terms, that do not envisage cash flows represented solely by payments of principal and interest on the principal outstanding at specific dates, or when the SPPI testis not passed.

These financial instruments are measured at fair value through profit or loss.

Financial assets held for trading (Item 20.a of the Statement of Financial Position Assets)

Figures in thousands of euro	31.12.2018				01.01.2018				Changes	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	in value	in %
A Cash assets										
Debt securities	-	-	-	-	-	-	-	-	-	-
of which: Government securities	-	-	-	-	-	-	-	-	-	-
Equities	3,309	-	-	3,309	3,020	-	-	3,020	289	9.57%
UCITS units	-	-	-	-	-	-	-	-	-	-
TOTAL A	3,309	-	-	3,309	3,020	-	-	3,020	289	9.57%
B Derivative instruments				-					-	
1. Financial derivatives	-	12,361	-	12,361	-	11,257	-	11,257	1,104	9.81%
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
TOTAL B	-	12,361	-	12,361	-	11,257	-	11,257	1,104	9.81%
TOTAL (A+B)	3,309	12,361	-	15,670	3,020	11,257	-	14,277	1,393	9.76%

At the end of December, financial assets held for trading amounted to EUR 15.7 million (14.3 million at the beginning of January), consisting of cash assets of roughly 3.3 million (3 million) and derivative instruments of 12.4 million (11.3 million). The cash financial assets in question include, at the beginning of the year as well as at the end of 2018, only equities, with a varied representation of multiple investments of limited amounts.

Lastly, as regards derivative instruments, they consist only of financial derivatives the trend of which should be interpreted in correlation with the corresponding item recognised in financial liabilities held for trading. As at 31 December 2018, they amounted to 12,361 million, up by 1.1 million compared to 1 January: these are non-complex contractual structures, primarily rate swaps.

Financial assets measured at fair value

Financial assets measured at fair value (Item 20.b of the Statement of Financial Position Assets)

Figures in thousands of euro	31.12.2018				01.01.2018				Changes	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	in value	in %
Debt securities	-	3,098	-	3,098	-	3,139	-	3,139	- 41	-1.31%
of which: Government securities	-	-	-	-	-	-	-	-	-	-
Other debt securities	-	-	-	-	-	-	-	-	-	-
TOTAL	-	3,098	-	3,098	-	3,139	-	3,139	- 41	-1.31%

At year end, financial assets measured at fair value amounted to EUR 3.1 million, with no substantial changes since the beginning of January. The cash financial assets in question include, at the beginning of the year as well as at the end of 2018, debt securities issued by CR-BCCs. They include securities exchanged with our bond loans with similar characteristics in terms of maturities and rates.

Other financial assets obligatorily measured at fair value

Financial assets obligatorily measured at fair value (Item 20.c of the Statement of Financial Position Assets)

Figures in thousands of euro	31.12.2018				01.01.2018				Changes	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	in value	in %
Debt securities	-	-	-	-	-	-	-	-	-	-
of which: Government securities	-	-	-	-	-	-	-	-	-	-
Equities	-	-	-	-	-	-	-	-	-	-
UCITS units	48,776	355	-	49,131	48,945	428	-	49,373	- 597	-1.21%
TOTAL	48,776	355	-	49,131	48,945	428	-	49,373	- 597	-1.21%

As at 31 December 2018, 'Financial assets obligatorily measured at fair value' amounted to EUR 49.1 million (49.4 million as at 1 January). The table shows that this category consisted only of UCITS units at the end of the year as well as at the beginning of the year. Only NEF funds were accounted for in level 1. Level 2 includes a real estate unit.

Financial liabilities held for trading

Financial liabilities held for trading (Item 20 of the Statement of Financial Position Liabilities)

Figures in thousands of euro	31.12.2018				01.01.2018				Changes	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	in value	in %
Cash liabilities										
Debt securities	-	-	-	-	-	-	-	-	-	-
of which: Government securities	-	-	-	-	-	-	-	-	-	-
Equities		-	-	-		-	-	-	-	-
UCITS units	-	-	-	-	-	-	-	-	-	-
TOTAL A	-	-	-	-	-	-	-	-	-	-
Derivative instruments				-					-	
Financial derivatives	-	11,597	-	11,597	-	11,341	-	11,341	256	2.26%
Credit derivatives	-	-	-	-	-	-	-	-	-	-
TOTAL B	-	11,597	-	11,597	-	11,341	-	11,341	256	2.26%
TOTAL (A+B)	-	11,597	-	11,597	-	11,341	-	11,341	256	2.26%

Financial liabilities held for trading, amounting to roughly 11.6 million in December (11.3 million as at 1 January 2018), consist only of financial derivatives. The balance and development of these financial derivatives should be interpreted in line with the corresponding item recognised under financial assets held for trading.

Financial liabilities measured at fair value

Financial liabilities measured at fair value (Item 30 of the Statement of Financial Position Liabilities)

Figures in thousands of euro	31.12.2018				01.01.2018				Changes	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	in value	in %
Debt securities	-	9,449		9,449	-	9,790	-	9,790	- 341	-3.48%
Structured	-	6,255		6,255	-	6,555	-	6,555	- 300	-4.58%
Other	-	3,194	-	3,194	-	3,235	-	3,235	- 41	-1.27%
TOTAL	-	9,449	-	9,449	-	9,790	-	9,790	- 341	-3.48%

Financial liabilities measured at fair value, totalling roughly 9.5 million as at 31 December (9.8 million as at 1 January 2018), consist of a structured security maturing in 2019 for 6.3 million and bond securities of 3.2 million, exchanged with securities issued by CR-BCCs with equal characteristics and value (recognised in item 20.b of the Statement of financial position assets) in application of the FV Option.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income, Item 30 of the Statement of financial position assets, include: (i) financial instruments associated with the "hold to collect & sell" business model, or held within the framework of a business model aiming to collect cash flows as well as sell the instruments, the contractual terms of which call for cash flows represented solely by payments of principal and interest on the principal outstanding at specific dates (SPPI test passed); (ii) equities for which the option is made, in compliance with the 'OCI election', for the presentation of changes in value in the statement of comprehensive income.

The financial instruments pursuant to letter (i) are measured at fair value with changes in value recognised in 'Valuation reserves'; value adjustments/write-backs determined in compliance with the provisions of IFRS 9 on impairment are recognised in the income statement, as an offsetting entry to 'Valuation reserves' in the statement of comprehensive income, while the equities pursuant to letter (ii) are measured at fair value with changes in value recognised in the 'Valuation reserves' in the statement of comprehensive income.

Financial assets measured at fair value through other comprehensive income (Item 30. of the Statement of financial position assets)

Figures in thousands of euro	31.12.2018				01.01.2018				Changes	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	in value	in %
Debt securities	1,753,867	-	-	1,753,867	1,798,947		4,053	1,803,000	- 49,133	-2.73%
of which: Government securities	1,753,867	-	-	1,753,867	1,798,947	-	-	1,798,947	- 45,080	-2.51%
Equities	-	10,723	44,124	54,847	-	-	43,479	43,479	11,368	26.15%
TOTAL	1,753,867	10,723	44,124	1,808,714	1,798,947	-	47,532	1,846,479	- 37,765	-2.05%

As at 31 December 2018, financial assets measured at fair value through other comprehensive income amounted to 1,809 million, down slightly by 37 million over the twelve months (1,846 million in January).

As shown in the table, debt securities, equal to 1,754 million, consisted in full of Italian government securities, down slightly (-50 million) since the start of the year.

Equities include equity shares of 44.1 million and Additional Tier 1 (AT1) equity instruments of 10.7 million; for these securities, the Bank has adopted the OCI election, and they rose by a total of 11.3 million in the year-on-year comparison. The equity component of the securities is classified in fair value level 3, while the AT1 component is in level 2.

Financial assets measured at amortised cost

Item 40 of the Statement of financial position assets ' Financial assets measured at amortised cost' includes financial instruments associated with the "hold to collect" business model, or held within the framework of a business model aiming to hold the instruments to collect cash flows, the contractual terms of which call for cash flows represented solely by payments of principal and interest on the principal outstanding at specific dates (SPPI test passed).

These assets are measured at amortised cost with value adjustments/write-backs determined in compliance with the provisions on *impairment* set forth in IFRS 9 recognised in the income statement.

Financial assets measured at amortised cost
(Item 40.c of the Reclassified Statement of Financial Position Assets)

Amounts in thousands of euro	31.12.2018						01.01.2018						Changes	
	Carrying amount		Fair value				Carrying amount		Fair value					
	First and second stage	Third stage	Level 1	Level 2	Level 3	Total	First and second stage	Third stage	Level 1	Level 2	Level 3	Total	in value	in %
Debt securities	1,348,827	-	1,207,220	111,088	-	1,318,308	1,109,480	-	1,018,320	48,946	-	1,067,266	251,042	23.52%
of which: Italian government securities	1,202,125	-	1,176,560	-	-	1,176,560	1,063,928	-	1,048,320	-	-	1,048,320	128,240	12.23%
TOTAL	1,348,827	-	1,207,220	111,088	-	1,318,308	1,109,480	-	1,018,320	48,946	-	1,067,266	251,042	23.52%

Financial assets measured at amortised cost amounted to EUR 1,349 million as at 31 December 2018 and consist almost entirely of securities classified - according to the provisions of the new standard IFRS 9 - in the First stage, the majority of which represented by Italian government securities classified in fair value level 1. The portfolio was up by 251 million over the twelve-month period.

EQUITY AND CAPITAL ADEQUACY

To make the development in the Bank's equity over time more understandable, the twelve-month analysis was made based on the balances at the end of December 2017 restated as at 1 January 2018 to take into account the first-time application (FTA) of the accounting standard IFRS 9 and the 5th update of Bank of Italy Circular 262/2005. The reconciliation between the figures as at 31 December 2017 and those as at 1 January 2018 from the FTA of the new standards, refer to Part A - Section 4 Entry into force of IFRS 9 in the Explanatory Notes.
As at 31 December 2018, the carrying amount of Cassa Centrale Banca's equity, inclusive of the result for the year, came to EUR 1,087 million, compared to 1,083.4 million at the start of the year.
As can be seen in the Statement of changes in Equity and the Statement of Comprehensive Income provided in the company's financial statements, the change of +3.9 million in the twelve months can be linked to:

- the allocation of 0.3 million of the profit as at 31 December 2017 to the Provision available to the Board of Directors for charitable donations;
- an overall negative change in valuation reserves of 27.1 million, generated by overall profitability (-24.8 million) referring in particular to financial assets (other than equities) measured at fair value through other comprehensive income, to a lesser extent (-2.3 million) to equities measured at fair value through other comprehensive income and to a completely marginal extent to actuarial gains on defined benefit plans;
- the allocation of profit for the year of 31 million.

MAIN FINANCIAL AND ECONOMIC INDICATORS

Some of the general income, physical productivity and economic, asset risk and capital adequacy indicators are shown below, which must be read and interpreted in view of the considerations on the financial position provided in the specific sections of this Report.
The indicators were constructed using the data provided in the reclassified statements.

INDICATORS OF THE FINANCIAL STATEMENTS	31.12.2018	01.01.2018	Change 31.12.2018 compared to 01.01.2018
STRUCTURAL RATIOS			
Loans to customers (item 40.b)/Total Assets	15.16%	8.02%	7.14 p.p.
Direct deposits / Total Assets	77.85%	76.74%	1.11 p.p.
Equity / Total Assets (1)	15.87%	17.50%	-1.63 p.p.
PROFITABILITY RATIOS			
Net profit / Equity (ROE) (1)	2.85%		
Net profit / Total Assets (ROA)	0.45%		
Cost to income ratio (Operating costs/net interest and other banking income)	70.62%		
RISK RATIOS			
Net non performing loans/Net loans to customers (item 40.b assets)	0.66%	1.99%	-1.33 p.p.
Other impaired loans/Net loans to customers (item 40.b assets)	1.37%	4.60%	-3.24 p.p.
Value adjustments to non performing loans / gross non performing loans	83.99%	84.74%	-0.75 p.p.
Value adjustments to other impaired loans/gross other impaired loans	55.53%	48.02%	7.85 p.p.
Value adjustments to performing loans/Gross performing loans	0.22%	0.87%	-0.65 p.p.
PRODUCTIVITY RATIOS (2) (3)			
Net interest and other banking income per employee	382		
Personnel costs	88		
Net earnings per employee	98		
EQUITY RATIOS			
CET1 Capital ratio (Common equity Tier 1 capital/Total risk-weighted assets)	72.84%		
Tier 1 Capital ratio (Tier 1 capital/Total risk-weighted assets)	72.84%		
Total Capital ratio (Total regulatory capital/Total risk-weighted assets)	72.84%		

(1) equity includes the profits realised during the year
(2) the productivity ratios are expressed in thousands of euros
(3) indicators calculated using the average number of employees

OTHER INFORMATION ON OPERATIONS

THE INFORMATION PURSUANT TO THE DOCUMENTS OF THE BANK OF ITALY / CONSOB / ISVAP NO. 2 OF 6.02.2009 AND NO. 4 OF 3.03.2010

In application of joint document no. 2 issued in February 2009 by the Italian control bodies, starting from the 2008 financial statements, Directors must provide adequate disclosure so that the impacts of the crisis on the economic, asset and financial situation are presented clearly, along with the operating and strategic choices made and any corrective actions put in place to adapt company strategies to the changed reference situation. In other words, an appropriate level of reporting transparency can contribute to decreasing uncertainty and its negative consequences. The document requires special attention to be paid to the issues regarding the business continuing as a going concern, financial risks, estimates/evaluations and impairment.

Since the effects of the crisis appeared to be still significant and widespread in March 2010, these Italian control bodies issued document no. 4 which repeated the requirement to supply the information provided in the previous document, extends the disclosure and transparency to other company events such as measurement/impairment of goodwill and equities classified as 'available-for-sale', restructuring of customer payables in exchange for shares, and fair value hierarchy.

As regards the assumption of the company continuing as a going concern, the administration and control bodies evaluated the existence and maintenance of that assumption for this year also, and established that no further analyses would be required to support this assumption beyond the information that emerges from the contents of the financial statements and the report on operations. The Directors also note that they did not discern signs that could lead to uncertainties about the assumption of the Bank or its subsidiaries continuing as going concerns with respect to capital structure, financial structure or operating performance.

The information regarding financial risks is provided under 'Part E' of the Explanatory Notes in terms of assumption, management and covering said risks.

Preparation of the financial statements requires the use of estimates and evaluations that could have significant impacts on the recorded amounts and especially those relating to receivables, financial assets, employee funds and for risks and charges and the use of evaluation models for the recognition of the fair value for unlisted instruments in active markets with a view towards the company continuing as a going concern.

The Bank defined the estimation processes to support the carrying amount of the most significant items recorded in the financial statements as at 31 December 2018. The estimation processes are based on past experience and other factors considered to be reasonable in the case at hand, and were adopted to estimate the carrying amount of assets and liabilities that cannot be easily calculated from other sources. In particular, estimation processes were adopted that support the book value of some of the most important valuation items posted in the accounts, according to reference regulations. These processes are mainly based on estimates of future recoverability of the values in the accounts and were carried out on a going concern basis. As regards the fair value hierarchy and its calculation methods, please refer to the Explanatory Notes for more information.

The processes adopted compare the book values on the date of preparing the Financial Statements. The measurement process turned out to be particularly complex in consideration of the persisting uncertainty of the macroeconomic and market context, characterised by the continuing and significant volatility of the financial parameters determined for the measurement as well as indicators of impairment of the credit quality that remain high. These parameters and the information used to check the mentioned values are significantly affected by these factors, which may undergo rapid and unforeseeable changes.

The ongoing trend of uncertainty of the economy and continued volatility of financial markets meant that the credit risk had to be evaluated very carefully, as well as the measurement of the financial instruments and the impairment test management.

OTHER INFORMATION ON OPERATIONS

Further information is provided as set out in the Supervisory Instructions for the financial statements of banks (chapter 2, par. 8, Bank of Italy Circular no. 262, revision of 15 December 2015).

Research and Development

Considering the fact that Cassa Centrale Banca is a bank, Research, Development and Innovation activities are predominantly directed towards studying the possible application of new technologies to relationships with customers, to improve upon and expand the offer of products and services, as well as in internal business processes, to simplify them and make them more efficient. Research and Development activities have an impact across all areas of the company and are carried out through theoretical analyses and trials conducted autonomously by the company and by its software houses, relying on significant top-level collaborations with tech partners and Research institutions such as the Milan Polytechnic, Aifin, Cetif, etc.

Own shares

The Bank does not hold and did not purchase or sell own shares or parent company shares.

Relations with related parties

Part H of the Explanatory Notes contains information on the dealings/transactions with related parties.

Business continuity

Part E of the Explanatory Notes contains information regarding the measures adopted by the Bank to ensure adequate levels of business continuity, pursuant to the provisions on business continuity contained within Part I, Title IV, chapter 5 of Bank of Italy Circular no. 285 of 17 December 2013.

Corporate governance

The Bank continued the process of adjustment into line with the provisions on the corporate governance of banks issued by the Bank of Italy on 8 May 2014 with the first update of Circular no. 285 of 17 December 2013, rescheduling residual activities according to the decisions made in relation to the implementation modalities of the cooperative credit reform.

Following the establishment of the Cooperative Banking Group and considering the role taken on by Cassa Centrale as the Parent Company, the 'Cassa Centrale Banca Cooperative Banking Group Corporate Governance Project' was adopted as of 1 January 2019.

The document describes the decisions and justifications regarding the organisational structures adopted or to be adopted by all Group companies (and thus by the Parent Company as well as the Cooperative Credit Banks, rural banks and/or Raiffeisen banks belonging to the Group and other banks, financial companies and instrumental companies that are directly and/or indirectly controlled by the Parent Company), as well as the methods for linking the bodies and company functions of the individual entities, with a specific focus on aspects relating to the control governance system, with a view to ensuring the overall consistency of the Cooperative Banking Group's governance structure.

Considering that Cassa Centrale is now one of the largest Banks with more operating complexity and is therefore subject to the supervision of the European Central Bank, in preparing the Cooperative Banking Group Corporate Governance Project, domestic corporate governance regulations were taken into consideration in addition to instructions from the European Banking Authority and the European Central Bank.

Internal control system

The Bank conforms the activity and structure of its own internal control system to the provisions contained in Part I, Title IV, Chapter 3 of Bank of Italy Circular no. 285 of 17 December 2013.

Remuneration and incentivisation policies

In 2018, with the resolution of the Parent Company's Board of Directors, the Remuneration and incentivisation policies of the Cassa Centrale Banca Group were revised.

Organisational, management and control model for crime prevention pursuant to Italian Legislative Decree no. 231/01

In 2018, the Supervisory Body oversaw the effective operation of the 'Organisational, management and control model' adopted by the Bank and compliance with the rules and procedures described thereby.

Money laundering and funding terrorism

The Bank is exposed to legal and reputational risks resulting from possible involvement in money-laundering or financing of terrorism because of the business it is involved in. The Anti-Money Laundering Department adopts a risk based approach in overseeing the management of the risks of money laundering and financing of terrorism with regard to the company's activities by evaluating the adequacy of internal procedures intended to prevent the violation of applicable external and internal regulations.

The organisational oversight mechanisms introduced in 2017 to mitigate these risks and fulfil the obligations imposed by reference regulations include the adoption of policies, regulations and guidelines, the preparation of group processes for customer assessment, the review of the control system, the creation of the process for the centralised management of suspicious transaction reporting and the performance of the self-assessment process.

SIGNIFICANT EVENTS AFTER 31 DECEMBER 2018

In December 2018, the Board of Directors of Cassa Centrale Banca approved an amendment to the business model of its financial assets represented by securities.

The launch of the Cooperative Banking Group represents a moment of significant discontinuity with respect to the past, for Cassa Centrale Banca as the parent company of the Cooperative Banking Group, as well as for the affiliated Banks. In more detail, when the cohesion contract was entered into by Cassa Centrale Banca and the affiliated Banks, Cassa Centrale Banca, in its role as Parent Company, was assigned Group management and coordination activities and its powers were also defined.

In summary, the latter include the Group governance powers, powers to identify and implement the Group's strategic and operating guidelines, and the other powers necessary to perform management and coordination activities. The above-mentioned activities are proportionate to the risk of the affiliated banks measured on the basis of a risk-based model set forth in the cohesion contract. The main objective of Group unity and solidity, in line with the principle of proportionality of the risk of the individual affiliated Banks, thus required a new organisational structure and processes aimed, in brief, at reducing risk at Group level.

The evident consequence of this change in objectives is the new operating guidelines for the management of the Finance Area which, in responding to centralised treasury management and different liquidity risk management approaches, required a change in the business model for investments in the securities portfolio of the Parent Company and the individual affiliated Banks.

In relation to the foregoing, on 27 November 2018, Cassa Centrale Banca - in view of the imminent launch of the CCB Group - announced the decisions that needed to be made by the participating Banks, including the Parent Company itself, as of 1 January 2019, relating to government securities already classified in the HTC&S business model as at 31 December 2018, detailing the residual life of the securities reclassified to the HTC portfolio and the percentage weight of Italian government securities in the HTC portfolio in relation to total Italian government securities.

As a result of the foregoing, on 12 December 2018, the Board of Directors of Cassa Centrale Banca approved the change in the business model.

From the accounting perspective, the effects of the business model amendment will have impacts as of 1 January 2019 and will entail, on one hand, a reclassification of part of the Italian government securities portfolio from the accounting category 'Financial assets measured at fair value through other comprehensive income' to the accounting category 'Financial assets measured at amortised cost' and, on the other hand, an expected improvement in the individual CET 1 ratio following the elimination of the negative OCI reserves associated with the reclassified securities. Meanwhile, there will be no impact on the individual Income Statement, and the effective interest rate and the assessment of expected credit losses were not adjusted following the reclassification.

BUSINESS OUTLOOK

With reference to the business outlook, please refer to the corresponding chapter of the Directors' Report on Consolidated Operations.

PROPOSAL OF ALLOCATION OF THE NET INCOME

In accordance with the Law and articles of association, the Board of Directors propose that the Shareholders allocate the net income amounting to EUR **31,016,819**, as follows:

1. to legal reserve	EUR	1,550,841
2. to extraordinary reserve	EUR	29,165,978
3. available to the Board of Directors pursuant to article 29.4 of the Articles of Association	EUR	300,000

Trento, 27 March 2019

The Board of Directors

CONCLUSIONS

Dear Shareholders and estimable guests,

I would like to warmly welcome all of you to this Shareholders' Meeting, which represents a historical turning point. Indeed, this is the last Shareholders' Meeting called to approve the financial statements of the 'old' Cassa Centrale Banca - Credito Cooperativo del Nord Est with the Group scope referring to the date of 31 December 2018.
It is well known that with measure of 18 December 2018 the Bank of Italy registered the Cooperative Banking Group as of 1 January 2019 in the Register of Banking Groups, thus also formally marking its birth.
Therefore, the year 2019 represents the first financial year for Cassa Centrale – Credito Cooperativo Italiano as a Parent Company, and the scope of consolidation has expanded to all affiliated BCC-CR-RAIKAs.
This being said, before proceeding with remarks regarding our strategy, I would like to summarise the most salient aspects of the activities of Cassa Centrale in its various business areas.

The low yield rates, the greater need for investment diversification on the part of investors, together with the search for margins from services on the part of banks, contributed to overall growth in asset management also in 2018, confirming the trend already started a few years ago.
The proposal of investment solutions such as asset management, the NEF fund, the third-party funds through the Funds Partner platform and the certificates, had a positive trend overall.
In 2018, financial market performance impacted the performance of asset management and, as a result, also the business of placement agents. The high diversification in terms of asset allocation in any event made it possible to reduce the impact of high volatility recorded in the stock and bond markets alike.
At year end, there were total managed assets of more than EUR 5 billion, while at the end of March volumes managed surpassed 6 billion also thanks to the delegation of the management of four sub-funds of the Plurifonds Pension Fund. The Asset Management products of Cassa Centrale Banca are distributed by 122 Cooperative Credit Banks - rural banks and client banks throughout Italy.
Over the year, the offer was enhanced with three new variable-fee benchmark lines, with a strategy broken down into three investment profiles (Prudent, Balanced and Dynamic). The main new feature is the fee structure, which calls for a reduction in management fees applied to the investor if annual performance does not meet certain levels. This is an absolutely innovative offer which is unique in Italy today.
Again in 2018, Cassa Centrale continued to focus significant attention on the topic of ethics, becoming a member of the Forum for Sustainable Finance, a multi-stakeholder non-profit association that brings together operators from the financial world and other parties concerned with the environmental and social effects of financial activities.
On the topic of ethics, it is necessary to recall that the Luxembourg-based fund NEF - controlled and managed by NEAM, Nord Est Asset Management - also continued to develop the ethics range in 2018, which today consists of 3 products and is in the expansion phase.
The fund can now boast of two balanced sub-funds and one bond sub-fund available in the distribution, accumulation and corporate classes for a total of nearly EUR 600 million in sums invested at the end of the year and almost 35,000 active PACs. All three sub-funds achieved the certification on respect for ethical finance criteria from Luxembourg Labelling Agency, out of only 34 other funds in the world.

Overall, the NEF fund closed 2018 with just under EUR 3 billion, while at the end of March volumes surpassed 3.2 billion. At the end of 2018 there were roughly 320 thousand PACs, while in the early months of this year as many as 35 thousand PACs were subscribed.
In the course of 2018, the process of migrating the assets of funds of third-party companies to the Cassa Centrale Funds Partner platform, which now has roughly EUR 1.4 billion, was substantially concluded.
Furthermore, in the last part of the year, during the final phase of the Group's establishment, an increasing number of Banks belonging to the Group started to implement preparatory activities to provide the Portfolio Consulting service to their customers.

In addition, Centrale Trading is providing support and assistance to nearly 170 BCC-CR-RAIKAs throughout the country that use the online trading service offered by Directa Sim.
The partner Banks can also benefit from other services that the Company has included in its product catalogue. First and foremost, the possibility to work in the gold bar purchase and sale segment on behalf of customers thanks to the partnership with Italpreziosi. Bank marketing activities continue for Six Financial Information services, which were joined by Master Chart services in 2019. The Six and Master Chart platforms represent efficient solutions for Banks in terms of pricing and comprehensive service.
Lastly, further business diversification is guaranteed by our collaboration with WebSim, a top financial market analysis and reporting research office that is part of the Intermonte Group, which enables banks to benefit from a complete financial information and analysis service.
Thanks to the full exploitation of the new profit-generating activities, Centrale Trading continues to present orderly accounts and an adequate capital strength profile.

The Payment Systems Area represents the reference for a broad range of quite important services for the BCC-CR-RAIKAs.
Its integration within the payment services managed by Cassa Centrale Banca required a number of BCC-CR-RAIKA support and coordination activities:
- merger process assistance;
- coordination of activities with all parties concerned;
- assistance to Banks before and after registering for services;
- Area reorganisation following the increase in volumes handled.

The Group's reference partner continues to be SIA, the leader in the payment systems sector which manages in excess of 70.00% of the transactions generated by the Italian banking system.
The Area processed truly significant numbers of transactions in 2018. A few examples: in the context of cash management, 25 new BCC-CR-RAIKAs were qualified, with the inclusion of 1,700 service points (Branches, ATMs, large scale distribution), across 66 provinces and linked to 22 peripheral vaults available to the valuables management network.
During the last year, the activities of the foreign merchandise segment rose by a further 30.00%, leading to overall growth over the last two years of 80.00%. This two-year performance is primarily due to the increase in counterparties that transferred their operations to Cassa Centrale Banca following the founding of the new Banking Group.

The number of payments from and to foreign countries processed during the year exceeded 260,000. Special transactions rose from 1,237 in 2017 to 1,963 (+58.00%) in 2018. This segment was also supported by the valuable consulting provided to the Banks.
During the year, transactions in physical gold were consolidated with the disbursement of 64 gold use loans for a total of 490 kilos and 221 spot sales of gold for goldsmithing.
Also of note is the centralised treasury management service for public entities, which marked a positive trend in 2018 as well, with an increase in entities managed to the current level of nearly 900. This demonstrates the positive reception of this service by client Banks and, obviously, the entities managed.
With regard to credit and debit cards, transactions reached almost 170 million, with an increase of 30.00% compared to 2017.
The number of credit and prepaid cards continues to rise at a sustained pace. As at 31 December 2018, there were more than one million active 'ABI3599' debit cards, nearly 300 thousand prepaid cards, more than 50 thousand operating POSs at merchants of client Banks and more than 2,000 ATMs installed.

Many of the activities in preparation for the creation of the new Cooperative Banking Group involved the various departments of the Planning and Organisation Area.
The process of establishing the Cassa Centrale Banca Cooperative Banking Group involved the Strategic Planning and Coordination Department to a significant extent, which participated in meetings at the Group's BCC-CR-RAIKAs to share the Group's business plan guidelines. There was also an intense commitment to provide support in drafting the strategic plans of the affiliated Banks and in following the main merger projects activated throughout 2018.
The Department also made a significant effort in defining the operating and strategic planning process to ensure that the Cooperative Banking Group has the procedures and processes necessary to manage the Group's business development.
The Marketing Department was mainly involved in the project of evaluating the present and future identity of the Cooperative Banking Group, characterised by an activity of analysis of the main international experiences, studies on the competitive positioning, legal and regulatory verifications, creative proposals, etc.
With the registration of the Cassa Centrale Banca Cooperative Banking Group in the Register of Banking Groups, the new Group brand was launched, with a pictogram featured alongside the name, which intends to symbolically represent all of the Group's members in a modern and original layout: the affiliated Banks, the instrumental companies and the Parent Company.
To celebrate this important turning point, a mini-website was also created to briefly tell our story and outline our first steps as a Cooperative Banking Group, topics which will be explained and described in more detail later on.
Maintenance and management activities also continued on the 'IlNuovoNoi' portal, an interactive web space which, on the public side, tells the story of the evolution of the project under way and, in the reserved area, acts as a repository for documents as well as an interactive instrument to involve and communicate with all the affiliated banks to support them in this transitional phase.
In this regard, it should be highlighted that for its innovative characteristics, the IlNuovoNoi portal achieved a special mention at the Financial Innovation - Italian Award assigned by AIFIn, among the projects presented by the main Italian banks.

In 2018, the Organisational Development Department was engaged in many projects and activities, both with a view to the continuous evolution and innovation of the offering intended for banks and customers, and to upgrade the various products, processes and services for compliance with the regulations issued over time by the Supervisory Authorities.
The affiliation of numerous Banks to the Cooperative Banking Group also required a significant effort for the coordination and planning of many meetings with the Banks, aimed at the presentation of the overall offer of the Parent Company in the different areas of operations.
A project has been launched to map banking processes in collaboration with several pilot Banks, in order to define the map of processes for affiliated Banks and the Parent Company, according to an approach aiming for standard and uniform terminology and content.
In terms of mobile payments, we actively participated in the '*Bancomat Digit*' project, which led to the execution of the first transactions with domestic PagoBANCOMAT® cards virtualised on smartphones using the Android operating system.The project will continue according to the steps set forth by Bancomat SpA for the progressive roll-out of new functions on Android and Apple devices.
The Systems and Information Technology Departments are also part of this Area, which, again in collaboration with the software houses and service centres, always keeps a keen eye on the developments of IT and information systems, searching for the most advanced technologies and in particular guaranteeing high security standards and business continuity.
In 2018, the efficiency and effectiveness of the technological infrastructure was improved with a technological upgrading of storage, Servers, remote access systems for 'Mobile' users, the Cloud systems and networking infrastructures of the Bank and Group's companies, also with a view to improving data protection.

Within a situation marked by an economic recovery that is not particularly well-structured, the Credit Area has committed even more decisively to the operating lines already adopted in the past, for the assessment and management of problem loans.
These policies consist mainly of:

- cautious and rigorous valuations in the classification of loans with a particular focus on guarantees;
- severe write-downs of loans classified as problem with subsequent prudential allocations;
- proactive management chain, with commercial budget allocated with respect to recoveries and containment of legal expenses;
- identification of portfolios of non performing loans to be transferred and securitised.

The reduction in impaired loans continued in 2017 as well; gross impaired loans decreased from EUR 109.1 million at the end of 2017 to EUR 75 million in December 2018, a decline of EUR 34.15 million, accounting for 31.28% of the entire portfolio.
The total amount outgoing from the impaired loan portfolio, i.e. EUR 36.2 million, represents approximately 33.00% of the entire portfolio and it is certainly a positive figure. The number of incoming non performing positions have shown a marked decrease (EUR 1.6 million against 8.3 million in 2017); incoming positions have been in decline for the last four years, confirming that the most acute part of the crisis has now been overcome.

Net positions also recorded a substantial reduction of 36.16%. This data is explained taking into account both the sustained level of allocations and the above-mentioned reduction in gross problem positions.
The high level of allocations against impaired loans is also confirmed for 2018; the degree of coverage of non performing loans is 83.99% and the degree of coverage of impaired loans is 71.96%.
Once again, the key collaboration relationship was confirmed during the year with Mediocredito Trentino Alto Adige, an institution with which nearly all the transactions of a high level or complex structures are shared, therefore allowing us to share reciprocal experiences and skills and know how, while respecting the autonomous strategic, credit and financial assessments.
The year 2018 confirmed a high level of collaboration, in relation to impaired loans, both with Centrale Credit Solutions, a company active in particular in the field of the transfer of NPLs, and with Centrale Soluzioni Immobiliari, for the acquisition and placement of properties serving as collateral for positions classified as non performing.
However, the special attention paid to the management of impaired loans did not stop Cassa Centrale from maintaining and increasing an active local presence to support BCC-CR-RAIKA corporate clients, by consolidating the network of branches and managers.
Indeed, the Corporate network was strengthened with the opening of offices in Udine, Bologna, Rome and Bari.
The core business of the Corporate network and of the Structured Finance department continues to be work at the service of banks in the territory and their shareholders, in a context coordinated with BCC-CR-RAIKAs.

With regard to consumer credit, in the course of 2018 Cassa Centrale Banca, through its specialised business area, had a direct presence in this market segment through the proprietary Prestipay brand, in line with the developments outlined in the initial roadmap in 2017.
Consumer Credit Area activities concentrated on the following main aspects:

- the contractual agreement and activation of all of the Group's affiliated Banks for the distribution of Prestipay white label consumer credit products, within the scope of a framework agreement defined with Deutsche Bank S.p.A.;
- the consolidation of the service offered to the Group Banks in the segment, with planning and commercial assistance dedicated to the BCC-CR-RAIKAs, through activities intended to energise the sales network;
- the creation of the Prestipay product website equipped with quote and store locator functions, in order to identify the branches located closest to customers;
- the activation of online advertising and marketing campaigns intended to improve brand awareness amongst target customers;
- the definition of a joint venture agreement with Deutsche Bank S.p.A., finalised with the signing of agreements on 20 July 2018, for the establishment of a Company specialised in consumer credit, controlled by Cassa Centrale Banca and invested in by Deutsche Bank.

This agreement, formalised on 5 October 2018 with the establishment of Prestipay S.p.A., 60.00% held by Cassa Centrale Banca and 40.00% by Deutsche Bank S.p.A., calls for the partners to collaborate in setting up the organisation and operations of the Company, providing it with the necessary support in their capacity as shareholders.

As at 31 December 2018, all 84 Group banks signed on to the agreement and another 3 of the Group's client Banks entered into the agreement and were authorised to place Prestipay brand products.
With respect to volumes generated, in the course of 2018 more than EUR 170 million in personal loans were disbursed, while with reference to the number of transactions, more than 17,000 thousand customer loan applications were approved, with significant returns for the Group in terms of fees. Over the last two months of 2018, the Consumer Credit Area also activated a test phase at some pilot Banks to place pension and salary backed loans.

For its part, the Internal Control functions team carried out activities to identify, measure and monitor risks to promote sound and prudent company management.
The Risk Manager, Internal Audit, Compliance and Anti-Money Laundering worked in an extremely professional manner to guarantee the compliance of the Group's operations with the never-ending regulatory update process.
The Cooperative Credit reform law required the Company Control Departments of the Affiliated Banks to be outsourced to the Parent Company to ensure the uniformity and effectiveness of the Cooperative Banking Group's control systems.
In consideration of this, it was deemed strategic to progressively initiate the outsourcing of the Company Control Departments already in 2018, thus entailing the overhaul of the organisational structures of the various departments.
The first control department outsourced as of 1 July 2018 was Compliance. As at 31 December 2018, the Compliance Department was outsourced for 78 of the affiliated Banks, while with the launch of the Group the process of outsourcing was completed for all affiliated Banks.
In the course of 2018, consulting and assistance activities were guaranteed to the competent structures of Cassa Centrale Banca and the Group Companies in relation to multiple areas, with a particular focus on those linked to the process of establishing the Group. There was also significant involvement in the work groups activated to define new products and services in order to evaluate the connected regulatory impacts.
The Internal Audit Department is directed, on the one hand, from a third level point of view, to supervise the regular activity of operations and the evolution of risks and, on the other hand, to evaluate the completeness, adequacy, functionality and reliability of the organisational structure and of the other components of the internal control system, bringing to the attention of corporate bodies any possible improvements. In implementing the 2018 Audit Plan, the activity of the Department mainly involved the Finance and Payment Systems business areas. Specific initiatives involved the remuneration and incentive policies, liquidity risk and important outsourced operating departments. The Board of Directors, the Board of Statutory Auditors and the Board's Risks Committee are regularly informed of the outcomes of verifications carried out and the consequent risk valuations.
The objective of the Risk Management Department is to identify, measure and monitor risks to promote sound and prudent company management. During the year, the ordinary risk monitoring activity to which Cassa Centrale Banca is subject continued, with a special focus on the loan, liquidity and interest rate risk profiles.
In parallel with ordinary activity, a significant effort was made to draft the regulations, processes and procedures required to start up the Cooperative Banking Group, on aspects for which the Department is directly responsible, as well as in collaboration and in support of more transversal topics.

In particular, the Anti-Money Laundering Department oversees the management of the risks of money laundering and financing of terrorism with regard to the company's activities by evaluating the adequacy of internal procedures intended to prevent the violation of applicable external and internal regulations.
With a view to greater efficiency, the Department took responsibility for configuring the new customer risk profiling system, transferring to a new provider of lists of names subject to anti-money laundering and financing of terrorism monitoring, reviewing the control system and creating a process for the centralised management of suspicious transaction reporting.

A final mention with regard to Cassa Centrale should be made of Human Resources, which in 2018 was particularly involved in making the Group start-up activities a reality, in addition to managing the day to day activities of the Bank. At the end of 2018, the workforce numbered 403 employees, 171 more than at the end of 2017. The Areas most concerned by the strengthening of the workforce were the Control Departments, due to the new duties assigned to them following the outsourcing of activities by the Banks to the Parent Company.
Also during the year that just ended, a significant focus was dedicated to professional training, particularly of young people that recently joined the company. Furthermore, proactive collaboration relationships continued with universities, for the identification of young people with particular potential. During 2018, 10 post-university training periods were activated. Supervised by internal tutors, the interns were able to gain a first direct experience of work in a company, a fundamental chance to verify and further consider their aptitudes and inclinations. For six of them, the experience led to hiring with fixed-term contracts.
The long-term strategy of the Group remains our focus on the quality of human resources, with a primary commitment in promoting the constant development of individual and group capabilities and skills.
The main guidelines followed by the Group are valuing initiative and flexibility, supporting growth opportunities through adequate development paths and promoting active participation in the implementation of projects, providing instruments and methods for the emergence of innovative contributions to be made available to the company.

We will also provide a brief summary at this time of the activities carried out by the Subsidiaries in 2018.
More details are provided in the consolidated financial statements in the section dedicated to those Companies.
In the course of 2018, the Group scope was further enhanced with the acquisition of control over Servizi Bancari Associati – SBA, Claris Leasing, Nord Est Asset Management, Prestipay and CESVE. With the launch of the Cooperative Banking Group - so as of 1 January 2019 - CSD also joined the Group.
Please note that at the moment, Prestipay is not yet active as a consumer credit company, but it is working on the complex Bank of Italy authorisation process to receive authorisation to operate as a Company registered in the Register of Financial Intermediaries pursuant to article 106 of the TUB. A summary was provided just above of the results achieved in the consumer credit area, which is still within the organisational structure of Cassa Centrale.
With regard to Nord Est Asset Management – NEAM, the main results of the NEF fund have already been described. In particular, please recall that after extensive negotiations, Cassa Centrale Banca acquired full control over the Luxembourg-based company.

Phoenix Informatica Bancaria S.p.A.

In 2018, Phoenix's activities were characterised by the continuation of important projects. The progressive availability of new products to the member and client Banks led to intense training and support activities for the launch of new procedures and/or new ICT services, also ensuring an adequate monitoring of the functional and technological evolution of IT systems. Work linked to the migration of the Banks to the Group's IT systems was particularly intense and also consistently concerned the service centres, as will be described in more detail later on.

Some significant projects were tackled to reorganise and streamline Phoenix's production chain. One significant step made was the redefinition of supply relationships with long-standing partners such as Auriga Informatica and Dedagroup. In late December, the acquisition from Dedagroup Business Solutions of the 'SIB2000 Assistance' business unit was formalised, effective as of 1 January 2019.

In November 2018, the Company Bologna Servizi Bancari was also established with a view to transferring to it the IT business unit of the Company Cedecra di Bologna, another one of Phoenix's long-standing partners. This transaction was completed on 26 March.

In 2018, the subsidiary posted positive economic results. The growth trend continued in production value, which reached EUR 100 million, compared to 91 the previous year. The year 2018 closed with a net result of EUR 20 million, compared to 17.4 million in the previous year. Lastly, it should be underscored that the positive trend has been confirmed in terms of the strengthening of the Company's assets, which amounted to EUR 102.5 million at the end of 2018.

IB.Fin. Group

The activity of the IB.Fin. Group is focused essentially around the activity of Informatica Bancaria Trentina, of which IB.Fin. is the sole shareholder.

During 2018 IBT was involved in a series of activities aimed at enriching the Gesbank Evolution information system with essential functionalities which were welcomed by the user Banks. A number of developments were linked to new regulations concerning supervisory reporting and the support necessary for BCC-CR-RAIKAs using the information system with specialised extractions in the various areas. Activities relating to the initiatives required for the data extractions used for consolidated Group reporting were particularly important and impactful. Likewise, there was a strong commitment made to implementing specific extractors to provide the data required for stress testing by the Parent Company.

With regard to the Company's financial management, in the course of 2018 revenues reached approximately EUR 8 million, basically in line with 2017. The net profit for the year came to EUR 3.4 million.

As for Phoenix, also for the IB.Fin. Group it is necessary to highlight the activities carried out to support Banks not belonging to the Cooperative Credit movement, which constitutes a non-negligible share of turnover.

In this regard, the Cooperative Banking Group is developing strategies to provide structured support, not only in the IT realm, to Banks other than BCC-CR-RAIKAs as well, which over time may represent a significant revenue stream for the Group.

Servizi Bancari Associati S.p.A. – SBA

Servizi Bancari Associati, a consortium company, provides services to support fully outsourced bank operations, not only to BCC-CR-RAIKAs. Indeed, for years it has been the point of reference for several joint-stock company Banks and some Savings Banks as well located throughout the country.

In 2018, it provided services to more than 30 partner Banks that use the Gesbank operating system. At year end, the Company expanded its partners and users to all BCC-CR-RAIKAs belonging to Cassa Centrale Banca Group, focusing in particular on providing services for the production and sending of correspondence to customers for a volume of more than 17 million envelopes per year and the running of ATMs, with a total of more than 2,000 managed.

SBA also offers back office and consulting services, ranging from centralised administrative/accounting services, to supervisory reporting, to complete human resources management for participating Banks, including administration, payroll, labour law consulting, contract drafting and fulfilling tax and social security obligations.

The Company also acts as a 'procurement centre', obtaining significant economies of scale, especially in the telecommunications, postal services and database storage areas. In this sector, turnover surpassed EUR 8 million in 2018.

From the economic perspective, the production value exceeded EUR 27.5 million, marking an increase of 8.4% compared to 2017. There were 113 resources employed, 4 more than in the previous year.

In recent weeks, the corporate transactions required for the transformation of SBA from a consortium company to a for-profit company have been under way, based on the indications of the Parent Company.

CE.SVE S.p.A. CONSORTILE

CESVE, a consortium company, strong from its professional experience gained over more than 30 years alongside BCC-CR-RAIKAs, offers administrative, assistance, consulting and training services to support Banks and their customers throughout the country.

CESVE is specialised in the outsourcing of banking and company organisational processes, particularly certain Important Operating Departments ("FOI"), when permitted by regulations.

CESVE continued to update and refine new processes for the activities of the Group Banks that use the SIB2000 information system.

CESVE also provides a good deal of its services to Banks other than BCC-CR-RAIKAs.

As at 31 December 2018, 140 Banks used CESVE's services, of which 79 in the Group.

Turnover in 2018 amounted to roughly EUR 20 million, while profit for the year reached nearly EUR 1.7 million. Equity amounted to almost EUR 25 million.

Various corporate development possibilities are also being evaluated and researched for CESVE.

Centro Sistemi Direzionali S.r.l. - CSD

As noted above, this company is a subsidiary of Cassa Centrale - indirectly through Phoenix and several affiliated Banks as of 1 January of this year.

The main projects handled by CSD in 2018 aimed to develop the IT procedures required by Cassa Centrale to meet needs arising from the role it has taken on due to the establishment of the Cooperative Banking Group. The procedures developed range from that for the administrative management of impaired loans, to monitoring performing positions through early warning and trigger calculations to identify positions for which a change in the risk level should be proposed.

From the economic perspective, the increase in activities carried out due to the Group's launch, accompanied by the increase in the number of client Banks, had positive effects for the Company.
Revenues reached around EUR 5.5 million with a 12.00% increase compared to the previous year. This increase, despite rising business costs as a result of the increase in activities carried out, made it possible for the Company to achieve a net result for the year of close to half a million euros.

Claris Leasing S.p.A.

This Company was acquired in August 2018 from the liquidation procedure of the Veneto Banca Group.
The amount of the 2018 values referring to new lease agreements entered into reflects the transitional period experienced by Claris Leasing starting back in 2017, with the placement in compulsory administrative liquidation of the previous parent company.
In the first half of 2018, activities were limited to credit management and maintaining customer relationships. As a result, the value of contracts entered into in 2018 was just under EUR 32 million, marking a 55.00% decline compared to the previous year. However, it is worth noting the considerable recovery in contracts recorded in the last two months of the year, which was also confirmed in the first quarter of 2019.
In the final months of the year in question, an extraordinary credit policy was enacted which, on a prudent basis, generated further new provisions against NPLs. Impaired loan cover percentages improved to 72.00% for non performing loans and 52.00% for unlikely to pay, compared to the already high levels of cover applied by Claris Leasing which were amongst the highest in the market.
The stagnation in operations experienced for the majority of the year, in addition to the strict policy followed with respect to provisions for loans and risks, impacted the subsidiary's income statement, resulting in a loss for the year of EUR 9.9 million.
The subsidiary now has all of the potential to face 2019 with newfound vigour and enthusiasm, and with positive commercial outlooks, also considering its excellent reputation in the market.

Centrale Credit Solutions S.r.l. - CCS

In the last five years, Centrale Credit Solutions has been committed primarily to providing consulting for Banks on the management and sale of impaired loans, accruing significant experience in structuring multi-originator disposals and securitisations.
Between 2012 and 2017, six disposals and one securitisation were completed for a total of more than two billion in impaired loans transferred and 153 Banks involved.
The activity carried out in 2018 was primarily aimed at achieving the objectives defined by the Parent Company to reduce the Group's stock of impaired credit. The Company was involved in structuring the CCRES VII disposal, with the participation of 53 credit institutions and loans totalling EUR 1.4 billion.
Over the last four months of the year, work was concentrated on the preliminary phases in preparation for the structuring of a new securitisation transaction (Buonconsiglio II), again with non performing loans.
It is expected to be definitively finalised in the beginning of December 2019.

CCS's operations also cover the following business segments, which in any event were marginal with respect to its impaired loan activities:

- due diligence and non-financial consulting for companies involved in project financing operations and the renewable energy sector;
- marketing the platform - established in co-operation with a primary company of the sector - for the outsourced management of the non performing loans of BCC-CR-RAIKAs.

The subsidiary closed the year 2018 with turnover significantly higher than that of the previous year, rising from EUR 1 million to EUR 6 million. The profit for the year also confirms this growth, improving from EUR 300 thousand in 2017 to more than 3 million this year.

Centrale Soluzioni Immobiliari S.r.l. - CSI

As is well known, the activities of Centrale Soluzioni Immobiliari are ancillary with respect to the activities of the Parent Company and are predominantly carried out in its favour, with the main objective of safeguarding the credit obligations deriving from impaired loans secured by collateral.
In 2018 the Company consolidated its activity, which started in 2016.
Revenues reached EUR 4.2 million, compared to EUR 700 thousand last year. This income statement item rose due basically to the sale of several real estate holdings. The profit for the year net of taxes was EUR 484,000.
Equity, which was EUR 2,032,000 in 2017, rose to 2,516,000 in 2018. Considering the EUR 2 million capital increase subscribed by Cassa Centrale in March 2019, equity is now at EUR 4.5 million.
This capital strengthening is justified by the forecast intensification of activities as a result of the launch of the Cooperative Banking Group.

Centrale Casa S.r.l.

The year 2018 was the first for the Group's real estate agency. Thus, the majority of the year was spent developing the operating structure and the organisational system linked to the reporting of potential sellers and buyers from the Banks, as well as drawing up the contractual documents necessary for entering into real estate sale and purchase mandates and agreements with Agents. To carry out its activities, the Company relies on some Agents with exclusive contracts and a network of affiliated agents and Agencies so as to cover the entire provincial area.
In 2019, the consolidation of Centrale Casa will continue with a view to laying a solid foundation for the expansion of the business.
The Group will make the necessary investments to plan a national real estate network in the future to support and complement the offer for the affiliated Banks.

Assicura Group

Assicura Group, of which Cassa Centrale is the sole shareholder, is the holding company with a 100.00% interest in the insurance brokerage companies Assicura Agenzia (multi-firm company registered in section A of the Insurance Brokers Register) and Assicura Broker (registered in section B of the Insurance Brokers Register), defining their guidelines and development strategies.
This Company is entrusted with the task of supporting the Banks participating in the Cooperative Banking Group in the development of bancassurance, taking advantage of the considerable opportunities provided by a segment experiencing significant growth while also making it possible to boost customer retention by offering social security, protection and investment solutions, as well as earning revenues from services.

At the end of 2018, Assicura Agenzia collaborated with 86 Banks, 76 of which belonging to the Cassa Centrale Group, 6 belonging to the Iccrea group and 4 non-BCC-CR-RAIKAs. After extending its activities to central and southern Italy, the Rome office was opened to provide more effective assistance to the Banks located in these regions. An office is also expected to be opened soon in Brescia.
On behalf of the Banks, the Company has managed more than 300 thousand customers underwriting almost 450 thousand policies for a total of more than EUR 145 million in premiums with regard to protection - including the TCM and CPI cover sectors - to which EUR 3 billion in volume was added for insurance investment products and more than EUR 400 million for supplementary pension policies, thus exceeding 3.5 billion in premiums, with an increase of more than 86.00% compared to the volumes brokered in the previous year.
Portfolio management, alongside new business - which rose by 77.00% compared to 2017 - generated total fees of EUR 33 million, up by 52.80% compared to 2017. Retrocessions to the placing Banks reached EUR 28.3 million, compared to 18 million in 2017.
The Company has 52 employees, compared to 41 at the end of 2017.
The focus on making processes more efficient and limiting costs, despite the investments made for regulatory compliance and for the activation of relationships with new companies, made it possible to achieve a net profit for the year in excess of EUR 955 thousand, up by more than 50.00% compared to the result in the previous year.
For 2019, the main objective is to increase the capacity to offer products and services at the Banks, by further streamlining and simplifying operating processes, expanding the products present in the Sicuro catalogue and developing the MyAssicura portal, where customers can continuously monitor their policies. There is also a significant commitment to boosting the consulting capabilities of bank employees, with the activation of targeted training courses (insurance master's programs).

At the end of 2018, Assicura Broker's customers exceeded the threshold of 800, 705 of which are businesses. Banks and the associated Companies that engaged Assicura Broker totalled 141 and of these, 61 granted it an exclusive engagement, relying on it to manage their entire insurance portfolio.
Overall, Assicura Broker, with its 19 employees (17 at the end of 2017), brokers a portfolio of more than EUR 13 million in insurance premiums, of which 40.00% derives from Companies that are not part of its Banking Group. In 2018, it collected fees of roughly EUR 2 million, up by 3.70% compared to 2017.

The priority target for 2019 is to harmonise the insurance cover of the Companies within the Cassa Centrale Banca Cooperative Banking Group to reach an adequate level of insurance cover for the various Group Companies. Through the Banks, activities with their corporate customers will intensify, to evaluate opportunities to open new local offices.

This broad overview has highlighted how Cassa Centrale and the Group's instrumental companies certainly had a positive year in 2018.
The numbers represented are the result of what we can define as the Bank's ordinary activity, very complex and specific though it may be. For several years now, the organisation has been committed to the extraordinary work of establishing the Cooperative Banking Group, which became a reality on 1 January. In the course of 2017 and 2018, we laid the foundations to allow for its growth together. We are now called upon to work as a team to ensure that the Group can fully express its strong potential.
While seeking to ensure the utmost involvement of the affiliated Banks, actions are promoted that can improve efficiency in every part of the Group. This objective should be pursued first and foremost to enable the BCC-CR-RAIKAs to remain local Banks as well as efficient businesses that are able to hold their own in the market, while also representing drivers capable of generating value for their communities. This is an objective that the European Supervisory Authority, to which the Group is subject as a significant entity, also expects us to reach. The Authority considers efficiency, capital strength and income generating capacity to be necessary elements for being a Bank and participating in the banking industry.
The challenge for all of us is represented by knowing how to adequately respond to these requirements without however betraying our essence as BCC-CR-RAIKAs. This task is complex as much as it is indispensable. We have reaffirmed multiple times that our main advantage with respect to other large Banking Groups is precisely that of remaining faithful to the founding values of cooperative credit: charity, proximity to the community and the client shareholder, the point of reference for local communities. As important as they are, these characteristics alone are not enough. We also need to be efficient, competitive businesses operating in a market that is changing at an unprecedented pace. This makes it necessary to make a very rapid leap in quality in the segment of new technologies. The significant financial resources to be put in place by the Group to manage new technological trends will implement avant-garde products and services; at the same time the Parent Company, in its role of directing centre, will be committed to the coordination of digital transformative actions with the dual purpose of ensuring maximum efficiency and operating effectiveness, ensuring that innovation is never at odds with having deep roots and a local presence, but further consolidates the relationship with the customer, ensuring a service that is as tailored to their needs as possible.
We are witnessing a rapid, decisive rise in the number of customers carrying out more basic banking transactions remotely, without physically going to the Bank. When they go to the branch, an increasingly large segment of customers do so to obtain consulting services. For example: for the best allocation of their assets, to identify the loan type most suited to their investment needs, to find someone to assist them with the sale or purchase of a home, someone to advise them in choosing non-life or life insurance cover, or someone to support them in defining a supplementary retirement plan that allows them to look to the future with serenity when they retire.
It is therefore fundamental for the investment in new technologies and the digitalisation and industrialisation of low value-added processes to work alongside a significant investment in the training of front office personnel, who will need to refine their skills to transition from the role of clerk to that of advisor.

In these initial months of activity, the Parent Company has been particularly committed to setting up, both for itself and for the Banks and instrumental companies, a detailed regulation that the Supervisory Authority deems fundamental for the launch and proper functioning of the Group. We realise that a significant volume of regulations and policies have been transmitted, but as noted above, this is indispensable. The Banks and Companies are asked to make a further effort to incorporate and adopt these regulations, adapting them when possible to their specific organisational systems. With the due respect, we are interacting with the Supervisory Authority to ensure that the principle of proportionality, referred to multiple times in the regulations, is as concrete and applicable as possible.

Although the Italian banking system has made some important steps forward, it still has to deal with critical issues that do not favour the overall view of the regulator and European Supervisory Authority.

As regards our Group, there is a further complexity: that of ensuring that they fully understand our specific characteristics. This is a configuration, at individual as well as Banking Group level, that is completely new and innovative within the Italian and European system. Dialogue has not been lacking with the European Central Bank, always with the valuable and proactive support of the Bank of Italy, precisely to seek to meet this objective. We will certainly not give up, but we are certain that the most appropriate path is that of concretely demonstrating to the regulator that our Group is working on its reorganisation, is doing all that is necessary to elevate the skills of the affiliated Banks and is carrying out the key points of the business plan submitted with the request for authorisation for Cassa Centrale to take on the role of Parent Company. The first signal that the Supervisory Authority is waiting for is to have the cases of Banks in crisis resolved as soon as possible, i.e., those banks that are in the fourth class according to the risk-based model, or the 'red Banks'. For the few that are still in this category, the Parent Company has already defined and is moving forward with the recovery plans shared with the Supervisory Authority and with the Banks concerned. There can be no vacillations or delays with respect to the full implementation of these recovery plans, which in certain cases will lead to aggregations with other affiliated Banks. They will need to be completed with determination and certainty of timing in the interest of the shareholders and customers of the Banks concerned as well as the stability of the entire Group.

A significant commitment has also been made to carefully monitor the third class Banks, those which we define as 'yellow Banks', to encourage and support their enactment of activities which will move them towards a progressive upgrade.

Moreover, we are aware that an area that both the ECB and the Bank of Italy are looking at with particular interest is that relating to policies for the management and reduction of the stock of impaired loans, which is still a difficult point in the Italian banking system, although there have been improvements compared to just a few years ago. In this regard, the Cassa Centrale Group can present itself to the market with results that confirm the objectives of the strategic plan submitted to the Supervisory Authorities in its request of April 2018.I won't repeat the numbers here, as they have already been provided in the section relating to the activities of Centrale Credit Solutions.

The Bank quality improvement process must also be accompanied by an analogous process to address their governance.

For the roles of Director, Statutory Auditor and top manager of a Cooperative Credit Bank, increasingly more skills and commitment are required, also understood in terms of the time to be dedicated to the office, which the regulator defines as the 'time commitment'.

The regulator does not compromise on the fact that top figures must dedicate the time necessary to adequately fulfil their duties. Time is required to prepare for the meetings of the Body responsible for strategic supervision, analyse the matters dealt with and participate in ad hoc training to fill any gaps emerging in the course of the self-assessment processes, as well as to learn about industry regulations.
Another aspect on which attention is focused in judging suitability to hold the position of Director and Statutory Auditor is that of independent judgement: members of the top bodies must be capable of taking reasonable, objective and independent decisions. Independence of judgement may be compromised by conflicts of interest (actual or potential) that may involve individuals, which can hinder their capacity to carry out the tasks assigned to them in an independent and objective manner. In this context, the Banks are required to adopt a governance policy to ensure the identification, communication, attenuation, management and prevention of conflicts of interest. Soon, the Parent Company will issue a regulation on the management of conflicts of interest.
Lastly, in terms of integrity, members of the management and control bodies are required to meet the requirements set forth in regulations as well as not to have conducted themselves in a manner which, even if not considered an offence and/or crime, appears to be incompatible with the role taken on or may have negative consequences for the Bank's reputation.
Thus, the Directors and Statutory Auditors of the Affiliated Banks must be fully aware of their role and exercise it with great diligence and a considerable commitment, including in terms of time. Also in this case, we are working to ensure that the rules applied to large Banks can always be configured for BCC-CR-RAIKAs with a proper and adequate approach of proportionality. No one is calling into question that those who manage a Bank and therefore customer and shareholder assets must have suitable professional profiles and significant levels of integrity, but we must ensure that we do not adapt everything upward, risking to distort the nature of the BCC-CR-RAIKA, by excluding a priori a significant amount of the social base from the possibility of being Directors and Statutory Auditors of their Bank.
As regards the Parent Company, during the re-appointment of the corporate officers at the Ordinary Shareholders' Meeting of last 14 January, as well as when the list of candidates was defined and the post-appointment requirements were verified, a rigorous process was followed of assessing all elements referred to above, by the Appointments Committee as well as by the Board of Directors during the verification of requirements subsequent to appointment.
We can reassure you that no particular critical issues emerged and that the criteria set forth in the stringent European regulations for significant Banks have been respected. In addition, the presence of 4 Independent Directors - based on their experience, professional background and in-depth knowledge of the banking and financial sector - ensures the necessary dialogue within the Board to take adequately evaluated decisions aligned with the interest of the Group.
In defining the list, it was also taken into due consideration that, given the specific characteristics of Cooperative Banking Groups, the composition of the Parent Company's Board of Directors cannot disregard the requirements, established by law, of effective representation of the cooperative banking system, with the resulting need for the management body to enjoy the utmost consent of the social base. The fulfilment of this requirement was confirmed in the shareholders' resolution appointing the Directors, which was passed unanimously by the shareholders present at the Meeting, representing 95.00% of the share capital with voting rights.
The extensive trust placed by the social base in the newly elected Board of Directors represents a solid basis on which to construct the delicate work that this Body is called upon to perform.

Ever since we presented our Cooperative Banking Group project, we have committed to promoting the preventive involvement of the affiliated Banks, and we will continue to do so. This is also why we believe in the role of the local Shareholders' Meetings, already planned for the upcoming months of April and May, as an occasion for intra-group coordination and alignment with regard to the strategies aiming to support and enhance the Parent Company's guidance and coordination activities. An important contribution can also come from the Directors' Committee, the composition of which is currently being defined. This Committee will be called upon to formulate proposals and opinions regarding the operating and strategic management of the Group and will simultaneously perform an advisory function with reference to the Group policies and regulations.

The Group has been operating since 1 January 2019; therefore, it would be laughable to define it as doing business under normal circumstances. Reaching this objective will require a much longer time period, even more so if we consider the unprecedented complexity of the Group, which is the combination of 84 different backgrounds and methodological approaches. As affirmed multiple times, the objective is not standardisation, although the simplification of certain processes precisely with a view to making them efficiently manageable is necessary. The Parent Company, affiliated Banks and instrumental companies are called upon to pursue this goal with unity of intent and with the determination that characterises the work of everyone since the launch of the Cooperative Credit Reform. We must also be willing to tolerate some natural misunderstandings which will be overcome with a constructive spirit, always favouring the higher interest of the Group as a whole.

We conclude this summary by thanking again all the representatives of the BCC-CR-RAIKAs for their active support at this crucial time and during this delicate phase while our Group's operations are ramping up. We want to offer a particularly heart-felt thank you to the representatives of national and European supervisory authorities. The constructive dialogue taking place in long months of fruitful collaboration, as well as the suggestions received during the fine-tuning of activities in preparation for the birth of the Group provided a decisive contribution in being able to meet the goal of launching the Group on 1 January. We would also like to recognise the departments of Cassa Centrale Banca, the Group Companies and the affiliated Banks which have been and will be called upon even in the months to come to deploy particular dedication and effort to launch Group activities, which will enable cooperative credit to continue to play a leading role in the economic landscape of our country.

Trento, 27 March 2019

BOARD OF STATUTORY AUDITORS' REPORT

BOARD OF STATUTORY AUDITORS’ REPORT TO THE SHAREHOLDERS' MEETING PURSUANT TO ART. 153 OF ITALIAN LEGISLATIVE DECREE 58/1998 - CONSOLIDATED LAW ON FINANCE (TUF) AND ART. 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

The Board of Statutory Auditors is asked to report to the Shareholders' Meeting of Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. (‘CCB’) called to approve the financial statements as at 31 December 2018, about the supervision carried out and on any omissions or actions worthy of censure that may have been found pursuant to art. 2429, paragraph 2 of the Italian Civil Code. The Board of Statutory Auditors must also report to the Shareholders' Meeting on the results of the financial year and make observations and proposals related to the financial statements and their approval.

The Board was appointed by the Shareholders' Meeting on 18 May 2016, for the years 2016-2018. Following the entry into force of the new text of the Articles of Association of Cassa Centrale Banca, as of 1 January 2019, the Chairman of the Board of Statutory Auditors, Mr Antonio Maffei, left office due to his failure to meet one of the independence requirements set forth in art. 38.6, letter c, of the Articles of Association.

Pursuant to art. 2401 of the Italian Civil Code, Mr Antonio Maffei was automatically replaced by Ms Manuela Conci as Standing Auditor, since she was the eldest Alternate Auditor. As regards the role of Chairman of the Board of Statutory Auditors, as of 1 January 2019, also in application of the provisions referred to just above, the eldest Standing Auditor in office, Mr Vincenzo Miceli, took over this role.

With a view to providing stability to the Control Body, on 14 January 2019 the Shareholders' Meeting of Cassa Centrale Banca, confirmed the Board of Statutory Auditors in the composition referred to above, with the appointment of a new Alternate Auditor, Mr Claudio Maugeri.

The Board of Statutory Auditors of Cassa Centrale Banca thus appointed, which will remain in office until the date of the Shareholders' Meeting called for the approval of the financial statements as at 31 December 2018, therefore consists of the following:

1. Mr Vincenzo Miceli, Chairman of the Board of Statutory Auditors;
2. Ms Manuela Conci, Standing Auditor;
3. Mr Marco Dell’Eva, Standing Auditor;
4. Mr Claudio Maugeri, Alternate Auditor.

During the year, the Board of Statutory Auditors carried out its institutional duties in compliance with legislative provisions (Italian Civil Code, Italian Legislative Decree 385/1993 ‘Consolidated Banking Act’ - TUB; Italian Legislative Decree 39/2010 ‘Regulations on the Audit of the accounts’; Italian Legislative Decree 58/1998 ‘Consolidated Law on Finance’ (TUF) and the respective updates and amendments, the articles of association, the provisions set forth by the Public Authorities that exercise domestic (including the Bank of Italy and Consob) and European (European Central Bank (ECB)) supervisory and control activity and in compliance with the Principles of Conduct recommended by the National Board of Chartered Accountants.

During the year, the Board of Statutory Auditors obtained the information it needed to carry out the supervisory duties attributed to it through the detailed system of information flows established within the Group as well as through participation in the meetings of the Board of Directors and the Executive Committee.

The Board also held meetings with the manager responsible for drafting the company’s accounting documents, with the independent auditors and with the company’s internal departments: the Internal Audit Department, the Risk Department, the Anti-Money Laundering Department and the Compliance Department.

The draft financial statements as at 31 December 2018, which the Shareholders' Meeting has been called to approve, include the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement and the Explanatory Notes, and are accompanied by the Report of the Board of Directors on operations and the situation of the Bank.

The draft financial statements, along with the Report of the Board, were approved by the Board of Directors on 27 March 2019 and were drafted in compliance with the international accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission, as established by Community Regulation no. 1606 of 19 July 2002 currently in force, including the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). The draft financial statements were also drafted in compliance with regulations in force, particularly with regard to the provisions set forth in Bank of Italy Circular no. 262 of 22 December 2005 as updated. Reference was also made to the documents prepared by the Italian Accounting Body (OIC) and the Italian Banking Association (ABI).

The Board believes that, in drafting the financial statements, the Board of Directors respected regulatory provisions as regards the form and content of the financial statements, as well as the Report of the Board of Directors and the Explanatory Notes.

The Board of Statutory Auditors acknowledges the compliance of the Financial Statements with the events and information of which it is aware following its participation in the meetings of the corporate bodies in exercising its supervisory duties and inspection and control powers.

For the formulation of this report, the Board followed the regulations already noted as well as the provisions set forth in Consob communication no. DEM/1025564 of 6 April 2001 and subsequent additions and communications. As regards the notion of 'related party' and 'transactions with related parties', as well as the methods for managing such transactions, the Board followed legal regulations.

As regards the capital requirements based on the Bank's risk profile, pursuant to the measure on capital of 08/05/2017, we note that they consist of binding capital requirements (based on the sum of minimum requirements pursuant to art. 92 of the CRR and additional binding requirements determined in light of the SREP) and the capital conservation buffer requirement applicable in light of transitional provisions in force to the extent of 1.875% (2.5% according to the ordinary criteria, in 2019), as a whole understood as the overall capital requirement ratio - OCR, as indicated below:

- 7% with reference to the CET 1 ratio (consisting of a binding percentage of 1.25% and for the remainder of the capital conservation buffer component);
- 8.95% with reference to the Tier 1 ratio (consisting of a binding percentage of 7.7% and for the remainder of the capital conservation buffer component);
- 10.3% with reference to the Total Capital Ratio (consisting of a binding percentage of 8% and for the remainder of the capital conservation buffer component).

The capital conservation buffer is entirely covered by CET 1. As regards the capital conservation buffer, note that, pursuant to the transitional rules applicable as of 1 January 2019, the Bank will be required to retain 2.5% of overall risk assets (with an increase of 0.625% compared to the 2018 coefficient).

Information on the major economic, financial and asset operations carried out by the Bank and events subsequent to year end

On the basis of the information made available, in the course of meetings held with the Board of Directors, the Executive Committee and the General Manager, as well as based on analyses conducted during the year 2018, the Board of Statutory Auditors can reasonably state that the major economic, financial and asset operations carried out by the Bank, including through subsidiaries, were characterised by respect for the principles of proper administration, compliant with the law and the Articles of Association, not overtly imprudent, hazardous or in conflict with the resolutions passed by the Shareholders' Meeting or such so as to compromise the integrity of the corporate assets and supported, when required, by structured processes for the analysis and assessment of fair value, also with the assistance of third party experts.
With respect to the significant events after 31 December 2018, the Bank announced the accounting decisions relating to government securities already classified in the HTC&S business model as at 31 December 2018, detailing the residual life of the securities reclassified to the HTC portfolio and the percentage weight of Italian government securities in the HTC portfolio in relation to total Italian government securities.
As a result of the foregoing, on 12 December 2018, the Board of Directors of the Bank approved the decision to change the business model.
From the accounting perspective, the effects of the business model amendment will have impacts as of 1 January 2019 and will entail a reclassification of Italian government securities from the accounting category 'Financial assets measured at fair value through other comprehensive income' to the accounting category 'Financial assets measured at amortised cost' and an expected improvement in the consolidated CET 1 ratio following the elimination of the negative OCI reserves associated with the reclassified securities.

Equity investments: changes during the year

During the year, the Bank acquired/increased control of the following companies:

- Servizi Bancari Associati S.p.A. (S.B.A.)
  Transaction carried out on 01.07.2018: agreement for the acquisition of 19% in addition to the 49% equity investment already held by Cassa Centrale Banca. This transaction resulted in the Bank obtaining control of the company, with a total stake of 68%.
- Claris Leasing S.p.A.
  Transaction also carried out on 01.07.2018: acquisition of 100% of the company.
- Nord Est Asset Management S.A.
  On 01.10.2018 Cassa Centrale Banca and the shareholders of Nord Est Asset Management S.A. reached an agreement for the sale of a further stake of 50% of that company, in which Cassa Centrale Banca already held a share of 50%. Therefore, following that transaction, Cassa Centrale Banca obtained control over NEAM.
- Cesve S.p.A. Consortile
  On 31.12.2018 Cassa Centrale Banca, following two consecutive acquisitions, obtained control over Cesve with a stake of 50.16%.

The relative information is provided in the Directors' Report on Operations ("Report on Operations") and in the Directors' Report on Group Operations ("Report on Group Operations"), which should be referred to for the details.

Information on the existence and assessment of the adequacy of disclosures provided by the directors regarding atypical and/or unusual transactions, including intragroup or with related parties

The Report on Operations and the Report on Group Operations, as well as the information acquired by the Board, did not bring to light the existence of atypical and/or unusual transactions carried out with third parties, with banking group Banks or Companies or with related parties.

In this regard, please make reference to the disclosure provided by the Directors to the Shareholders' Meeting with the report pursuant to art. 135-ter of the TUF, on the disclosure on internal controls with respect to risk assets and conflicts of interest with respect to associated parties, in implementation of the requirements laid out in Bank of Italy Circular no. 263 of 27 December 2006, as regards the changes made.

This being stated, please note that information about associated parties and related parties is provided in the Report on Group Operations and in the Report on Operations as well as in Section H of the Explanatory Notes.

The Board of Statutory Auditors also acknowledges that the transactions pursuant to art. 136 of the TUB were approved unanimously by the Board of Directors and with the favourable opinion of the Board of Statutory Auditors itself, in compliance with special regulatory requirements.

Observations and proposals on findings and emphasis of matter sections contained in the independent auditors' report

Pursuant to the joint provisions of Italian Legislative Decree no. 39 of 27 January 2010, the Shareholders' Meeting engaged KPMG S.p.A. to audit the accounts and the separate and consolidated financial statements for the 2010-2018 nine-year period on 22 May 2010.

The independent auditors issued the 'audit report' pursuant to art. 14 of Italian Legislative Decree 39/2010 and art. 10 of Regulation (EU) no. 537/2014 on 15 April 2019, the content of which was revised in detail - in terms of the form, certifications and disclosure provided - following the amendments made to the legal audit reform, incorporated into our legal system through Italian Legislative Decree 135/2016, which amended Italian Legislative Decree 39/2010.

In this audit report, which contains no emphasis of matter section, the independent auditors:

- provided their opinion that the separate financial statements provide a true and fair view of the Bank's financial position as at 31 December 2018, the profit and loss and cash flows for the year ending at that date in compliance with the International Reporting Standards adopted by the European Union, as well as the measures issued in implementation of art. 9 of Italian Legislative Decree 38/2005 and art. 43 of Italian Legislative Decree 136/2015;
- certified that the Report on Operations accompanying the separate financial statements and some specific information contained in the Report on Corporate Governance and ownership structures specified in art. 123-bis, paragraph 4 of the TUF is consistent with the draft financial statements and drafted in compliance with the law;
- with reference to the Report on Operations, they declared, as regards any significant errors in the Report on Operations, on the basis of their knowledge and understanding of the company and the relative context acquired in the course of the audit, that they had nothing to report.

The audit report contains no emphasis of matter sections or findings. In accordance with the new applicable regulatory provisions, the audit report indicates the auditing principles applied and the 'key aspects' that emerged in the course of the audit, referring to the following aspects in the:
Separate financial statements:

- transition to IFRS 9;
- classification and measurement of loans to customers;

Consolidated Financial Statements:

- transition to IFRS 9;
- classification and measurement of loans to customers;
- measurement of intangible assets with an indefinite useful life;
- accounting recognition of business combinations and measurement of the purchase price allocation.

On the same date, the independent auditors also issued an audit report regarding the consolidated financial statements, also with no findings or emphasis of matter sections, containing certifications and declarations similar to those noted above at consolidated level as well, and the same key aspects as those listed above.
The independent auditors also submitted to the Board of Statutory Auditors the additional report required by art. 11 of Regulation (EU) no. 537/2014, which did not bring to light any significant gaps in the internal control system with respect to the financial reporting process, worth being brought to the attention of those responsible for governance activities; this report also certifies that in the course of the audit activities, no cases of non-compliance, actual or presumed, with laws or regulations or the articles of association were identified.
The independent auditors also submitted to the Board of Statutory Auditors the statement relating to their independence, as required by art. 6 of Regulation (EU) no. 537/2014, which did not identify any situations that could compromise their independence.
The Board moreover acknowledged the Report on transparency prepared by the independent auditors and published on their website pursuant to art. 18 of Italian Legislative Decree 39/2010.
The Bank, in compliance with the provisions of Italian Legislative Decree 254/2016, implementing Directive 2014/95/EU, also prepared the consolidated non-financial statement for the year 2018. This statement was approved by the Board of Directors on 27 March 2019 and was included in a separate report pursuant to art. 5 of the Decree mentioned above. On 15 April 2019, the independent auditors issued the required report on their limited review of the consolidated non-financial statement, containing no observations worth noting. The Board of Statutory Auditors supervised the process of preparing the statement, in line with regulations in force.

Information on any claims pursuant to art. 2408 of the Italian Civil Code and initiatives undertaken

During the year, the Board of Statutory Auditors did not receive any reports or other forms of claim from Bank shareholders.
In 2018, the Supervisory Body did not receive reports or information about violations of the organisational model pursuant to Italian Legislative Decree 231/2001.

Information about any additional supplementary engagements of the independent auditors and the relative costs

In compliance with regulatory specifications, please note that the remuneration recognised by the Bank to KPMG for the audit for the year 2018 amounted to EUR 233 thousand for the audit of the Bank's financial statements and the consolidated financial statements, as broken down below:

- EUR 211 thousand for the audit of the Bank's financial statements and the consolidated financial statements as at 31 December 2018;
- EUR 22 thousand for activities carried out for the issue of the compliance opinion on the consolidated non-financial statement (Sustainability Report pursuant to Italian Legislative Decree 254/2016).

The independent auditors KPMG were also recognised the following additional remuneration for additional engagements accessory and/or connected to the audit:

- EUR 5 thousand for the assessment of the Parent Company's minimum capital level;
- EUR 20 thousand for the balance of the limited audit of the separate and consolidated financial statements as at 31 December 2017;
- EUR 55 thousand for the limited audit of the separate and consolidated financial statements as at 30 June 2018;
- EUR 19 thousand for the report of compliance with the GIPS;
- EUR 25 thousand for the report on TLTRO II refinancing transactions;
- EUR 2 thousand for the certification of receivables from and payables to the Autonomous Province of Trento;
- EUR 30 thousand for accounting support for the new consolidated financial statements;
- EUR 6 thousand for the signing of tax returns.

Information about any additional engagements to parties linked to the independent auditors and the relative costs

In the course of 2018, the Company paid further remuneration to KPMG for the audit of:

- NEAM S.A.: EUR 12 thousand;
- Phoenix: EUR 19 thousand;
- Claris Leasing S.p.A.: EUR 25 thousand.

Having obtained the report on the independence of the independent auditors pursuant to art. 6 of Regulation (EU) no. 2014/537, the Board of Statutory Auditors does not believe that there are any critical aspects concerning its independence or grounds for incompatibility.

Information on the existence of opinions issued by the Board of Statutory Auditors pursuant to the law in 2018

In 2018 and to date, the Board of Statutory Auditors has issued its opinion - when compulsory - in compliance with the law, the articles of association and supervisory regulations.

Its opinions and observations provided in compliance with provisions or supervisory requirements included:

- opinion on the remuneration of Directors with particular duties pursuant to art. 2389 of the Italian Civil Code;
- assessments relating to the ICAAP and ILAAP and the relative 2017 Reports (in compliance with Bank of Italy Circulars no. 285/2013 and no. 263/2006);
- observations relating to outsourced operating functions (Bank of Italy Circular no. 263/2006);

- opinions, pursuant to Bank of Italy Circular no. 285/2013, on the amendments to the 'Guidelines on the Internal Control System' and the 'Group Risk Department Regulation';
- observations on the planning of the activities of the company control functions and on the reporting of the same functions pursuant to Bank of Italy Circular no. 285/2013 and Bank of Italy Measure of 11.03.2011.

Information on meetings in which the Board of Statutory Auditors participated in 2018

In the course of 2018, the Board of Statutory Auditors held 8 meetings and in many cases held meetings on the same day with multiple bodies and/or corporate functions; the minutes report the control and supervisory activities performed. During the year under way and until the date of this report, the Board of Statutory Auditors held 20 meetings.

The Board participated in the meetings of the Board of Directors: in 2018 14 meetings were held (7 in 2019) and it also participated in the meetings of the Executive Committee; in 2018, 8 meetings were held (3 in 2019). In 2018, the Risk Committee held 11 meetings, in which the Chairman of the Board of Statutory Auditors or another standing auditor participated (6 in 2019).

Starting from 2019, after the establishment of the board committees for compliance with the Corporate Governance Code, the Board is also participating in the meetings of such Committees (Remuneration, Independent Directors, Appointments), represented by its Chairman and/or by another statutory auditor he appoints (11 meetings until the date of this report).

Observations on compliance with the principles of proper administration

The Board of Statutory Auditors supervised observance of the law, the rules of the Articles of Association and the provisions issued by public supervisory and control authorities; it obtained knowledge of and supervised, insofar as it is responsible, compliance with the principles of proper administration and adequacy of the organisational and accounting structures, as well as the functioning of the overall internal control system.

It also did this through constant participation in the meetings of the Board of Directors and the Executive Committee, as required by regulations in force, and through meetings with the Chairman of the Board of Directors, the General Manager and the company functions.

The activities of the corporate bodies and functions, as confirmed by the Board of Statutory Auditors, were characterised by compliance with the principles of proper administration and protection of the Bank's assets. Within the scope of the meetings in which it participated and the verifications performed, the Board of Statutory Auditors did not become aware of transactions that were imprudent, hazardous or in potential conflict of interests, or transactions in conflict with the resolutions of the Shareholders' Meeting or that could compromise the integrity of the company's assets. In addition, no transactions were identified that lacked the necessary information in any cases in which Directors had an interest.

The Board also verified, as already noted, that the major transactions were supported by adequate and detailed analysis and assessments on all relevant aspects, making use when appropriate of the evaluations of third party experts.

In the view of this Board of Statutory Auditors, the Bank is managed in compliance with the law and the Articles of Association, and the breakdown of powers and delegations appears to be adequate. The administrative activity did not give rise to any particular or significant findings and/or observations on our part, or on the part of any other corporate body responsible for specific control functions.

As regards the decision-making processes of the Board of Directors and the Executive Committee, the Board of Statutory Auditors supervised, including through direct participation in board meetings, their compliance with the law and the Articles of Association and verified that the resolutions of the Board of Directors and the Executive Committee were supported by adequate information, analysis and verification processes.
The General Manager, the Deputy General Managers and the Secretary of the Board of Directors regularly participated, ex officio or on invitation, in board meetings to illustrate and analyse the measures being discussed. Other Managers also participated depending on the specific topics on the agenda. Making use of this presence, the Board of Statutory Auditors was also able to examine, when appropriate, the transactions proposed and their economic and financial effects during board or committee meetings.

Observations on the adequacy of the organisational structure

Within the organisational system, the Board carefully monitored the evolution and the qualitative/quantitative characteristics of the internal control functions concerned by a process of significant evolution, due to the constant evolution of banking regulations and the increasing requirements set forth by the Internal Control Bodies, within a context of organisational transition. Also the need to reach the targets imposed by regulations for registration as the Parent Company of a Banking Group required temporary recourse to external advisors.
The Board participated in the process of reviewing the organisational system, making use of the support of the Internal Control Functions.
This Board of Statutory Auditors has no particularly relevant critical issues and/or significant findings to report with respect to the Bank's organisational structure. No particular gaps or situations to be reported herein were identified with respect to the effective functioning of the Bodies, the Corporate functions, systems and procedures. We acknowledged the constant consolidation and refinement of the company procedures and regulations necessary to adjust and align models, procedures and as a result the structure and organisation with new requirements and instructions from the Supervisory Authorities.

Observations on the internal control system, on the activities of those responsible for internal control and indication of any corrective actions taken and/or still to be taken

In accordance with the Regulatory Provisions for Banks on the matter of 'corporate governance, internal audits, risk management' the Board's Risks Committee (C.R.C.) of the Parent Company was created. This committee consists of 3 non executive directors, selected among the Directors of the Parent Company, with the majority of them being independent directors, with such knowledge, skills and experience as to fully understand and monitor the Group's strategies and guidelines to the various risk profiles. The task of the C.R.C. is to assist the Board of Directors, by gathering facts, advising, and formulating proposals, in performing its duties as the strategic supervision body, as they are defined in regulations in force on the matter of risks and internal audit system, including the determination of the RAF and of the risk governance policies, as well as in the approval of the separate and consolidated financial statements.
In 2018, Cassa Centrale Banca, as part of the project for the establishment of the Cooperating Banking Group, which officially launched on 1 January 2019, outsourced the activities for the majority of the Cooperative Credit Banks belonging to the Group of the Internal Audit and Compliance Departments; the Risk Management and Anti-Money Laundering Departments were instead outsourced as of 1 January 2019, in compliance with the

provisions of the rules introducing the Cooperative Credit reform. With the launch of the Group, the members of the corporate bodies were re-elected as were the various board committees; in addition, a new regulation governing Group activities will also be introduced.

Observations on the adequacy of the administrative/accounting system and on its reliability to properly represent operations

The Board of Statutory Auditors supervised the adequacy of the administrative/accounting system and its reliability to properly represent operations, by obtaining information from the managers of the competent company functions, examining the most significant company documents and analysing the results of the work performed by the independent auditors KPMG.

Adaptation to IFRS 9

IFRS 9 entered into force on 1 January 2018, replacing IAS 39 which, until 31 December 2017, had governed the classification and measurement of financial instruments.

The main accounting effects of the first-time adoption of IFRS 9 are attributable to:

- the new classification and measurement of financial assets, which had a positive impact on equity as at 1 January 2018 of EUR 14.7 million, gross of taxes;
- the effects connected to the new impairment model, which had a negative impact on equity as at 1 January 2018 of EUR 8.3 million, gross of taxes;
- the effect of taxes calculated on the first-time application of IFRS 9 determined the recognition of deferred tax assets of EUR 5.1 million and a current tax payable of EUR 1.7 million. The above-mentioned taxes were recognised as a reduction of the first-time application reserves.

Information on intragroup and/or transactions with related parties

- *Information on compensation of executives with strategic responsibilities*

In compliance with regulatory provisions pertaining to policies and practices relating to compensation and incentives within banks, the Board of Directors provided the disclosure required by law.

- *Information on intragroup and/or transactions with related parties*

The Board of Directors has provided the required legal disclosures on such transactions, in the Explanatory Notes as well as in the Report on Operations. Intragroup and transactions with related parties consist primarily of current account, deposit account and lending transactions, as well as services rendered or received. The Board observes that such transactions are aligned with market transactions and the Company's interests.

Observations on any significant aspects arising in the course of meetings held with the auditors

We met periodically with the independent auditors for a reciprocal and fruitful exchange of information.

During these meetings, the independent auditors provided the details requested from time to time and did not mention objectionable events or facts to the Board of Statutory Auditors, or irregularities that would require the formulation of the reporting required by law.

Consolidated non-financial statement (NFS)

In implementation of Directive 2014/95/EU, Italian Legislative Decree 254/2016 introduced into our legal system the obligation for specific entities to draft a non-financial statement for each financial year so as to '*ensure the understanding of business activities, trends, results and their impact*' with respect to environmental, social and personnel matters, as well as respect for human rights and the fight against corruption.

Thus, in essence, starting from the financial statements relating to the years beginning in 2017, large listed companies, banks and insurance companies (with at least 500 employees and which meet specific size-related requirements) must draft a statement to accompany traditional financial reporting on non-financial matters, such as environmental, social and personnel aspects, as well as respect for human rights and the fight against corruption.

In compliance with the provisions of Italian Legislative Decree 254/2016, the Company has prepared the consolidated non-financial statement (also referred to as the 'NFS'). Indeed, Cassa Centrale Banca has decided to undertake economic, social and environmental sustainability initiatives consistent with its organisational characteristics. To the extent necessary to ensure an understanding of business activities, trends, results and impacts with respect to the main topics of sustainability, Cassa Centrale Banca's commitment in terms of sustainability has taken shape through the preparation of the NFS, in order to meet the obligations laid out in articles 3 and 4 of Italian Legislative Decree 254/2016. The NFS reports the main policies applied by the company, the management models and the main activities carried out by the Bank with respect to the topics expressly referred to in Italian Legislative Decree 254/2016 (environmental, social, personnel, respect for human rights, fight against corruption), as well as the main risks identified connected with those topics.

The NFS was drafted in compliance with the Sustainability Reporting Guidelines (version 4) published in May 2013 by the Global Reporting Initiative (GRI), "Core" option.

The NFS was submitted to the Risks Committee for examination and evaluation and subsequently approved by the Cassa Centrale Banca Board of Directors.

The NFS was also submitted to the independent auditors for their compliance opinion, which they provided in a dedicated report containing a certification of the compliance of the information provided pursuant to art. 3, paragraph 10 of Italian Legislative Decree 254/16. The review was performed according to the procedures laid out in the 'Independent Auditors' Report'.

Concluding assessments regarding the supervision performed by the Board of Statutory Auditors as well as any omissions, objectionable events or irregularities discovered

The Board of Statutory Auditors performed, in compliance with the law and the duties imposed by supervisory provisions, the duties assigned to it, also in line with the provisions issued by the Bank of Italy, the ECB and Consob, as well as the rules of conduct of the Board of Statutory Auditors applicable to the case in question, recommended by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Board of Chartered Accountants).

In conclusion, during our supervisory activity, no objectionable events requiring reporting were identified.

As can be seen in the data reported in the Report on Operations and in the Explanatory Notes, the Bank's capital ratios as at 31 December 2018 are all considerably higher than the required minimums.

Consolidated Financial Statements as at 31 December 2018

We also examined the draft consolidated financial statements as at 31 December 2018, which are presented to you by the Directors.

They were prepared in compliance with the law and the Report on Operations supplements the description of the performance of the bank and its subsidiaries, as well as the Group structure, as set forth in arts. 25 et seq. of Italian Legislative Decree 127/91 as amended.

The main subsidiaries consolidated line-by-line are:

- Centrale Credit & Real Estate Solutions;
- Assicura Group S.r.l.;
- Informatica Bancaria Finanziaria S.p.A.;
- Claris Leasing S.p.A.;
- Nord Est Asset Management S.A.;
- Phoenix S.p.A.;
- Servizi Bancari Associati S.p.A.;
- CESVE S.p.A. consortile.

The Bank's management body is responsible for drafting the consolidated financial statements, as set forth in arts. 25 et seq. of Italian Legislative Decree as amended, and the independent auditors are responsible for expressing their professional opinion on them based on their audit. This opinion was issued by KPMG on 15 April 2019 and contains no findings or emphasis of matter sections.

Proposals to be submitted to the shareholders' meeting pursuant to art. 153, par. 2 of Italian Legislative Decree 58/1998 -

The Board of Statutory Auditors has no proposals to make with respect to the Financial Statements submitted for the approval of the Shareholders' Meeting pursuant to art. 153, paragraph 2 of the TUF.

Conclusions

Considering the result for the year of EUR 31,016,819, the Company's equity of EUR 1,056,022 thousand (of which Reserves EUR 103,990 thousand), the capital strength indicators (CET 1 and Total Capital Ratio) and having examined the content of the Reports prepared by the independent auditors, the Board of Statutory Auditors does not raise, insofar as it is responsible, any objections with respect to the approval of the Financial Statements as at 31 December 2018 and the allocation of the profit for the year as proposed by the Directors.

Dear shareholders, with the approval of the financial statements, the term of office of this Board of Statutory Auditors has come to an end. Therefore, we invite you to appoint a new control body for the years 2019-2021 and decide on the relative remuneration.

On conclusion of our term of office, we would like to thank all of the members of the Board of Directors, the management and all of the Bank's personnel for their assistance in performing the functions and duties assigned to us.

Vincenzo Miceli	Chairman
Manuela Conci	Standing auditor
Marco Dell'Eva	Standing auditor

INDEPENDENT AUDITORS' REPORT

(Translation from the Italian original which remains the definitive version)

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

To the shareholders of
Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Transition to IFRS 9

Notes to the separate financial statements "Part A - Accounting policies": "A.1 – General part", Section 4 – Other matters: "Transition to IFRS 9"

Key audit matter	Audit procedures addressing the key audit matter
The new IFRS 9 "Financial instruments", whose application became mandatory in 2018, modified the classification, measurement, impairment and hedge accounting rules for financial instruments compared to those provided for by IAS 39, which was applicable up to 31 December 2017. As a first-time adopter of the new standard, the bank restated its opening balances at 1 January 2018. Specifically, the directors: — reclassified its financial assets into the new captions "Financial assets at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost" and its financial liabilities to the new caption "Financial liabilities at amortised cost"; — restated its financial assets and liabilities in accordance with the measurement requirements of IFRS 9; — retested its financial assets for impairment, in particular loans and receivables with customers, using the rules of the new standard; — recognised the post-tax FTA effects under equity reserves; — disclosed the main changes introduced by the new standard, the transition process the bank followed, its key elections and the effects of FTA of IFRS 9. The application of the new standard led to an increase of €6.4 million in equity at 1 January 2018, net of the related tax.	Our audit procedures included: — gaining an understanding of the bank's IFRS 9 transition processes and related IT environment in relation to the classification, measurement and impairment of financial instruments; — checking, on a sample basis, that financial assets and liabilities had been correctly classified, by considering the bank's transition procedures, obtaining evidence of the analyses carried out and assessing the consistency of the analyses carried out with the results obtained; — sample-based analysis of the application of the measurement model (amortised cost or fair value) to financial assets and liabilities according to the classification adopted by the bank; — assessing the consistency of the bank's staging rules for financial assets with the requirements of the new standard and checking, on a sample basis, that such rules had been applied correctly; — analysing the impairment assessment methods and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network; — assessing the appropriateness of the disclosures on transition to the new standard in the separate financial statements.

Key audit matter	Audit procedures addressing the key audit matter
It also required significant changes to the bank's processes, organisation and measurement of financial assets, which accounted for 83.9% of the bank's total assets at 1 January 2018. The IFRS 9 transition process required extremely complex estimates and factors of a subjective and uncertain nature. For the above reasons, we believe that the transition to IFRS 9 "Financial instruments" is a key audit matter.	

Classification and measurement of loans and receivables with customers recognised under financial assets measured at amortised cost

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

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

Notes to the separate financial statements "Part C - Information on the income statement": Section 8 "Net impairment losses/gains for credit risk"

Notes to the separate financial statements "Part E - Information on risks and related hedging policies": Section 1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Lending to customers is one of the bank's core activities. Loans and receivables with customers recognised under financial assets at amortised cost totalled €2,250.9 million at 31 December 2018, accounting for 32.9% of total assets. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of	Our audit procedures included: — gaining an understanding of the bank's processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main

Key audit matter	Audit procedures addressing the key audit matter
impairment, the borrower's estimated repayment ability, an assessment of any guarantees, the impact of macroeconomic variables, future scenarios and risks of the sectors in which the bank's customers operate. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — analysing the significant changes in the financial asset categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets measured at amortised cost.

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

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

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

On 22 May 2010, the bank's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2010 to 31 December 2018.

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

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

Report on other legal and regulatory requirements

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

The bank's directors are responsible for the preparation of a directors' report at 31 December 2018 and for the consistency of such report with the related separate financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the bank's separate financial statements at 31 December 2018 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the bank's separate financial statements at 31 December 2018 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Verona, 15 April 2019

KPMG S.p.A.

(signed on the original)

Massimo Rossignoli
Director of Audit

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

The amounts in the tables of the financial statements are expressed in Euros.

STATEMENT OF FINANCIAL POSITION

	Assets	31.12.2018	31.12.2017
10.	Cash and cash equivalents	123,872,910	697,144,994
20.	Financial assets measured at fair value through profit or loss	88,899,776	
	a) financial assets held for trading;	15,669,896	
	b) financial assets measured at fair value;	3,098,010	
	c) other financial assets obligatorily measured at fair value	70,131,871	
30.	Financial assets measured at fair value through other comprehensive income	1,808,714,554	
40.	Financial assets measured at amortised cost	4,343,214,899	
	a) loans to banks	2,092,332,543	
	b) loans to customers	2,250,882,357	
	Financial assets held for trading (formerly Item 20)		14,389,036
	Financial assets measured at fair value (formerly Item 30)		3,138,511
	Financial assets available for sale (formerly Item 40)		2,337,109,238
	Held to maturity investments (formerly Item 50)		609,044,296
	Loans to banks (formerly Item 60)		1,716,710,880
	Loans to customers (formerly Item 70)		494,019,557
70.	Equity investments	207,585,879	161,340,499
80.	Tangible assets	13,887,950	13,230,934
90.	Intangible assets	1,055,095	656,360
	of which: - goodwill	-	-
100.	Tax assets	37,656,524	30,513,064
	a) current	195,186	3,994,482
	b) deferred	37,461,338	26,518,582
120.	Other assets	224,740,963	87,726,058
	TOTAL ASSETS	6,849,628,552	6,165,023,427

	Liabilities and Equity	31.12.2018	31.12.2017
10.	Financial liabilities measured at amortised cost	5,322,801,704	
	a) due to banks	2,588,729,806	3,443,811,226
	b) due to customers	2,723,984,402	1,286,207,493
	c) debt securities in issue	10,087,496	
	Debt securities in issue (formerly Item 30)		10,087,735
20.	Financial liabilities held for trading	11,596,743	11,340,931
30.	Financial liabilities measured at fair value	9,449,025	
	Financial liabilities measured at fair value (formerly Item 50)		9,790,472
60.	Tax liabilities	6,778,049	948,945
	a) current	6,296,978	-
	b) deferred	481,071	948,945
80.	Other liabilities	388,535,345	
	Other liabilities (formerly Item 100)		313,694,570
90.	Provision for severance indemnity	2,384,320	2,410,472
100.	*Provisions for risks and charges:*	21,044,548	
	a) commitments and guarantees issued	7,813,214	
	Provisions for risks and charges (formerly Item 120)		13,046,892
	c) other provisions for risks and charges	13,231,334	13,046,892
110.	Valuation reserves	-16,363,108	-5,694,757
140.	Reserves	101,324,265	94,887,641
150.	Share premium	19,029,034	19,029,034
160.	Share capital	952,031,808	952,031,808
180.	Profit (loss) for the year (+/-)	31,016,819	13,430,965
	TOTAL LIABILITIES AND EQUITY	6,849,628,552	6,165,023,427

INCOME STATEMENT

	Items	31.12.2018	31.12.2017
10.	Interest income and similar revenues	34,534,968	
	of which interest income calculated with the effective interest method	34,273,765	
	Interest income and similar revenues (formerly Item 10)		*23,077,801*
20.	Interest expenses and similar charges paid	(13,724,900)	(12,872,774)
30.	Interest margin	20,810,068	10,205,027
40.	Commission income	127,936,538	100,871,107
50.	Commission expenses	(64,114,767)	(53,996,491)
60.	Net commissions	63,821,771	46,874,617
70.	Dividend and similar income	12,938,260	1,125,534
80.	Net result from trading	2,196,952	
100.	Profit (loss) from disposal/repurchase of:	14,919,653	
	a) financial assets measured at amortised cost	4,852,930	
	b) financial assets measured at fair value through other comprehensive income	10,066,723	
110.	Net result of other financial assets and liabilities measured at fair value through profit or loss	413,293	
	a) financial assets and liabilities measured at fair value	309,388	
	b) other financial assets obligatorily measured at fair value	103,905	
	Net result from trading (formerly Item 80)		*1,894,186*
	Profit (loss) from disposal/repurchase of: (formerly Item 100)		*13,008,236*
	a) loans		*3,055,401*
	b) financial assets available for sale		*9,952,834*
	Net result on financial assets and liabilities measured at fair value (formerly Item 110)		233,648
120.	Net interest and other banking income	115,099,997	73,341,247
130.	Net value adjustments/write-backs due to credit risk of:	(924,109)	
	a) financial assets measured at amortised cost	552,637	
	b) financial assets measured at fair value through other comprehensive income	(1,476,745)	
	Net value adjustments/write-backs due to impairment of: (formerly Item 130)		*4,977,822*
	a) loans		*5,177,467*
	b) financial assets available for sale		*(54,098)*
	d) other financial transactions		*(145,547)*
140.	Profits/losses from contractual changes without derecognitions	27,441	
150.	Net income from financial activities	114,203,330	78,319,069
160.	Administrative expenses:	(94,124,225)	(65,917,841)
	a) personnel costs	(28,682,766)	(18,421,178)
	b) other administrative expenses	(65,441,459)	(47,496,663)
170.	Net allocations to provisions for risks and charges	6,252,172	
	a) commitments and guarantees issued	7,141,931	
	Net allocations to provisions for risks and charges (formerly Item 160)		(336,139)
	b) other net allocations	(889,759)	
180.	Net value adjustments/write-backs to tangible assets	(1,405,800)	(1,330,300)
190.	Net value adjustments/write-backs to intangible assets	(466,158)	(304,205)
200.	Other operating charges/income	16,497,016	8,977,325
210.	Operating costs	(73,246,995)	(58,911,161)
250.	Profit (loss) from disposal of investments	25,083	(1,245)
260.	Profit (loss) before tax from current operating activities	40,981,418	19,406,663
270.	Income taxes for the year on current operating activities	(9,964,599)	(5,975,698)
280.	Profit (loss) after tax from current operating activities	31,016,819	13,430,965
300.	Profit (loss) for the year	31,016,819	13,430,965

STATEMENT OF COMPREHENSIVE INCOME

	Items	31.12.2018	31.12.2017
10.	Profit (loss) for the year	31,016,819	13,430,965
	Other post tax components of income without reversal to the income statement:		
20.	Equities measured at fair value through other comprehensive income	(2,333,304)	
30.	Financial liabilities measured at fair value through profit or loss (changes in credit rating)	-	
40.	Hedging of equities measured at fair value through other comprehensive income	-	
50.	Tangible assets	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	49,814	76
80.	Non-current assets and groups of assets held for disposal	-	-
90.	Quota of reserves from the valuation of shareholdings measured with the equity method	-	-
	Other post-tax components of income with reversal to the income statement:		
100.	Hedging of foreign investments	-	-
110.	Exchange rate differences	-	-
120.	Cash flow hedging	-	-
130.	Hedging instruments (non designated elements)	-	
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	(24,848,666)	
	Financial assets available for sale (formerly Item 100)		(5,316,460)
150.	Non-current assets and groups of assets held for disposal	-	-
160.	Quota of reserves from the valuation of shareholdings measured with the equity method	-	-
170.	Total other post-tax components of income	(27,132,157)	(5,316,384)
180.	Comprehensive income (Item 10+170)	3,884,662	8,114,581

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018

				Allocation of result from previous year		Changes during the year								
							Equity Transactions							
	Balances at 31.12.2017	Adjustment to opening balances	Balances at 1.1.2018	Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of own shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options	Comprehensive income at 31.12.2018	Equity at 31.12.2018
Share capital:														
a) ordinary shares	944,231,808	-	944,231,808	-	-		-	-	-	-	-	-	-	944,231,808
b) other shares	7,800,000	-	7,800,000	-	-	-	-	-	-	-	-	-	-	7,800,000
Share premium	19,029,034	-	19,029,034	-	-	-	-	-	-	-	-	-	-	19,029,034
Reserves:														
a) of profit	94,887,641	-6,727,540	88,160,101	13,171,548	-	-	-	-	-	-	-	-	-	101,331,649
b) other	-	-	-	-	-	-	-	-	-		-	-	-	-
Valuation reserves	-5,694,757	16,463,806	10,769,049	-	-	-7	-	-	-	-	-	-	-27,132,157	-16,363,108
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) for the year	13,430,965	-	13,430,965	-13,171,548	-259,417	-	-	-	-	-	-	-	31,016,819	31,016,819
Equity	1,073,684,691	9,736,266	1,083,420,957	-	-259,417	-7	-	-	-	-	-	-	3,884,662	1,087,038,818

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2017

				Allocation of result from previous year		Changes during the year								
							Transactions on Equity							
	Balances at 31.12.2016	Adjustment to opening balances	Balances at 1.1.2017	Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of own shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options	Comprehensive income at 31.12.2017	Equity at 31.12.2017
Share capital:														
a) ordinary shares	132,600,000	-	132,600,000	-	-	-	811,631,808	-	-	-	-	-	-	944,231,808
b) other shares	7,800,000	-	7,800,000	-	-	-	-	-	-	-	-	-	-	7,800,000
Share premium	4,350,000	-	4,350,000	-	-	-	14,679,034	-	-	-	-	-	-	19,029,034
Reserves:														
a) of profit	78,165,782	-	78,165,782	16,721,859	-	-	-	-	-	-	-	-	-	94,887,641
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	-378,373	-	-378,373	-	-	-	-	-	-	-	-	-	-5,316,384	-5,694,757
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) for the year	18,437,164	-	18,437,164	-16,721,859	-1,715,305	-	-	-	-	-	-	-	13,430,965	13,430,965
Equity	240,974,573	-	240,974,573	-	-1,715,305	-	826,310,842	-	-	-	-	-	8,114,581	1,073,684,691

CASH FLOW STATEMENT (INDIRECT METHOD)

	Amount	
	31.12.2018	31.12.2017
A. OPERATING ACTIVITIES		
1. Operations	(210,182)	34,832,654
- income for the period (+/-)	31,016,819	13,430,965
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through profit or loss (-/+)	(16,933,155)	
- gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value *(formerly IAS 39)* (-/+)		2,603,172
- gains/losses on hedging activities (-/+)	-	-
- net value adjustments/write-backs due to credit risk (+/-)	924,109	
- net value adjustments/write-backs for impairment *(formerly IAS 39)* (+/-)		(5,147,373)
- net value adjustments/write-backs to tangible and intangible assets (+/-)	(1,871,958)	1,634,505
- net allocations to provisions for risks and charges and other costs/revenues (+/-)	(6,252,172)	666,754
- taxes, duties and tax credits not settled (+/-)	5,660,849	20,776,485
- net value adjustments/write-backs from discontinued operations net of tax (+/-)	-	
- other adjustments (+/-)	(1,900,317)	868,146
2. Cash flows generated/used by the financial assets	(1,213,667,990)	(1,214,269,109)
- financial assets held for trading	(1,641,655)	
- financial assets measured at fair value	(193,228)	
- other financial assets obligatorily measured at fair value	3,136,113	
- financial assets measured at fair value through other comprehensive income	54,261,752	
- financial assets measured at amortised cost	(1,086,479,155)	
- financial assets held for trading *(formerly IAS 39)*		3,583,295
- financial assets measured at fair value *(formerly IAS 39)*		(180,100)
- financial assets available for sale *(formerly IAS 39)*		(166,296,610)
- loans to banks: on demand *(formerly IAS 39)*		(19,529,642)
- loans to banks: other receivables *(formerly IAS 39)*		(974,350,316)
- loans to customers *(formerly IAS 39)*		(24,214,334)
- other assets	(182,781,818)	(33,281,402)
3. Cash flows generated/used by the financial liabilities	662,452,060	1,288,880,295
- financial liabilities measured at amortised cost	582,695,250	
- due to banks: on demand *(formerly IAS 39)*		620,865,413
- due to banks: other payables *(formerly IAS 39)*		(200,623,288)
- due to customers *(formerly IAS 39)*		789,207,448
- Debt securities in issue *(formerly Item 39)*		(231)
- financial liabilities held for trading	255,812	(5,683,897)
- financial liabilities measured at fair value	(884,563)	
- financial liabilities measured at fair value *(formerly IAS 39)*		187,578
- other liabilities	80,385,562	
- other liabilities *(formerly IAS 39)*		84,927,272
Net cash flows generated/used by operations	(536,827,838)	109,443,840

B. INVESTMENT ACTIVITIES		
1. Cash flows generated by	13,036,805	1,868
- sales of equity investments	82,620	-
- dividends collected on equity investments	12,938,261	-
- sales/repayments of held to maturity investments *(formerly IAS 39)*		-
- sales of tangible assets	15,924	1,868
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash flows used by	(49,221,633)	(140,042,854)
- equity investment acquisitions	(46,278,000)	(8,188,000)
- purchases of held to maturity investments *(formerly IAS 39)*		(130,071,616)
- tangible asset acquisitions	(2,078,740)	(1,102,658)
- intangible asset acquisitions	(864,893)	(680,580)
- purchases of business units	-	-
Net cash flows generated/used by investment activities	(36,184,828)	(140,040,986)
C. FUNDING ACTIVITIES		
- issues/purchases of own shares		693,435,808
- issues/purchases of equity instruments		-
- dividend distribution and other	(259,417)	(1,715,305)
Net cash flows generated/used by funding activities	(259,417)	691,720,503
NET CASH FLOWS GENERATED/USED DURING THE YEAR	(573,272,084	661,123,357

KEY: (+) generated; (-) used

RECONCILIATION

Items	Amount	
	31.12.2018	31.12.2017
Cash and cash equivalents at the beginning of the year	697,144,994	36,021,637
Total net cash flows generated/used during the year	(573,272,084)	661,123,357
Cash and cash equivalents: impact of exchange differences	-	-
Cash and cash equivalents at year-end	123,872,910	697,144,994

EXPLANATORY NOTES

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

The amounts of these explanatory notes are expressed in thousands of Euros.

PART A
ACCOUNTING POLICIES

A.1 - GENERAL PART

SECTION 1

STATEMENT OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

Following the issuing of Legislative Decree 38/2005, the Bank must prepare the financial statements according to the international accounting standards IAS/IFRS issued by the International Accounting Standards Board (IASB), as transposed by the European Union. The Bank of Italy, whose aforementioned decree confirmed the powers already conferred by Legislative Decree 87/92, established new layouts for the financial statements and the explanatory notes in circular no. 262 of 22 December 2005, including the subsequent updates. The fifth update is currently in force, issued on 22 December 2017.

These financial statements were prepared in compliance with the international accounting standards issued by IASB and endorsed by the European Union according to the procedure per Article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and in force at the date of this document, including therein the IFRIC and SIC interpretation documents, limited to those applied for the drafting of the financial statements as at 31 December 2018.

In interpreting and applying the new international accounting standards, reference was also made to the Framework for the Preparation and Presentation of Financial Statements issued by IASB. In terms of interpretation, also considered were the documents on the application of IAS/IFRS in Italy, prepared by the Italian Accounting Body (OIC) and the Italian Banking Association (ABI).

In the absence of a standard or an interpretation specifically applicable to a particular transaction, the Bank uses the professional judgment of its departments in developing accounting recognition rules which make it possible to provide a reliable financial disclosure, necessary for guaranteeing that the financial statements give a true and fair view of the Bank's equity and financial position, reflecting the economic substance of the transaction as well as the relevant related aspects.

In formulating these accounting recognition rules, reference was made, as must as possible, to the provisions contained in the international accounting standards and the associated interpretations that address similar cases.

SECTION 2

GENERAL PREPARATION CRITERIA

The financial statements are drafted by applying the general principles set out in IAS 1, essentially revised in 2007 and endorsed by the European Commission in December 2008, and specific accounting standards approved by the European Commission, as well as in compliance with the general assumptions set forth in the Systematic Frameworkdevised by the IASB for the preparation and presentation of financial statements. No derogations to the application of IAS/IFRS were applied.

The financial statements consist of the Statement of financial position, the Income Statement, the Statement of Comprehensive Income, the Cash flow Statement and these Explanatory Notes, together with the Director's report on operations and the situation of the Bank.

In addition, IAS 1 'Presentation of financial statements', requires the representation of a 'Statement of Comprehensive Income' illustrating, among the other income components, also the changes in the value of the assets recorded in the period as a counter-entry to the Equity. In line with the information contained in the aforementioned Circular 262/2005, the Bank chose, as permitted by the accounting standard in question, to use two statements to provide the Statement of Comprehensive Income: a first statement highlighting the traditional components of the Income Statement and the relevant result for the year, and a second statement that, starting from the first, shows the other components of the Statement of Comprehensive Income.

In compliance with the provisions of art. 5 of Legislative Decree 38/2005, the Financial Statements are drafted using the Euro as the accounting currency.
In preparing the Financial Statements, the layouts and rules of preparation set forth in Bank of Italy Circular no. 262 of December 2005 were observed, according to the 5th update of 22 December 2017.
The accounts of the Statement of financial position and the Income Statement comprise items, sub-items and additional detailed information. In compliance with the provisions of the aforementioned Circular no. 262/2005, items without values are not reported, neither in the current year or the previous one.
In the Income Statement and the related section of the Explanatory Notes, revenues are recorded without sign, while the costs are indicated in brackets. In the Statement of Comprehensive Income the negative amounts are stated in brackets.
Furthermore, the complementary information deemed suitable to supplement the financial statements data was provided in the Explanatory Notes, also when not specifically required by the legislation.
The Statement of financial position and the Income Statement as well as the Statement of comprehensive income, the Statement of changes in equity and the Cash flow statement are expressed in euros, while the Explanatory Notes are expressed in thousands of euro unless specified otherwise. Any difference found between the amounts in the Explanatory Notes and the financial statements are attributable to rounding up.
The financial statements are drafted according to the going concern principle. In particular, the joint cooperation between the Bank of Italy, Consob and Isvap concerning the application of IAS/IFRS, with document 2 of 6 February 2009 'Information to be provided in the financial reports about going concern, financial risks, the checks on the impairment of the assets and the uncertainties as to the use of estimates', as well as subsequent document 4 of 4 March 2010, required Directors to perform especially accurate valuations as regards the going concern assumption.
On this point, paragraphs 25-26 of IAS 1 establish that: '*When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern*'.
The situation of the financial markets and the real economy and the still uncertain forecasts made with reference to the short/medium-term require particularly precise valuations to be performed as regards the going concern assumption, since the profit history of the company and its easy access to financial resources may not be sufficient in the current context. On this point, having examined the risks and uncertainties connected with the current macroeconomic context, it is reasonable to expect that the Bank will continue its operations in the foreseeable future. The financial statements as at 31 December 2018 were consequently prepared in the assumption of going concern.
Furthermore, estimation processes are based on past experience and other factors considered reasonable in this case, and were adopted to estimate the carrying amount of assets and liabilities that cannot be easily inferred from other sources. In particular, estimation processes were adopted that support the book value of some of the most important valuation items posted in the accounts, according to reference regulations. These processes

are mainly based on estimates of future recoverability of the values in the accounts and were carried out on a going concern basis. The main cases for which subjective evaluations are required to be made by the Board of Directors include:

- the quantification of losses due to the impairment of loan values and, in general, of other financial assets;
- the determination of the fair value of financial instruments to be used for financial statements disclosure purposes;
- the assessment of the accuracy of the value of goodwill and other intangible assets;
- the measurement of personnel funds and provisions for risks and charges;
- the estimates and assumptions regarding recoverability of deferred tax assets.

The information provided on the accounting policies applied for the main aggregate values of the financial statements includes the necessary details for identifying the main assumptions and subjective evaluations made in preparing the financial statements. For further details on the breakdown and relative book values of the specific statement captions affected by estimates, see the relevant sections of the Explanatory Notes. The processes adopted compare the book values on the date of preparing the Financial Statements. The measurement process turned out to be particularly complex in consideration of the persisting uncertainty of the macroeconomic and market context, characterised by the considerable volatility of the financial parameters determined for the measurement as well as indicators of impairment of the credit quality that remain high. These parameters and the information used to check the mentioned values are significantly affected by these factors, which may undergo rapid and unforeseeable changes.

The Financial Statements also make reference to the general preparation criteria listed below, where applicable:

- 'True and fair view';
- Accrual principle;
- Principle of consistent presentation and classification from one year to another (comparability);
- Principle of prohibited offsetting of entries, except where expressly permitted;
- Principle of prevalence of substance over form;
- Principle of prudence in exercising the necessary judgement to make the estimates required in conditions of uncertainty so that the assets or revenue are not overestimated and the liabilities or costs are not underestimated, without this implying the creation of hidden reserves or excessive allocations;
- Principle of neutral nature of information;
- Principle of pertinence/significance of information.

The accounting principles adopted for the preparation of the Financial Statements as at 31 December 2018, with reference to financial instruments (more specifically, the phases of classification, recognition, valuation, and derecognition of financial assets and liabilities), as for revenues (more specifically, the methods for the recognition of costs and revenues), were modified with respect to those adopted for the preparation of the Group Consolidated Financial Statements as at December 2017. These changes essentially derive from the mandatory application, effective from 1 January 2018, of the following international accounting standards:

- IFRS 9 'Financial instruments', issued by the IASB in July 2014 and endorsed by the European Commission by means of Regulation no. 2067/2016, which replaces IAS 39 regarding the regulation of the classification and valuation of financial instruments, as well as the associated impairment process;
- IFRS 15 'Revenues from contracts with customers', endorsed by the European Commission by means of Regulation no. 1905/2016, which replaces IAS 18 'Revenues' and IAS 11 'Construction Contracts'.

For more details on the implications of the introduction of the aforementioned accounting standards, please refer to the comprehensive information provided in section 4 'Other matters'. In addition, the specific description of the accounting policies regarding the individual items of the Financial Statements was provided in light of the new accounting standards in force from 1 January 2018.
With particular reference to the methods of presenting the effects of the first-time application of IFRS 9, the Bank decided to avail itself of the option provided by paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 'First-Time Adoption of International Financial Reporting Standards', according to which - without prejudice to the retrospective application of the new rules of measurement and presentation required by IFRS 9 - no provision is made for the mandatory re-statement on a homogeneous basis of the comparative data in the financial statements of first-time application of the new standard.
In consideration of the above, with reference to the layouts of the financial statements as at 31.12.2018 set forth in Bank of Italy circular no. 262 (5th update), these were appropriately modified with the insertion, for the aggregates impacted by IFRS 9 and applicable solely for 2017, of the items required by IAS 39 and stated in compliance with the 4th update of Bank of Italy circular no. 262.
With reference to the tables in the Explanatory Notes which require the comparative year, note the following:
- for the items impacted by IFRS 9, the data relating to 2017 are not re-stated in the respective tables and a note is provided in the margin of said tables which refers to the information in the financial statements published as at 31.12.2017;
- for the items not impacted by IFRS 9, by contrast, the tables relating to the previous year required by the 5th update of Bank of Italy circular no. 262 were compiled normally.

With reference to the tables of the Explanatory Notes which call for one balance, the IFRS 9 value was inserted as the opening balance at 1.1.2018, without stating any variation in the comparative year, by providing a note in the margin of said tables which refers to the information in the financial statements published as at 31.12.2017. For the tables relating to the items not impacted by IFRS 9, these are not modified and, therefore, the opening balance as at 1 January 2018 is equal to the closing balance as of 31 December 2017.

SECTION 3

SUBSEQUENT EVENTS

In the period between the date of the financial statements and the approval of the financial statements by the Board of Directors, no events occurred which result in an amendment of the figures approved, nor were they events of such relevance as to require additional disclosures.

SECTION 4

OTHER MATTERS

a) Newly applied accounting standards in 2018

During 2018, the following principles and interpretations entered into effect:
- IFRS 15: Revenue from Contracts with Customers (Reg. EU 1905/2016);
- IFRS 9: Financial Instruments (Reg. EU 2067/2016);
- Clarifications to IFRS 15: Revenue from Contracts with Customers (Reg. EU 1987/2017);
- Joint application of IFRS 9 Financial instruments and IFRS 4 Insurance Contracts - amendments to IFRS 4 (Reg. EU 1988/2017);
- Annual cycle of improvements to IFRS standards 2014-2016 which involve amendments to IAS 28 Investments in associates and joint ventures, to IFRS 1 First-time adoption of International Financial Reporting Standards and to IFRS 12 Disclosure of interests in other entities (Reg. 182/2018);
- Amendments to IAS 40: Change of use of investment property (Reg. 400/2018);
- Interpretation IFRIC 22: Foreign currency transactions and advance consideration (Reg. 519/2018);
- amendments to IFRS 2: aimed at clarifying how companies must apply the principles in certain specific cases (Reg. 289/2018).

Transition to IFRS 9

Effective from 1 January 2018, IFRS 9 ‘Financial instruments’ entered into force (hereinafter also the ‘Standard’) which replaces IAS 39 ‘Financial instruments: recognition and measurement’.
The standard was acknowledged into EU legislation through the publication in the Official Journal of the European Union no. 323 of 29 November 2016 of Regulation (EU) 2016/2067 of the European Commission.
The main changes introduced by IFRS 9, with respect to IAS 39, concern the three aspects reported hereunder:
- the classification and measurement of financial instruments: the accounting categories in which to classify financial assets were amended, requiring, in particular, debt instruments (debt securities and loans) to be classified based on the business model adopted by the entity and the characteristics of the cash flows generated by financial assets;
- the impairment model: an impairment model is introduced which, superseding the concept of ‘incurred loss’ of the previous standard (IAS 39), is based on a methodology of estimated expected loss, similar to the Basel regulations. IFRS 9 also introduces several changes in terms of the scope, staging of loans and, in general, some characteristics of the basic components of credit risk (EAD, PD and LGD);
- new rules for the recognition of hedging instruments (general hedge accounting): the general hedge accounting model provides a series of new approaches to correlate the accounting scope more closely to risk management.

Now, therefore, the approach adopted by the Bank with reference to the areas of focus ‘Classification and measurement’ and ‘Impairment’ is reported below, considering that, with reference to the issue of Hedge accounting, the Bank, pending the IASB’s completion of the new rules relating to Macrohedging, decided to avail itself of the right, in line with the current approach, to continue to apply the provisions of IAS 39 (par. 7.2.21 of IFRS 9).

Recognition and measurement

In relation to the theme of 'classification and measurement', the most relevant changes introduced by IFRS 9 concern financial assets, for which the standard provides, in place of the previous four categories (Financial assets held for trading, Financial assets measured at fair value, Financial assets held for sale, held to maturity investments) - the following three accounting categories, acknowledged by the 5th update of Circular 262/2005:

- Financial assets measured at fair value through profit or loss (FVTPL);
- Financial assets measured at fair value through other comprehensive income (FVOCI) (for debt instruments the reserve is transferred to the income statement in the event of sale of the instrument);
- Financial assets measured at amortised cost (AC);

In particular, the accounting model introduced assumes relevance with reference to the debt instruments (debt securities and loans) for which provision is made for the classification into one of the aforementioned three accounting categories on the basis of two elements:

- The business model of financial assets that the Bank has identified at portfolio/sub-portfolio level. The latter refers to how the Bank manages its financial assets to generate cash flows;
- the characteristics of the contractual cash flows of the single financial instrument, verifiable on adoption of the standard and, when fully applied, on first-time recognition of the instrument, through the so-called SPPI ('Solely Payments of Principal and Interest on the principal amount outstanding') (hereinafter also 'SPPI test'.

By contrast, in relation to equities, IFRS 9 makes provision for the mandatory classification in the FVTPL accounting category. However, for particular equity investments which would be otherwise measured at FVTPL, at the moment of initial recognition, the standard allows an entity to opt for the irrevocable decision to present subsequent changes in fair value under other comprehensive income, without however moving the reserve in the event of sale of the instrument (FVOCI without recycling).

In relation to the above and the activities of adjustment into line with the new standard, the Bank has defined the business models relating to its own financial assets.

IFRS 9 makes provision for the following business models:

- Hold to Collect: financial assets in this business model are held to obtain the contractual cash flows through the collection of the contractual payments for the entire duration of the instrument;
- Hold to Collect: financial assets in this business model are held to obtain the contractual cash flows through the collection of the contractual cash flows and the sale of the financial assets;
- Other/Trading: this is a residual business model, which incorporates the financial instruments of assets not included in a Business Model whose objective is to hold assets to collect the contractual cash flows or in a Business Model whose objective is achieved with the collection and sale of financial assets.

In this regard, at the time of the first-time application of the standard (so-called 'First Time Adoption' or 'FTA'), the business models were defined on the basis of the events and circumstances as at 1 January 2018 and the resulting classification was applied retroactively regardless of the business model existing in previous years.

In defining the business models, account was taken of the fact that the Bank carries out banking activities with the objective of traditional brokerage activities in the reference area.

The basic assumptions of this model, albeit with an improved framework, will also be confirmed in the new approach connected with the upcoming formation of the banking group, in compliance with the reform of cooperative credit.
Again as regards classification and measurement, the methodology was defined for carrying out the so-called 'SPPI Test' ('Solely Payments of Principal and Interest on the principal amount outstanding'), which was applied to financial instruments (debt securities and loans) characterised by 'Hold to collect' or 'Hold to collect and sell' business models. By contrast, the SPPI Test is not performed for equities.
The purpose of the test is to determine whether the contractual cash flows of the single financial asset are exclusively payments of principal and interest accrued on the amount of capital to be repaid and, therefore, essentially, are consistent with the key elements of a basic credit granting agreement.
Only financial assets that meet these requirements can, in fact, be classified according to whether the pre-chosen business model is 'Hold to collect' or 'Hold to collect and sell', respectively under 'Financial assets measured at amortised cost (AC)' or under 'Financial assets measured at fair value through other comprehensive income (FVOCI)'.
In the opposite case (if the SPPI test is not passed), the financial instrument will be instead be classified into the category 'Financial assets measured at fair value through profit or loss (FVTPL)'.
Taking account of the above, considering the specific situation of the Bank, it is noted that:

a) Loan portfolio: as at 1 January 2018, it is composed primarily of exposures to banks and customers. Based on IFRS 9, a 'Hold to collect' business model was attributed to the aforementioned portfolio, given that the Bank manages the relevant financial assets for the purposes of continuously collecting contractual cash flows by paying constant attention to the management of the credit risk associated to these. In addition, considering that, for the aforementioned loans, the contractual flows are normally consistent with a basic credit granting agreement (SPPI Test passed), these assets will largely be measured at amortised cost and the impairment will need to be calculated for them according to the new IFRS 9 model (see information reported in the next paragraph). In residual cases in which the aforementioned loans do not pass the SPPI Test, they are measured at FVTPL;
b) Securities portfolio: the portfolio of debt securities of the Bank as at 1 January 2018 is composed exclusively of the regulatory banking book. The latter is composed largely of Italian Government bonds classified, as at 31 December 2017, for the most part under 'Financial assets available for sale' (AFS) and, to a lesser extent, under 'Held to maturity investments' (HTM). A residual part of this portfolio is composed of corporate bonds, bond issues of cooperative credit banks and shares in mutual investment funds which, as at 31 December 2017, were classified alternatively under other accounting categories. By contrast, as at 1 January 2018, the Bank does not hold debt securities for trading purposes (Regulatory trading portfolio). On first-time application of IFRS 9 for the debt securities of the regulatory banking book, the business models adopted are as follows:

- 'Hold to collect' (HTC): this is a business model attributed to debt securities held for permanent investment purposes and, therefore, with a view to collecting contractual cash flows by constantly monitoring the risks associated to them (in particular credit risk). Any assets for the management of structural liquidity risk (medium/long-term) whose disposal is, however, limited to extreme circumstances, or assets whose objective is to stabilise and optimise the medium/long-term interest margin, can also be incorporated in said business model. On first-time application of IFRS 9, this business model was attributed largely to the securities previously classified under Loans & Receivables and HTM, and to a portion of the portfolio of Government bonds previously classified to AFS (in view of more watchful prospective management of sovereign risk at both individual and consolidated level);
- 'Hold to collect and sell' (HTCS): this is a business model attributed mainly to the securities of the regulatory banking book held for the purposes of the active management of current liquidity and/or for the maintenance of given risk and/or return profiles or for maintaining a consistent profile of durations between related financial assets and liabilities. Insomuch as the assets are managed both with the intent of collecting contractual cash flows and collecting flows deriving from the sale of instruments. Sales will therefore be an integral part of the business model. On first-time application of IFRS 9, this business model was attributed largely:
  - to the securities previously classified under AFS (predominantly Government bonds), excluding those set out in the previous point, to which the 'Hold to collect' business model was attributed;
  - to a portion of securities previously classified under HTM, with a view to the rebalancing of portfolios also based on even more careful risk management.

The bulk of the aforementioned debt securities of the regulatory banking book characterised by the HTC and HTCS business models pass the SPPI Test and, therefore, are included respectively, on first-time application, in the accounting categories 'amortised cost' (AC) and FVOCI with recycling. Impairment needs to be determined for the aforementioned securities, calculated according to the new IFRS 9 model.

The residual part of the securities that fails the SPPI Test, mainly shares in mutual investment funds, is instead classified in the FVTPL category. These include, in particular, shares in mutual investment funds, securities of securitisations of a different rank from senior securities and, to a lesser extent, some other complex securities.

Lastly, with reference to equities, the instruments were defined for which to exercise, on first-time adoption of IFRS 9, the OCI option (irrevocable option). This relates, in particular, to minority interests held for permanent investment purposes, both in companies operating in cooperative credit and in other companies. These securities will belong to the 'FVOCI without recycling' accounting category, for which any profits/losses from the sale of said securities will not transfer to the income statement, but will remain in an equity reserve.

Impairment model

In relation to the theme of impairment, the change introduced by IFRS 9 involved the adoption of a new impairment model, which estimates the value adjustments based on expected losses (Expected Credit Loss Model - ECL) in place of a model set forth in IAS 39, which estimated the value adjustments based on losses already incurred (Incurred Loss Model).

More specifically, the new impairment model introduced by IFRS 9 is characterised by a prospective view which, in given circumstances, may require the immediate recognition of all expected losses over the life of a loan. In particular, unlike IAS 39, it will be necessary to recognise, immediately and regardless of the presence or not of a so-called trigger event, the initial amounts of expected future losses on own financial assets, and this estimate must be continuously adjusted also in consideration of the counterparty credit risk. In order to prepare this estimate, the impairment model must not only consider past and present data, but also information relating to future events.

This forward looking approach makes it possible to reduce the impact of the losses and enable loan adjustments to be posted in proportion to the increase in risks, allowing entities to avoid overloading the income statement on the occurrence of loss events and reducing the pro-cyclical effect.

The perimeter of application of the new impairment model refers to financial assets (loans and debt securities), commitments to disburse funds, guarantees and financial assets not subject to measurement through FVTPL.

For credit exposures falling within the perimeter of application of the new impairment model, the accounting standard provides for the allocation of the individual positions in one of the 3 stages listed below:

- in stage 1, positions that do not present, at the valuation date, a significant increase in credit risk or which can be identified as 'Low Credit Risk';
- in stage 2, positions that, at the reference date, present a significant increase or that do not present the characteristics to be identified as 'Low Credit Risk';
- in stage 3, non performing positions.

More specifically, the Bank made provision for the allocation of the individual cash and off-balance sheet positions, in one of the 3 stages listed below, based on the following criteria:

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the following point;
- in stage 2, positions which, at the reference date, present at least one of the characteristics described below:
  - a significant increase in credit risk from the disbursement date has been identified, defined in accordance with the operating methods adopted by the future parent company and set out in the appropriate technical documentation;
  - positions which, at the valuation date, are classified to 'watch list', i.e. 'performing under observation';
  - positions which, at the valuation date, present an increase of 200% in the 'PD' with respect to that at origination;
  - presence of a 'forborne performing' attribute;
  - presence of past due amounts and/or overdue by more than 30 days;
  - positions (without 'lifetime PD' at the disbursement date) that, at the measurement date, do not present the characteristics to be identified as 'Low Credit Risk' (as described below);
- in stage 3, non performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and non performing exposures.

Performing positions that possess the following characteristics at the measurement date are considered 'Low Credit Risk':
- absence of 'PD lifetime' at the disbursement date;
- rating class of less than or equal to 4.

Positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above.
The estimate of expected loss using the Expected Credit Loss (ECL) methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:
- stage 1, expected loss must be calculated on a time horizon of 12 months;
- stage 2, expected loss must be calculated by considering all the losses that are expected to be incurred over the entire life of the financial asset (lifetime expected loss): therefore, with respect to the calculation performed in accordance with IAS 39, entities will move from the estimate of incurred loss over a time horizon of 12 months to an estimate that takes into consideration the entire residual life of the loan; in addition, given that IFRS 9 requires entities to also adopt forward-looking estimates for the calculation of the lifetime expected loss, it will therefore be necessary to consider the scenarios connected with macro-economic variables (e.g. GDP, unemployment rate, inflation, etc.) which, through a macro-economic statistical model, are able to estimate the forecasts over the residual duration of the loan;
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss will be analytical.

The risk parameters (PD, LGD and EAD) are calculated by the impairment model, while for positions not covered by ratings at origin, which originated after 2006, the default rates made available by the Bank of Italy were used.
It should be underlined that the Bank calculates the ECL based on the allocation stage, per individual position, with reference to cash and off-balance sheet exposures.
It should be noted that the Bank, for loans to banks, adopted a different model for determining the significant increase in credit risk from the one envisaged for loans to customers. However, the stage allocation rationale adopted for loans to banks was defined in the most consistent manner possible with that implemented for loans to customers.
More specifically, the Bank made provision for the consistent allocation of the individual positions to that provided for loans to customers.
However, performing positions that possess the following characteristics at the measurement date are considered 'Low Credit Risk':
- absence of 'PD lifetime' at the disbursement date;
- PD Point in Time lower than 0.3%.

Positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above. Now, therefore, for loans to banks, the Bank adopts the IFRS 9 impairment model developed on an ad hoc basis for the specific counterparty type and, therefore, different from the model used for loans to customers.
The estimate of expected loss using the Expected Credit Loss (ECL) methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:
- stage 1: expected loss is calculated on a time horizon of 12 months;
- stage 2: expected loss is calculated on a time horizon that incorporates the entire duration of the position until maturity (so-called LEL, 'Lifetime Expected Loss');

- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss is analytical.In addition, where appropriate, forward looking elements will be introduced to the measurement of the aforementioned positions represented, in particular, by the inclusion of different scenarios (e.g. sale), weighted for the relevant probability of occurrence. More specifically, as part of the estimate of the recovery value of the positions (in particular those classified as non performing), the inclusion of a transfer scenario, as an alternative to the internal management scenario, normally involves the recognition of greater value adjustments connected with the application of weighted sale prices for the relative probability of occurrence of the transfer scenario.

The risk parameters (PD and EAD) are calculated by the impairment model.

The LGD parameter is prudentially set at the regulatory level of 45%, valid in the IRB Foundation model, for portfolios composed of risk assets other than subordinated and guaranteed instruments; however, counterparties of the interbank segment that subscribe to the Cross Guarantee System, once the fund is established and activated, will be subject to an allocation of the LGD IFRS 9 parameter equal to 0%.

With reference to the portfolio of securities, the use of the approach for loans is confirmed, i.e. allocation of securities into one of the three stages set forth by IFRS 9, which correspond to the three different expected loss calculation methodologies.

In stage 1, expected loss is measured within a time horizon of one year, therefore with a probability of default at 12 months.

In the first stage of creditworthiness, securities were placed:

- at the moment of purchase, regardless of their risk;
- which, at the measurement date, have not experienced a significant increase in credit risk with respect to the moment of purchase;
- which have experienced a significant decrease in credit risk.

In the second stage, the ECL is calculated by using the probability of lifetime default. This stage will include those securities that possess the following characteristics:

- at the measurement date, the instrument presents an increase in credit risk with respect to the purchase date as such to request the recognition of an expected loss until maturity;
- instruments that fall under stage 3 on the basis of a significant decrease in risk.

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

The decision to place instruments in stage 1 or in stage 2 is connected with the quantification of the thresholds that identify a significant increase in the credit risk of the individual tranche subject to valuation. These thresholds are calculated on the basis of the portfolio characteristics of the new Banking Group. As regards stage 3, an analysis is conducted as to whether the increase in risk was high enough, from the moment of initial recognition, to consider the assets 'impaired', i.e. whether events were verified as such to negatively impact future cash flows. As outlined previously, the Bank must recognise an incremental loss from stage 1 to stage 3.

More specifically:

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

Accounting and regulatory impacts of the first-time application of IFRS 9

The main accounting effects of the first-time application of IFRS 9 are attributable to the new classification and measurement of financial assets and the application of the new impairment model. In particular, as regards the effects of the first-time application attributable to the classification and measurement of financial assets, the Bank recorded a generally positive impact on equity as 1 January 2018 of EUR 14.7 million, gross of taxes. By contrast, with reference to the effects connected to the new impairment model, the Bank recorded a generally negative impact on equity as 1 January 2018 of EUR 8.3 million, gross of taxes, attributable essentially to the write-down of margins on credit facilities granted and the write-down of interbank exposures that previously, under IAS 39, were not subject to value adjustments. The taxes calculated on the first-time application of IFRS 9 determined the recognition of deferred tax assets of EUR 5.1 million and a current tax payable of EUR 1.7 million. The above-mentioned taxes were recognised as a reduction of the first-time application reserves.

The statement of financial position as at 1 January 2018 is shown below, according to the new layouts set forth in the 5th update to circular no. 262/2005, which outline the comparative situation between the reclassified balances as at 31 December 2017 (IAS 39) and the same as at 1 January 2018 (IFRS 9), with an indication of the effects attributable respectively to the classification and to impairment.

	Circular 262/2005 4th update	31.12.2017 IAS 39	Circular 262/2005 5th update - ASSETS												
			10. Cash and cash equivalents	20. Financial assets *measured at fair value through profit or loss*			30. Financial assets measured at fair value through other comprehensive income	40. Financial assets measured 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 measured at fair value	c) other financial assets obligatorily measured at fair value		a) loans to banks	b) loans to customers				a) current	b) deferred	
10.	Cash and cash equivalents	697,144,994	697,144,994	-	-	-	-	-	-	-	-	-	-	-	-
20.	Financial assets held for trading	14,389,036	-	14,389,036	-	-	-	-	-	-	-	-	-	-	-
30.	Financial assets measured at fair value	3,138,511	-	-	3,138,511	-	-	-	-	-	-	-	-	-	-
40.	Financial assets available for sale	2,337,109,238	-	-	-	49,372,942	1,416,704,378	-	871,031,918	-	-	-	-	-	-
50.	Held to maturity investments	609,044,296	-	-	-	-	422,997,739	-	186,046,557	-	-	-	-	-	-
60.	Loans to banks	1,716,710,880	-	-	-	-	-	1,716,710,880	-	-	-	-	-	-	-
70.	Loans to customers	494,019,557	-	-	-	23,150,154	-	-	470,869,403	-	-	-	-	-	-
80.	Hedging derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90.	Adjustment of the financial assets subject to macro-hedging (+/-)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100.	Equity investments	161,340,499	-	-	-	-	-	-	-	161,340,499	-	-	-	-	-
110.	Tangible assets	13,230,934	-	-	-	-	-	-	-	-	13,230,934	-	-	-	-
120.	Intangible assets	656,360	-	-	-	-	-	-	-	-	-	656,360	-	-	-
130.	Tax assets	30,513,065	-	-	-	-	-	-	-	-	-	-	3,994,482	26,518,582	-
	a) current	3,994,483	-	-	-	-	-	-	-	-	-	-	3,994,482	-	-
	b) deferred	26,518,582	-	-	-	-	-	-	-	-	-	-	-	26,518,582	-
140.	Non-current assets and groups of assets held for disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150.	Other assets	87,726,058	-	-	-	-	-	-	-	-	-	-	-	-	87,726,058
	TOTAL ASSETS	6,165,023,427	697,144,994	14,389,036	3,138,511	72,523,096	1,839,702,117	1,716,710,880	1,527,947,878	161,340,499	13,230,934	656,360	3,994,482	26,518,582	87,726,058

	Circular 262/2005 4th update	31.12.2017 IAS 39	Circular 262/2005 5th update - LIABILITIES													
			10. Financial liabilities measured at amortised cost			20. Financial liabilities held for trading	30. Financial liabilities measured at fair value	60. Tax liabilities b) deferred	80. Other liabilities	90. Provision for severance indemnity	100. Provisions for risks and charges c) other provisions for risks and charges	110. Valuation reserves	140. Reserves	150. Share premium	160. Share capital	180. Profit (loss) for the year (+/-)
			a) due to banks	b) due to customers	c) debt securities in issue											
10.	Due to banks	3,443,811,226	3,443,811,226	-	-	-	-	-	-	-	-	-	-	-	-	-
20.	Due to customers	1,286,207,493	-	1,286,207,493	-	-	-	-	-	-	-	-	-	-	-	-
30.	Debt securities in issue	10,087,735	-	-	10,087,735	-	-	-	-	-	-	-	-	-	-	-
40.	Financial liabilities held for trading	11,340,931	-	-	-	11,340,931	-	-	-	-	-	-	-	-	-	-
50.	Financial liabilities measured at fair value	9,790,472	-	-	-	-	9,790,472	-	-	-	-	-	-	-	-	-
80.	Tax liabilities	948,945	-	-	-	-	-	948,945	-	-	-	-	-	-	-	-
	b) deferred	948,945	-	-	-	-	-	948,945	-	-	-	-	-	-	-	-
100.	Other liabilities	313,694,570	-	-	-	-	-	-	313,694,570	-	-	-	-	-	-	-
110.	Provision for severance indemnity	2,410,472	-	-	-	-	-	-	-	2,410,472	-	-	-	-	-	-
120.	Provisions for risks and charges	13,046,892	-	-	-	-	-	-	-	-	13,046,892	-	-	-	-	-
	b) other provisions	13,046,892	-	-	-	-	-	-	-	-	13,046,892	-	-	-	-	-
130.	Valuation reserves	- 5,694,757	-	-	-	-	-	-	-	-	-	- 5,694,757	-	-	-	-
160.	Reserves	94,887,641	-	-	-	-	-	-	-	-	-	-	94,887,641	-	-	-
170.	Share premium	19,029,034	-	-	-	-	-	-	-	-	-	-	-	19,029,034	-	-
180.	Share capital	952,031,808	-	-	-	-	-	-	-	-	-	-	-	-	952,031,808	-
200.	Profit (loss) for the year (+/-)	13,430,965	-	-	-	-	-	-	-	-	-	-	-	-	-	13,430,965
	TOTAL LIABILITIES AND EQUITY	6,165,023,427	3,443,811,226	1,286,207,493	10,087,735	11,340,931	9,790,472	948,945	313,694,570	2,410,472	13,046,892	- 5,694,757	94,887,641	19,029,034	952,031,808	13,430,965

ASSETS	Figures in Euro				
Circular 262/2005 5th update	31.12.2017 IAS 39	Measurement	Impairment	FTA tax impacts	1.1.2018 IFRS 9
10. Cash and cash equivalents	697,144,994	-	-	-	697,144,994
20. Financial assets measured at fair value through profit or loss	90,050,643	-559,803	1,105,848	-	90,596,688
a) financial assets held for trading	14,389,036	-110,748	-	-	14,278,288
b) financial assets measured at fair value	3,138,511	-	-	-	3,138,511
c) other financial assets obligatorily measured at fair value	72,523,096	-449,055	1,105,848	-	73,179,889
30. Financial assets measured at fair value through other comprehensive income	1,839,702,117	7,798,515	-	-	1,847,500,632
40. Financial assets measured at amortised cost	3,244,658,758	7,456,700	4,067,650	-	3,256,183,108
a) loans to banks	1,716,710,880	-	-2,862,653	-	1,713,848,227
b) loans to customers	1,527,947,878	7,456,700	6,930,303	-	1,542,334,881
70. Equity investments	161,340,499	-	-	-	161,340,499
80. Tangible assets	13,230,934	-	-	-	13,230,934
90. Intangible assets	656,360	-	-	-	656,360
100. Tax assets	30,513,064	-	-	5,099,009	35,612,073
a) current	3,994,482	-	-	-	3,994,482
b) deferred	26,518,582	-	-	5,099,009	31,617,591
120. Other assets	87,726,058	-	-	-	87,726,058
TOTAL ASSETS	6,165,023,427	14,695,412	5,173,498	5,099,009	6,189,991,346

LIABILITIES	Figures in Euro				
Circular 262/2005 5th update	31.12.2017 IAS 39	Measurement	Impairment	FTA tax impacts	1.1.2018 IFRS 9
10. Financial liabilities measured at amortised cost	4,740,106,454	-	-	-	4,740,106,454
a) due to banks	3,443,811,226	-	-	-	3,443,811,226
b) due to customers	1,286,207,493	-	-	-	1,286,207,493
c) debt securities in issue	10,087,735	-	-	-	10,087,735
20. Financial liabilities held for trading	11,340,931	-	-	-	11,340,931
30. Financial liabilities measured at fair value	9,790,472	-	-	-	9,790,472
60. Tax liabilities	948,945	-	-	1,744,399	2,693,344
a) current	-	-	-	1,744,399	1,744,399
b) deferred	948,945	-	-	-	948,945
80. Other liabilities	313,694,570	-	-	-	313,694,570
90. Provision for severance indemnity	2,410,472	-	-	-	2,410,472
100. Provisions for risks and charges	13,046,892	-	13,487,255	-	26,534,147
a) commitments and guarantees issued	-	-	13,487,255	-	13,487,255
c) other provisions for risks and charges	13,046,892	-	-	-	13,046,892
110. Valuation reserves	-5,694,757	15,442,459	1,021,347	-	10,769,049
140. Reserves	94,887,641	-747,047	-9,335,103	3,354,610	88,160,101
150. Share premium	19,029,034	-	-	-	19,029,034
160. Share capital	952,031,808	-	-	-	952,031,808
180. Profit (loss) for the year (+/-)	13,430,965	-	-	-	13,430,965
TOTAL LIABILITIES	6,165,023,427	14,695,412	5,173,498	5,099,009	6,189,991,346

The effects of the first-time application of IFRS 9 were booked to a reserve classified under equity. Therefore, there were no effects of first-time application booked to the income statement. The effects on regulatory capital do not generate criticalities, also considering that any negative impacts will be diluted, according to a non-linear mechanism, over 5 years as a result of the Bank's participation in the so-called 'Phase-in' regime introduced by Regulation (EU) 2017/2395 which modified, effective from 1 January 2018, Regulation (EU) no. 575/2013 (so-called CRR). In particular, the 'Phase-in' consists of the introduction of a prudential filter which mitigates - in the 2018-2022 period (so-called transitory period) - the potential negative impact on the CET1 deriving from the higher value adjustments connected with the application of new IFRS 9 impairment model according to:

- a static approach: to be applied to the impact of solely the FTA resulting from the comparison between the IAS 39 value adjustments as at 31 December 2017 and the IFRS 9 value adjustments as at 1 January 2018 (including adjustments to the stage 3 position);
- a dynamic approach: to be applied to the impact of the comparison between the value adjustments as at 1 January 2018 and the subsequent reporting periods until 31 December 2022, limited, however, to increases in the value adjustments of exposures classified in stages 1 and 2 (therefore, excluding, the adjustments to stage 3 positions).

The adjustment to CET1 may be made in the period between 2018 and 2022, re-including in the CET1, the impact as determined above, to the extent indicated hereunder for each of the 5 years of the transitory period:

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

This adjustment to the CET1 requires a symmetric adjustment to the values of the exposures pursuant to art. 111, par. 1, of the CRR for the purposes of the determination of the capital requirements for credit risk with the standard method.

The entry into force of IFRS 15 'Revenue from contracts with customers'

The publication of Regulation no. 1905/2016 marked the endorsement of IFRS 15 - Revenues from contracts with customers, in force from January 2018. The adoption of IFRS 15 involves, effective from the entry into force of the standard, the cancellation of IAS 18 Revenues and IAS 11 Construction contracts, plus the related interpretations.

The changes with respect to the pre-existing regulation can be summarised below:

- the introduction - in a single accounting standard - of a 'common framework' for the recognition of revenues regarding both the sale of goods and provision of services;
- the adoption of a 'step' approach in recognising revenues (see below);
- a mechanism, which may be defined 'unbundling', in the attribution of the total transaction price to each of the commitments (sale of goods and/or provision of services) involved in a sale contract.

In general terms, IFRS 15 requires an entity, in recognising revenues, to adopt a 5-step approach:

- identification of the contract (or contracts) with the customer: the provisions of IFRS 15 apply to each contract that is stipulated with a customer and that observes specific criteria. In some specific cases, IFRS 15 requires an entity to combine/aggregate several contracts and recognise them as a single contract;

- identification of 'performance obligations': a contract represents commitments to transfer goods or services to a customer. If these goods or services are 'separate', these promises qualify as 'performance obligations' and are accounted for separately;
- determination of the transaction price: the transaction price is the amount of consideration the entity expects to be entitled to, in exchange for transferring promised goods or services. The expected transaction price may be a fixed amount, but sometimes may include variable or non-cash components. The variable amounts are included in the transaction price by using the most likely amount method;
- allocation of the transaction price between the 'performance obligations' of the contract: an entity allocates the transaction price to the different 'performance obligations' based on the stand-alone sale prices of each separate good or service set out in the contract. If a stand-alone sale price is not observable, an entity must estimate it. The standard identifies when an entity must allocate a discount or a variable component to one or more, but not all, 'performance obligations' (or to separate goods or services) set out in the contract;
- recognition of the revenue at the moment of satisfaction of the 'performance obligation': an entity recognises the revenue when it satisfies a 'performance obligation' through the transfer of a good or provision of a service, set forth contractually, in favour of a customer (i.e. when the customer obtains control of that good or service). The amount of the revenue to be recognised is that which was allocated on the 'performance obligation' that was satisfied. A 'performance obligation' may be satisfied in a certain moment (typically in the event of the transfer of goods) or during a time period (typically in the event of the supply of services).

The impacts of IFRS 15 will depend, in practice, on the types of transactions measured (the standard actually introduces potential estimate elements in the determination of the transaction price, with reference to the variable component) and the sector in which the company operates (the sectors most concerned would appear to be the telecommunications and residential property sectors). In 2018, the Bank conducted an assessment of the impact of new accounting standard IFRS 15. This analysis showed that the Bank did not record significant impacts at the time of first-time adoption of IFRS 15.

b) Approved accounting standards which came into force on 1 January 2019

In 2017, the European Commission endorsed the following accounting standards or interpretations entering into force on 1 January 2019 with the right of early application, which the Bank did not avail itself of:
- IFRS 16: Leases (Reg. EU 1986/2017) which can only be applied early together with the adoption of IFRS 15;
- Amendments to IFRS 9: Prepayment features with negative compensation (Reg. EU 2018/498);
- Interpretation IFRIC 23: Uncertainty over income tax treatments.

IFRS 16 Leases

On 31 October 2017, Regulation EU no. 2017/1986 was issued, which acknowledged new accounting standard IFRS 16 (Leases) at EU level. IFRS 16 replaces IAS 17 'Leases', and the relevant interpretations IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases - Incentives' and SIC 27 'Evaluating the substance of transactions involving the legal form of a lease'). IFRS 16 applies from 1 January 2019 ('transition date') and, therefore, the associated effects will be included in the interim half-year position that the Bank will prepare with reference to the first half of 2019. Based on the provisions of IFRS 16, the accounting representation of leases payable (which do not constitute the rendering of services) takes place through the recognition:

- in the statement of financial position, of: i) a financial liability, which represents the present value of future payments that the company undertakes to make in relation to the lease, and ii) an activity that represents the 'right of use' of the asset involved in the lease,
- in the income statement: i) of the financial charges connected with the aforementioned financial liability and ii) the amortisation related to the above-mentioned 'right of use'. These items in the income statement replace charges for the use of third-party assets/operating lease fees set forth in IAS 17.

At the time of first-time application (1 January 2019), for contracts previously classified as 'operating leases', the Bank intends to apply the 'simplified method', option b) without any impact on reported equity.

With reference to the options and exemptions set forth in IFRS 16, the Bank is considering the following choices:

- IFRS 16 will not be applied to contracts regarding intangible assets, short-term contracts (i.e. with a duration of less than 12 months) or to contracts that, at the transition date, have a duration of less than 12 months, to contracts with a small unit value (indicatively approx. EUR 5,000);
- any significant component relating to the provision of services included in the lease payments will be excluded from the scope of IFRS 16;
- the accounting treatment of leases in place at the transition date which, based on IAS 17, are considered 'finance leases' are not subject to any changes.

Based on the results of a preliminary analysis, still in progress, the expected impacts of the application of IFRS 16 are, on the whole, considered insignificant. It should be noted that, typically, the accounting of a lease based on IAS 17 involves a linear impact on the company's results over the life of the lease. Vice versa, IFRS 16 involves a decreasing impact due to the financial charges which gradually fall over the life of the lease. The above-mentioned evaluations are based on the results of the analyses at the date of drafting of these financial statements and may change as the implementation process is still in progress. The impacts at the time of transition are not indicative of future developments, given that the capital allocation choices would change with subsequent economic-equity effects on recognition in the financial statements.

c) Accounting standards still not endorsed which will enter into force in the next few years

The following amended accounting principles, instead, have not yet been endorsed by the European Commission:

- IFRS 14: Regulatory Deferral Accounts (January 2014);
- IFRS 17: Insurance contracts (May 2017);
- Amendments to IFRS 10 and to IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (September 2014);
- Amendments to IAS 28:Long-term interests in associates and joint ventures (October 2017);
- Annual cycle of improvements to IFRS (2015-2017) (December 2017);
- Amendments to IAS 19: plan amendment, curtailment or settlement (February 2018);
- modification of the references to the reference framework in the IFRS (March 2018);
- amendment to IFRS 3: definition of business (October 2018);
- amendments to IAS 1 and IAS 8: definition of material (October 2018).

d) Audit of the annual accounts

The financial statements are audited by the independent auditors KPMG S.p.A., in execution of the Resolution of the Shareholders' Meeting of 22 May 2010, which assigned this company the task of auditing the accounts for the period 2010-2018.

Information pursuant to Annex A of First Part, Title III, Chapter 2 of Bank of Italy Circular no. 285 of 17 December 2013

Letter F) - Government Grants Received

In this regard, it should be noted, also in accordance with the provisions of so-called 'Annual market and competition law' (Law no. 124/2017), that, in 2018, the Bank received the grants from the public administrations indicated in the table below. It should also be noted that, in compliance with the provisions envisaged for the compilation of the disclosure in question, transactions entered into with Central Banks for financial stability purposes or transactions whose objective is to facilitate the monetary policy transmission mechanism are excluded.

Disbursing Entity	Amount received	Reason
Fondo paritetico Interprofessionale nazionale per la Formazione Continua nelle imprese cooperative	27,037	Personnel training grant

Figures in Euro

A.2 - PART REGARDING THE MAIN ITEMS IN THE ACCOUNTS

The accounting standards adopted for the preparation of the financial statements as at 31 December 2018 are shown below.
For the preparation of the financial statements as at 31 December 2018, the same principles and accounting methods were used as those applied for the annual financial statements as at 31 December 2017, as amended by the new accounting standards which came into force in 2018. The presentation of the standards adopted was carried out with reference to the phases of classification, recognition, valuation, derecognition of the assets and liabilities, just as for the methods of recognition of revenues and costs.

1 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Classification criteria

Assets measured at fair value through profit or loss include:

- financial assets that, depending on the Bank's Business Model are held for trading purposes, i.e. debt securities and equity instruments (therefore, these relate to assets that are not held according to a business model whose objective is the collection of the contractual cash flows - Hold to Collect Business Model - or the collection of contractual cash flows combined with the sale of financial assets - Hold to Collect and Sell Business Model) and the positive value of the derivative contracts held for trading purposes;
- the financial assets measured at fair value at the moment of initial recognition where the conditions are satisfied (that happens if, and only if, on designation at fair value a valuation inconsistency is eliminated or significantly reduced);
- the financial assets do not pass the so-called SPPI Test (financial assets whose contractual terms do not make exclusive provision for the repayments of principal and interest payments on the amount of principal to be repaid) or that in any case, are measured at FV as per mandatory requirements.

Therefore, the Bank recognises the following in this item:

- debt securities and loans included in a Other/Trading Business Model (not attributable to Hold to Collect or Hold to Collect and Sell Business Models) or that do not pass the SPPI Test (including therein UCITS units);
- equities, excluded from those addressed by IFRS 10 and IAS 27 (controlling interests, associates or joint ventures), not measured at fair value through other comprehensive income. In fact, IFRS 9 provides an irreversible option to designate, at the time of initial recognition, an equity instrument at fair value through other comprehensive income;
- loans that are not attributable to a Hold to Collect or Hold to Collect and Sell Business Model or that do not pass the SPPI Test.

The item also includes derivative contracts held for trading, represented as assets if the fair value is positive and as liabilities if the fair value is negative. The offsetting between the positive and negative present values deriving from transactions with the same counterparty is only possible if there is a legal right to offset the amounts recognised in the accounts and if there is an intention to settle on a net basis the items subject to offsetting. Derivatives also include those embedded in complex financial contracts.

Recognition criteria

The initial recognition of financial assets takes place at the settlement date if settled with the time intervals set by market practices (regular way), otherwise at the trade date. In case of recognising the financial assets at the settlement date, the profits and losses recorded between the trade date and the settlement date are recognised in the Income Statement. Upon initial recognition the financial assets held for trading are recorded at the fair value; unless otherwise indicated, this is represented by the amount paid or by the amount disbursed for executing the transaction, without considering the costs or income referring to it and attributable to the same instrument, which are recorded directly in the Income Statement.

Measurement criteria

Following initial recognition, the financial assets measured at fair value through profit or loss are valued at fair value with recognition of the related changes in the Income Statement. If the fair value of a financial asset becomes negative, this entry is booked as a financial liability. In the change in fair value of the derivative contracts with a 'customer' counterparty, their credit risk is accounted for.

For details concerning the method of calculating the fair value, please see the paragraph 15.5 'Criteria for determining the fair value of financial instruments' of 'Other information' of this part A.2.

Derecognition criteria

The financial assets measured at fair value through profit or loss are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold substantially transferring all the associated risks and rewards.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if the Bank has maintained control, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

Recognition of the income components

The positive income components represented by the interest income on securities and relating similar income, as well as the differentials and margins accrued until the date of the financial statements relating to the derivative contracts classified to the item, but managerially connected to the assets or liabilities measured at fair value (so-called fair value option), are entered in the Income Statement items relating to interest on an accrual basis. The profits and losses generated by the sale or repayment and the unrealised profits and losses from the changes in fair value of the trading portfolio are classified in the income statement in the item 'Net result from trading for instruments held for trading purposes' and in the item, 'Net result of other financial assets and liabilities measured at fair value through profit or loss' for instruments measured at fair value as per mandatory requirements, and for instruments measured at fair value.

2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Classification criteria

Financial assets measured at fair value through other comprehensive income include assets that jointly satisfy the following conditions:

- the business model associated to financial assets aims at collecting both the cash flows envisaged contractually and the flows deriving from sale (Hold to Collect and Sell Business Model);
- the so-called SPPI Test (the contractual terms make exclusive provision for the repayments of principal and interest payments on the amount of principal to be repaid) is passed.

Therefore, the Bank recognises the following in this item:

- debt securities forming the object of a Hold to Collect and Sell Business Model), that pass the SPPI Test;
- equities, excluded from those addressed by IFRS 10 and IAS 27 (controlling interests, associates or joint ventures), for which the irreversible option of designation at fair value through other comprehensive income is exercised;
- loans forming the object of a Hold to Collect and Sell Business Model), that pass the SPPI Test.

Recognition criteria

The initial recognition of financial assets takes place at the settlement date if settled with the time intervals set by market practices (regular way), otherwise at the trade date. In case of recognising financial assets at the settlement date, the profits and losses recorded between the trade date and the settlement date are recognised in the Equity. Upon initial recognition, the financial assets are recognised at fair value; it is represented, unless otherwise indicated, by the amount paid for executing the transaction, including the transaction costs or income directly attributable to the same instrument.

Measurement criteria

Following initial recognition, the debt securities classified in the item continue to be measured at fair value. For these, the following are recognised:

- in the Income Statement, the interest calculated with the effective interest rate method, which considers the depreciation of both the transaction costs and the differential between the cost and the repayment value;
- in the Equity, in a specific reserve, net of taxation, the changes in fair value, provided that the asset is not derecognised. When the instrument is fully or partially disposed, the cumulated profit or loss in the valuation reserve are booked to the income statement (so-called recycling).

By contrast, as regards the exercise of the irreversible option of measurement at fair value through other comprehensive income of specific equity instruments, the cumulated profit or loss in the valuation reserve of said instruments must not be reversed to the income statement, not even in the case of sale, but transferred to the appropriate equity reserve ('Statement of Comprehensive Income'). For these instruments, only the component relating to the collection of dividends is recognised in the income statement.

For unlisted equities in an active market and included in this category, the cost is used as the criterion for the estimate of the fair value, only residually and in limited circumstances.

For details regarding the determination of the fair value, please see paragraph 15.5 below "Criteria for determining the fair value of financial instruments" in this Part 2.

The debt securities and receivables booked under financial assets measured at fair value through other comprehensive income fall within the perimeter of application of the new impairment model, set out in IFRS 9, which provides for the allocation of the individual positions in one of the 3 stages listed below:

- in stage 1, positions that do not present, at the valuation date, a significant increase in credit risk or which can be identified as 'Low Credit Risk';
- in stage 2, positions that, at the reference date, present a significant increase or that do not present the characteristics to be identified as 'Low Credit Risk';
- in stage 3, non performing positions.

The estimate of expected loss using the Expected Credit Loss (ECL) methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1, expected loss must be calculated on a time horizon of 12 months;
- stage 2, the expected loss must be calculated by considering all the losses that it is presumed will be incurred during the entire life of the financial asset (lifetime expected loss);
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss will be analytical.

The impairment is entered in the Income Statement. The equity instruments are not subject to the impairment process. For more details, please refer to paragraph 'Impairment Model' of Section 4 - Other matters of this document.

Derecognition criteria

The financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold substantially transferring all the associated risks and rewards.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if the Bank has maintained control, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

Recognition of the income components

The recognition in the Income Statement, under interest income, of the return of the instrument calculated according to the effective return rate methodology is carried out on an accrual basis.

The impacts deriving from the application of the amortised cost, the effects of the impairment of debt securities and any exchange effect on debt securities are recognised in the income statement, while other profits or losses deriving from the change in fair value are booked to a specific shareholders' equity reserve.

Solely for debt securities, at the moment of full or partial disposal, the cumulated profit or loss in the valuation reserve are reversed, wholly or partly to the income statement.

Equity instruments for which the decision has been made for the classification to the present category are measured at fair value and the amounts booked as a counter-entry in shareholders' equity ('Statement of Comprehensive Income') must not be subsequently transferred to the income statement, not even in the event of sale. The sole component relating to the equities in question which is subject to recognition in the Income Statement is represented by the associated dividends, while the profits or losses deriving from a change in fair value are recorded in a specific 'Equity reserve' as long as financial asset is not derecognised or impairment is not recognised.

3 - FINANCIAL ASSETS MEASURED AT AMORTISED COST

Classification criteria

Assets measured at amortised cost include assets that jointly satisfy the following conditions:

- the business model associated to financial assets aims at collecting the cash flows envisaged contractually (Hold to Collect Business Model);
- the so-called SPPI Test (the contractual terms make exclusive provision for the repayments of principal and interest payments on the amount of principal to be repaid) is passed.

Therefore, the Bank recognises the following in this item:

- the various forms of loans to banks included in HTC Business Model and that pass the SPPI Test;
- the various forms of loans to customers included in HTC Business Model and that pass the SPPI Test;
- the debt securities included in HTC Business Model and that pass the SPPI Test.

Recognition criteria

The initial recognition of a receivable takes place at the date of disbursement, based on the fair value of the financial instrument. It equals the amount disbursed, including the income and charges directly attributable to the individual receivable and determinable from the origin of the transaction, even when liquidated at a subsequent time. Excluded are the costs that, though having the abovementioned characteristics, are subject to repayment by the debtor counterparty or can be classified among the normal internal costs of an administrative nature.

In cases where the net amount disbursed does not correspond to the fair value of the asset, due to the application of an interest rate significantly lower than the market's rate or the one normally applied to loans with similar characteristics, the initial recognition is made for an amount equal to the discounting of the future cash flows discounted at an appropriate market rate.

The difference compared to the amount disbursed is directly recognised in the Income Statement at the time of initial recognition.

The initial recognition of financial assets takes place at the settlement date if settled with the time intervals set by market practices (regular way), otherwise at the trade date.

Upon the initial recognition, the financial assets classified in this category are recorded at fair value, which generally corresponds to the amount paid, including any directly attributable costs and income.

Measurement criteria

Following initial recognition, the financial assets measured at amortised cost are recognised using the effective interest rate method. The effective interest rate is identified by calculating the rate that equals the current value of the future flows of the asset, for principal and interest, to the disbursed amount including the costs/income attributable to said financial asset.

The exceptions to the application of the amortised cost method are as follows:

- the short-term asset, for which the application of discounting is negligible (valuation at cost);
- asset with no defined maturity;
- receivables subject to revocation.

At the time of closing of the financial statements and the interim positions, the component relating to the impairment of said assets is evaluated.

This component depends on the insertion of the asset in one of the three stages set forth in IFRS 9:

- in stage 1, performing positions that do not present, at the valuation date, a significant increase in credit risk or which can be identified as 'Low Credit Risk';
- in stage 2, performing positions that, at the reference date, present a significant increase or that do not present the characteristics to be identified as 'Low Credit Risk';
- in stage 3, non performing positions.

The estimate of expected loss using the Expected Credit Loss (ECL) methodology, for the classes defined above, must take place on the basis of the allocation of each position into the three reference stages, as detailed below.

- stage 1, expected loss must be calculated on a time horizon of 12 months;
- stage 2, the expected loss must be calculated by considering all the losses that it is presumed will be incurred during the entire life of the financial asset (lifetime expected loss);
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss will be analytical. In addition, where appropriate, forward looking elements will be introduced to the measurement of the aforementioned positions represented, in particular, by the inclusion of different scenarios (e.g. sale), weighted for the relevant probability of occurrence.

The risk parameters (PD, LGD and EAD) are calculated by the impairment model. It should be underlined that the Bank calculates the ECL based on the allocation stage, per individual position, with reference to cash and off-balance sheet exposures.

With reference to the portfolio of securities, the use of the approach for loans is confirmed, i.e. allocation of securities into one of the three stages set forth by IFRS 9, which correspond to the three different expected loss calculation methodologies.

In the event in which the reasons for the impairment no longer apply after the recognition of the value adjustment, the Bank effects write-backs, with recognition in the Income Statement. The write-back cannot exceed the amortised cost the financial instrument would have had in the absence of previous adjustments. Write-backs connected to the passage of time are posted to the interest margin.

The original contractual conditions of the assets may be modified over their life, due to the intention of the parties. In these cases, according to the provisions of IFRS 9, it is necessary to verify whether the original asset must continue to be recognised in the financial statements or, if, on the contrary, where the amendments are considered substantial, the original instrument must be derecognised from the financial statements, and must be replaced with the recognition of a new financial instrument that acknowledges the amendments.

For more details, please refer to paragraph 'Impairment Model' of Section 4 - Other matters of this document.

Derecognition criteria

The financial assets measured at amortised cost are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold by substantially transferring all the risks and rewards connected to it.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if the Bank has maintained control, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

Recognition of the income components

The interest on loans to banks and customers are classified in the 'Interest income and similar revenues' and are entered according to the accruals principle, based on the effective interest rate.

Value adjustments/write-backs including write-backs connected to the passing of time, are recorded at each reference date in the Income Statement, under the item 'Net value adjustments/write-backs due to credit risk'. The profits and losses from the sale of loans are entered in the Income Statement 'Gains (losses) on disposal/ repurchase'.

Interest due to the passing of time, determined as part of the valuation of impaired financial assets based on the original effective interest rate, are included under Interest income and similar revenues.

The positive income components represented by the interest income and similar revenues relating to securities are entered on an accrual basis, based on the effective interest rate, in the Income Statement items relating to interest.

The profits or losses relating to securities are recognised in the Income Statement under the item 'Gains (losses) on disposal/repurchase, at the moment the assets are transferred.

Any reductions in the value of securities are recorded in the Income Statement under the item 'Net value adjustments/write-backs due to credit risk'. If the reasons that led to the evidence of the decline in value are removed, the write-back is entered with recognition in the Income Statement in the same item.

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4 - HEDGING TRANSACTIONS

As regards hedging transactions (hedge accounting), the Bank continues to fully apply IAS 39, as set forth in IFRS 9, as part of the transitory provisions in terms of the accounting of hedging transactions.

Classification criteria

This item features the derivative contracts designated as effective hedging instruments, which at the reference date show a positive fair value.

The hedging transactions aim to neutralise the losses recorded on a certain element (or group of elements) and attributable to a certain risk through the profits recorded on a different element (or group of elements) in case the particular risk actually occurs.

The types of hedging provided for by IAS 39 are:

- fair value hedge, aimed at hedging against the exposure to the change in fair value of a statement of financial position entry attributable to a particular risk;
- cash flow hedge, aimed at hedging against the exposure to the change in future cash flows attributable to a particular risk associated to a highly probable present or future statement of financial position entry;
- hedging instruments of a net investment in a foreign company for which the assets were or are managed in a non-Euro country or currency.

Recognition criteria

The hedging derivative financial instruments are initially entered at fair value and classified in the statement of financial position asset or liability item, depending on whether, at the date of the financial statements, they show a positive or negative fair value.

The hedging is pursuant to a predefined strategy set by risk management and must be coherent with the management policies adopted for risk; it is designated as a hedge if there exists formal documentation of the relation between the hedged instrument and the hedging instrument, including the high initial and prospective efficacy of the hedged during its entire life cycle.

The effectiveness of the hedge depends on the extent to which the changes in fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Thus the effectiveness is measured by comparison between these changes.

The hedging is assumed as highly effective when the expected and effective changes in fair value or the cash flows of the hedging financial instrument neutralise almost completely the changes in the hedged element, within the limits set by the interval 80%-125%.

The assessment of the effectiveness is performed at each year-end or interim period using:

- prospective tests, which justify the application of the hedge accounting, since they show its expected effectiveness;
- retrospective tests, which show the level of effectiveness of the hedging reached in the period they refer to.

If the checks do not confirm that the hedging is highly effective, the accounting of the hedging transactions, according to the above, is interrupted and the hedging derivative contract is reclassified among the trading instruments, while the financial instrument subject to hedging goes back to being measured according to the criterion of the original pertinence class and, in case of cash flow hedge, any reserve is reclassified in the Income Statement with the amortised cost method along the residual duration of the instrument.

The hedging links also cease when the derivative expires or is sold or exercised and the hedged element is sold or expires or is repaid.

Measurement criteria

The hedging derivative financial instruments are initially entered and then measured at fair value. The calculation of the fair value of the derivatives is based on the prices inferred from regulated markets or supplied by operators, on option measurement models or future cash flow discounting models.

Derecognition criteria

The hedging derivatives are cancelled when the right to receive the cash flows from the asset/liability has expired, or where the derivative is sold, or when the conditions for continuing to book the financial instrument under the hedging derivatives no longer apply.

Recognition of the income components

Fair value hedge

The change in fair value of the hedged item of the hedged risk is recorded in the income statement, as is the change in fair value of the derivative instrument; any difference, which represents the partial ineffectiveness of the hedge, subsequently determines the net economic effect, booked to the Income Statement. If the hedging relationship no longer satisfies the conditions for the application of hedge accounting and the hedging relationship is revoked, the difference between the carrying amount of the hedged element at the time when the hedge ceases and the one which would have been its carrying amount if the hedge had never existed, is amortised in the Income Statement along the residual lifespan of the hedged element based on the effective rate of return in case of instruments entered at the amortised cost. If this difference refers to non interesting bearing financial instruments, it is recorded immediately in the Income Statement. If the hedged element is sold or repaid, the portion of fair value not yet amortised is recognised immediately in the Income Statement.

Cash flow hedge

The changes in fair value of the hedging derivative are booked in the Equity among the valuation reserves of the hedging transactions of the financial flows, for the effective portion of the hedge, and in the Income Statement for the part not considered effective. When the cash flows subject to hedging take place and are recorded in the Income Statement, the related profit or loss on the hedging instrument is transferred from the Equity to the corresponding Income Statement item. When the hedging relationship no longer respects the conditions set for the application of the hedge accounting, the relation is interrupted and all the losses and profits recorded in the Equity until this date remain suspended within it and reversed to the Income Statement at the time when the flows relating to the risk originally hedged occur.

5 – EQUITY INVESTMENTS

Classification criteria

Equity investments means stakes in the capital of other companies, generally represented by shares or holdings and classified as controlling interests, interests carrying significant influence and joint ventures.

The following definitions in particular apply:

- Subsidiary: equity investments in companies as well as investments in entities over which the parent company exercises control of the relevant activities in compliance with IFRS 10. More specifically, ‘an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.’ The power requires the investor to have existing rights that give the current ability to direct the activities that significantly affect the investee's

returns. Power is based on an ability, whether or not that power is used in practice. Control is analysed on a continuous basis. The investor must redetermine whether it controls an investee when facts or circumstances indicate changes in one or more elements of control;
- Associate: equity investments in companies for which, despite the conditions of control not being satisfied, the Bank, directly or indirectly, is able to exercise a significant influence. This influence is presumed to exist for companies in which the Bank holds at least 20.00% of voting rights or in which, nonetheless, has the power to participate in the determination of the financial and management policies based on particular legal relationships;
- Joint venture: equity investment in companies through a joint arrangement in which the parties that hold joint control have rights over the net assets of the arrangement.

Recognition criteria
Equity investments are initially entered at cost, including the directly attributable ancillary charges.

Measurement criteria
Equity investments in subsidiaries, associates and subjects under joint control are shown in the financial statements by using the cost method as measurement criterion, net of the losses of value due to impairment.
If there is objective evidence of impairment, an estimate is made of the recoverable value of the same investment, considering the current value of the future cash flows the same may generate, including the final disposal value of the investment. Any decline in value is entered in the Income Statement under the item 'Profits (losses) on Equity investments'.

Derecognition criteria
Equity investments are cancelled when the right to receive the cash flow from the asset has expired, or where the equity investment is sold by substantially transferring all the risks and benefits connected to it.

Recognition of the income components
The dividends of the investees are booked in the item 'Dividend and similar income', in the year when the company resolved to distribute them.
Any value adjustments/write-backs connected to the valuation of the equity investments as well as profits or losses deriving from the disposal are recognised under the item 'Profits (losses) on Equity investments'.

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6 - TANGIBLE ASSETS

Classification criteria
The item mainly includes land, properties for functional use and properties held for investment purposes, the plants, vehicles, furniture, furnishings and equipment of any type for long-lasting use.
'Properties for functional use' are those owned to be used for providing services or for administrative purposes. Instead, included among the properties held for investment purposes are the properties owned in order to receive rental fees and/or for the appreciation of the invested capital.

Recognition criteria

The tangible assets are initially entered at purchase or construction cost, including any ancillary charges directly attributable to the purchase and commissioning of the asset.
The unscheduled maintenance expenses and the costs of an increasing nature that imply increased benefits being generated by the asset, if these can be identified and separated, are attributed to the assets they refer to and depreciated in relation to the residual possibility of using the same. If these improvements cannot be identified and separated, they are entered under 'Other Assets' and subsequently depreciated based on the length of the contracts they refer to for the third-party assets, or along the residual life of the asset, if owned.
The expenses for repairs, maintenance or other actions to ensure the ordinary operation of the assets are instead recognised in the Income Statement of the year when they are incurred.

Measurement criteria

After initial recognition, the tangible assets, including non-instrumental properties, notwithstanding the specifications below, are entered in the accounts at cost, net of accumulated depreciation and any write-downs for the long-lasting reductions in value, in compliance with the 'cost model'.
Tangible assets are systematically depreciated each year based on their useful life by adopting the straight line method as the depreciation criterion. The following are not subject to depreciation:

- land, whether purchased individually or incorporated in the value of the buildings, since considered to have an undefined useful life. If their value is incorporated in the value of the building, assets which are separate from the building are only the "free-standing" property assets; the subdivision between the value of the land and a value of the building is based on the appraisal of independent appraisers;
- works of art, whose useful life cannot be estimated, also since their value normally increases over time;
- the real estate investments measured at fair value in compliance with accounting standard IAS 40.

The depreciation process starts when the asset is available for use. For the assets acquired during the year, the depreciation is calculated on a daily basis starting from the date of using the asset.

Derecognition criteria

Tangible assets are eliminated from the Statement of financial position at the time of disposal or when they are permanently withdrawn from use and, as a consequence, no future economic benefits are expected which derive from their sale or use.
Capital gains and losses deriving from the release or disposal of the tangible assets are determined as the difference between the net sale payment and the carrying amount of the asset; they are recorded in the Income Statement at the same date when they are eliminated from the accounts.

Recognition of the income components

The systematic depreciation is recorded in the Income Statement under the item 'Net value adjustments/write-backs to tangible assets'.
In the first year the depreciation is recorded proportionally to the effective period of using the asset.
The assets subject to depreciation are adjusted for possible impairment losses each time events or changes in situations indicate that the carrying amount might not be recoverable.

A write-down for value impairment is recorded for an amount corresponding to the excess in the carrying amount compared to the recoverable value. The recoverable value of an asset is equal to the higher of the fair value, net of any sales costs, and the related value of using the asset, meant as the current value of the future flows originating from the asset. Any adjustments are recognised in the Income Statement.
If the reasons leading to recording the loss cease to apply, a write-back is recorded, which may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.
In the item 'Profit (loss) from disposal of investments', the positive or negative balance between the profits and losses on investments is recognised.

7 - INTANGIBLE ASSETS

Classification criteria

Accounting standard IAS 38 defines intangible assets as non-monetary assets without physical substance owned for use in a multi-year or undefined period, which meet the following characteristics:
• identifiability;
• the company holds control of them;
• it is probable that the expected future economic benefits attributable to the asset will flow into the company;
• the cost of the asset can be reliably measured.
In the absence of one of these characteristics, the expense to acquire or generate the same internally is recorded as a cost in the year when it was incurred.
Intangible assets include, in particular, the application software with multi-year use and the other identifiable intangible assets that originate from legal or contractual rights.

Recognition criteria

Intangible assets are entered at cost, adjusted for any ancillary costs incurred to arrange the use of the asset, only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the same asset may be determined reliably. Otherwise the cost of the tangible asset is recorded in the Income Statement in the year when it was incurred.

Measurement criteria

After initial recognition, intangible assets with finite useful life are recognised at cost, net of the accumulated amortisation and impairment losses.
The amortisation process starts when the asset is available for use, or when it is in the place and conditions suitable to be able to work in the set manner.
Amortisation is carried out with the straight line method, in a way to reflect the multi-year use of the assets based on the estimated useful life.
In the first year the depreciation is recorded proportionally to the effective period of using the asset.
Amortisation ends from the date when the asset is eliminated from the accounts.
At each year-end, given the presence of evidence of impairment losses, an estimate is made of the recoverable value of the asset.

The amount of the loss, recorded in the Income Statement, is equal to the difference between the carrying amount of the asset and its recoverable value.

Derecognition criteria

Intangible assets are eliminated from the Statement of financial position at the time of their disposal or when future economic benefits are not expected. Capital gains and losses from the release or disposal of an intangible asset are calculated as the difference between the net sale payment and the carrying amount of the asset and entered in the Income Statement.

Recognition of the income components

In the first year the depreciation is recorded proportionally to the effective period of using the asset.
In the item 'Net value adjustments/write-backs to intangible assets', the positive or negative balance between the value adjustments, amortisation and write-backs relating to the intangible assets is indicated. In the item 'Profit (loss) from disposal of investments', the positive or negative balance between the profits and losses on disposal of investments is recognised.

8 - NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR DISPOSAL

Classification criteria

This item includes the non-current assets held for sale and the associated groups of assets and liabilities held for disposal, according to the provisions of IFRS 5.
Assets and groups of assets are classified in this item whose carrying amount will be mainly recovered with a highly probable sale rather than their continuous use.
Since the sale is highly probable, Management at a suitable level must be committed to an asset disposal programme, and activities must be started to identify a buyer and complete the programme. In addition, the asset must be actively exchanged in the market and put up for sale, at a reasonable price compared to its current fair value (equal value). In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Recognition criteria

The non-current assets and groups of assets held for disposal are measured, at the time of initial recognition, at the lower between the carrying amount and the fair value net of sales costs.

Measurement criteria

These non-current assets and groups of assets held for disposal are measured at the lower between the carrying amount and the fair value net of sales costs.

Derecognition criteria

The non-current assets and groups of assets held for disposal are eliminated from the Statement of financial position at the time of disposal.
If an asset (or group held for disposal) held for sale do not meet the criteria for the entry in accordance with accounting standard IFRS 5, the asset (or group held for disposal) must no longer be classified as held for sale.
It is necessary to assess a non-current asset that ceases to be classified as held for sale (or ceases to be part of a group held for disposal and classified as held for sale) at the lower between:

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

9 - CURRENT AND DEFERRED TAXES

The items include the current and deferred tax assets and current and deferred tax liabilities recognized in application of IAS 12.
The income taxes, calculated in compliance with current taxation regulations, are recorded in the Income Statement on an accrual basis, in line with the recognition in the accounts of the costs and revenues that generated them, except for those relating to the entries charged or credited directly in the Equity, for which the recognition of the related taxation takes place in the Equity.

Current taxes

Current tax assets and liabilities are recorded at the value due or recoverable against the tax profit (loss) by applying the rates and the current taxation regulations. Current taxes that are entirely or partially unpaid at the reference date are posted under 'Current tax liabilities' of the Statement of financial position.
In case of overpayment, which gave rise to a recoverable receivable, this is accounted for among the 'Current tax assets' of the Statement of financial position.

Deferred taxes

Deferred tax assets and liabilities are booked using the so-called 'balance sheet liability method' taking into account the temporary differences between the carrying amount of an asset or a liability and its value recognised for tax purposes. They are calculated using the applicable tax rates according to current laws, in the year when the deferred tax asset will be realised or the deferred tax liability will be settled.
Tax assets are recorded only if it is deemed probable that in the future a taxable income will be realised, against which this asset may be used.
In particular tax regulations may lead to differences between taxable income and statutory income that, if temporary, only cause a temporal mismatch that implies the advance or deferment of the time of taxation compared to the period of accrual, thus determining a difference between the carrying amount of an asset or a liability in the Statement of financial position and its value recognised for tax purposes. These differences are distinguished between 'Deductible temporary differences' and 'Taxable temporary differences'.

Deferred tax assets

'Deductible temporary differences' indicate a future reduction in taxation, against a prepayment of tax compared to the economic-statutory accrual. They generate deferred tax assets since they will determine a lower tax burden in the future, on the condition that in the following years, taxable profits are realised in a sufficient measure to cover the realisation of the taxes paid in advance.

'Deferred tax assets' are recorded for all the deductible temporary differences if it is probable that a taxable income will be realised against which the deductible temporary differences may be used. However the probability of recovering advance taxes relative to goodwill, other intangible assets and adjustments to receivables is to be considered automatically fulfilled pursuant to the provisions of the law that provide for their transformation into a tax credit in the event of a statutory and/or tax loss.

The transformation enters into effect from the date of the approval of the shareholders' meeting of the separate financial statements in which the loss is recognised.

The origin of the difference between the higher fiscal income and the statutory one is mainly due to negative income components fiscally deductible in years that are subsequent to those of recognition in the financial statements.

Deferred tax liabilities

'Taxable temporary differences' indicate a future increase in taxation and consequently generate 'Deferred tax liabilities', since these differences give rise to taxable amounts in the following years to those when they are attributed to the statutory Income Statement, determining a deferment of the taxation compared to the economic-statutory accrual.

'Deferred tax liabilities' are recorded for all the taxable temporary differences with the exception of the deferred tax reserves since transactions that determine the taxation are not envisaged.

The origin of the difference between the lower fiscal income and the statutory one is due to:

- positive income components taxable in years after those when they were entered in the accounts;
- deductible negative income components in years prior to the one when they will be entered in the accounts according to statutory criteria.

Assets and liabilities entered for advance and deferred taxes are systematically measured to take into account any amendments taking place in the regulations or in the rates.

Advance taxes and deferred taxes are accounted for at capital level with open balances and without compensations and are booked in the item 'b) deferred tax assets' and in the item 'b) deferred tax liabilities'.

If the deferred tax assets and liabilities refer to components which concerned the Income Statement, the counter-entry is represented by income tax. In case the advance and deferred taxes concern transactions which directly regard the Equity without influencing the Income Statement (such as the measurement of financial instruments available for sale), these are entered as a counter-entry to the Equity, as the specific reserve is concerned.

10 - PROVISIONS FOR RISKS AND CHARGES

Classification criteria

In compliance with the provisions of IAS 37, the provisions for risks and charges include the provisions relating to current (legal or implicit) obligations originating from a past event, for which the use of economic resources is probable to fulfil the same obligation, as long as a reliable estimate of the related amount can be made.

Recognition criteria

Therefore, this item includes the following:

- 'Provision for credit risk relative to commitments and financial guarantees issued': the value of the total provisions for credit risk is recognised in respect of the commitments to disburse funds and financial guarantees issued which are subject to the impairment rules of IFRS 9 (see paragraph 2.1, letter e); paragraph 5.5; appendix A), including therein the financial guarantees issued and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15;
- 'Provision for other commitments and guarantees issued': the value of the total provisions in respect of other commitments and other guarantees issued which are not subject to the impairment rules of IFRS 9 is recognised (see IFRS 9, paragraph 2.1, letters e) and g));
- 'Provisions for retirement and similar obligations' includes the provisions in respect of benefits provided to the employee after terminating the employment relationship in the form of defined contribution plans or defined benefit plans;
- 'Other provisions for risks and charges': these includes other provisions for risks and charges established in compliance with the provisions of the international accounting standards (e.g. personnel expenses, tax disputes).

Measurement criteria

The amount recorded as allocation represents the best estimate possible of the charge requested to fulfil the existing obligation at the reference date.

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

The allocated funds are periodically reviewed and adjusted, if necessary, to reflect the best current estimate. If, following the review, the charge becomes unlikely to be incurred, the provision is cancelled. Concerning the funds relating to employee benefits, please see point 15.2 below.

Derecognition criteria

If it is unlikely that the use of resources to produce economic benefits to fulfil the obligation will be necessary, the provision must be cancelled. A provision must be used only for those expenses for which it was originally entered.

Recognition of the economic components

The provision is recorded in the Income Statement under the item 'Net allocations to provisions for risks and charges'.

The item includes the positive or negative balance between the allocations and any re-attributions to the Income Statement of funds deemed redundant.

The net allocations also include the decreases in funds for the discounting effect as well as the corresponding increases due to the passing of time (accrual of the interest implicit in discounting).

11- FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

Classification criteria

Financial liabilities measured at amortised cost are included in the broader category of the financial instruments and consist of those relations for which there is an obligation to pay certain amounts to third parties at set expiry dates.

Due to banks, Due to customers and Debt securities in issue include the various forms of interbank and customer funding and the collections made through certificates of deposit and bonds outstanding, net of any repurchased amounts which are not classified among 'Financial liabilities measured at fair value'. Securities that, at the reference date, are expired but still not repaid are included.

Recognition criteria

The initial recognition of these financial liabilities takes place upon receiving the sums collected or issuing the debt securities. The value at which they are entered corresponds to the related fair value, normally equal to the amount collected or the issue price, increased by any additional costs/income directly attributable to the individual funding or issue transaction and not repaid by the creditor counterparty. Internal costs of an administrative nature are excluded.

The fair value of the financial liabilities, possibly issued at different conditions from market conditions, is subject to a suitable estimate and the difference compared to the amount collected is directly recognised in the Income Statement.

The re-placement of own securities purchased, subject to previous cancellation from the accounts, is considered as a new issue with entry of the new placement price, without effects on the Income Statement.

Measurement criteria

Following initial recognition, carried out at fair value, on the date of signing of the contract, the financial liabilities are measured at the amortised cost, using the effective interest rate method.

Excluded are the short-term liabilities, where the time factor is negligible, which remain recorded at their collected value, and whose costs and income directly attributable to the transaction are entered in the Income Statement in the relevant items.

Derecognition criteria

The financial liabilities are cancelled from the financial statements when settled or expired, or when the Bank reacquired the securities it issued with a consequent redefinition of the debt entered for debt securities in issue.

Recognition of the income components

The negative income components represented by the interest expense are entered on an accrual basis in the items in the Income Statement relating to interest.

Any difference between the value of repurchasing own securities and the corresponding carrying amount of the liability is entered in the Income Statement under 'Gains (losses) on disposal/repurchase'.

12 - FINANCIAL LIABILITIES HELD FOR TRADING

Classification criteria

Subject to recognition in this item are the financial liabilities, whatever their technical form (debt securities, loans, etc.) classified in the trading portfolio.

The item includes the negative value of the trading derivative contracts. Derivatives connected to the fair value option are also included in this category (as defined in IFRS 9, paragraph 4.2.2) which are operationally related to the assets and liabilities measured at fair value which on the Statement of financial position date have a negative fair value, except for derivatives which are designated as effective hedging instruments and recognised under item 40 of Liabilities; if the fair value of a derivative subsequently becomes positive, it shall be recognised among financial assets measured at fair value through profit or loss.

Recognition criteria

The derivative financial instruments are entered at the subscription date and measured at fair value through profit or loss.

Measurement criteria

Subsequently to the initial recognition, the financial liabilities are measured at fair value through profit or loss.

For details regarding determination of the fair value please see paragraph 15.5 below 'Criteria for determining the fair value of financial instruments'.

Derecognition criteria

Financial liabilities held for trading are derecognised from the financial statements when the contractual rights to the relevant cash flows expire or when the financial liability is transferred with the substantial transfer of all the risks and rewards deriving from its ownership.

Recognition of the income components

The profits and losses deriving from the change in fair value and/or the sale of the derivative instruments connected to the fair value option are booked under 'Net result from trading' in the Income Statement.

13 - FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

Classification criteria

Classified in this item are those financial liabilities measured at fair value with valuation results entered in the Income Statement, based on the so-called fair value option set forth by paragraph 4.2.2 of IFRS 9, i.e. when:

- an inconsistency in the valuation or recognition is eliminated or significantly reduced (sometimes defined as an accounting mismatch), which would otherwise result from the measurement of assets or liabilities or the recognition of the associated profits and losses on a different basis;
- a group of financial liabilities or financial assets and liabilities is managed and its return is measured at fair value according to a documented risk management or investment strategy and the information relating to the group is provided internally on said basis to Executives with strategic responsibilities.

In particular, classified in the category in question are some own debenture loans related to issues made by the CR-BCCs and purchased by the Bank (measured at fair value among financial assets).

Recognition criteria

The initial recognition of the financial liabilities takes place at the issue date of the debt securities. Upon recognition, the financial liabilities measured at fair value are recorded at their fair value, which normally corresponds to the amount collected without considering the transaction costs or income directly attributable to the same instrument, which are instead attributed to the Income Statement.

Measurement criteria

Liabilities are measured at fair value. The income components are reported according to the provisions of IFRS 9, as below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve ('Statement of Comprehensive Income');
- the remaining fair value are booked to the income statement, under the item Net result of other financial assets and liabilities measured at fair value through profit or loss.

For details regarding determination of the fair value please see paragraph 15.5 below 'Criteria for determining the fair value of financial instruments'.

Derecognition criteria

The financial liabilities measured at fair value are cancelled from the financial statements when they have expired or are extinct.

Cancellation also takes place in case of repurchasing previously issued securities. The difference between the carrying amount of the liability and the amount paid to purchase is recorded in the Income Statement.

The re-placement on the market of own shares subsequently to their repurchase is considered as a new issue with entry of the new placement price, without effects on the Income Statement.

Recognition of the income components

The cost for interest on debt instruments is classified among the interest expense and similar charges of the Income Statement.

The income components relating to this financial statements item are reported according to the provisions of IFRS 9, as below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve ('Statement of Comprehensive Income');
- the remaining fair value are booked to the income statement, under the item Net result of other financial assets and liabilities measured at fair value through profit or loss.

14 - FOREIGN EXCHANGE TRANSACTIONS

Classification criteria

Among the assets and liabilities in foreign currencies, in addition to those explicitly expressed in a currency other than the Euro, are also those to which financial indexing clauses apply, connected to the Euro exchange rate with a certain currency or a given basket of currencies.

For the purpose of the conversion method to be used, the assets and liabilities in foreign currencies are subdivided into monetary items (classified among the current items) and non-monetary items (classified among the non-current items).

The monetary elements consist of cash at hand and in the assets and liabilities to be received or paid, in cash amounts that are fixed or to be determined. In non-monetary elements, the right to receive or the obligation to deliver a cash amount that is fixed or to be determined is absent.

Recognition criteria

Transactions in foreign currencies are recorded, at the time of initial recognition, in a currency account, by applying the exchange rate in force at the transaction date to the amount in a foreign currency.

Measurement criteria

At the time of closing the financial statements or the interim period, the elements originally denominated in foreign currencies are valued as follows:

- the monetary items are converted at the exchange rate at year-end;
- the non-monetary items measured at the historical cost are converted at the exchange rate in force at the transaction date;
- the non-monetary items measured at fair value are converted at the spot exchange rate at year-end.

Recognition of the income components

The exchange rate differences found between the transaction date and the related payment date, on the monetary elements, are booked in the Income Statement in the year when they arise, together with those which derive from the conversion of monetary elements at different rates from the initial conversion rates or the conversion at the previous year-end.

When a profit or loss relating to a non-monetary element is recorded in the Equity, the exchange rate difference relating to this element is also recorded in the Equity.

When a profit or loss is recorded in the Income Statement, also the related exchange rate difference is recorded in the Income Statement.

15 - OTHER INFORMATION

15.1 Sales and repurchase contracts (repos)

The securities sold and subject to repurchase agreements are classified as committed financial instruments, when the purchaser has a right under a contract or agreement to resell or lend the underlying; the liability of the counterparty is included in the liabilities to other banks, other deposits or customer deposits.
The securities purchased in relation to a resale contract are accounted for as loans or down payments to other banks or customers.
The difference between the sales price and the purchase price is booked as interest and recorded on an accrual basis along the lifespan of the transaction.

15.2 Provision for severance indemnity and seniority bonuses

Provision for severance indemnity (T.F.R.) is similar to a post-employment benefit of the defined benefit plan type the value of which IAS 19 requires to be determined using actuarial methodologies.
Consequently, the valuation at the end of the year is made on the basis of the benefits accrued using the projected unit credit method.
This method provides for a projection of future outflows based on historical, statistical and probability analysis as well as by virtue of adopting the appropriate basic demographic techniques.
It makes it possible to calculate the T.F.R. accrued on a certain day in actuarial terms, distributing the expense for all the years of expected residual permanence of the existing employees and no longer as an expense to be settled in the event that the company ceases its operations on the reference date.
The valuation of the employee T.F.R. was carried out by an independent actuary pursuant to the method indicated above.
Following the entry into effect of the supplementary pension reform, pursuant to Italian Legislative Decree no. 252/2005, the portions of the provision for severance indemnity (T.F.R.) accrued to 31.12.2006 will remain in the company, while the portions that accrue from 1 January 2007 have been, based on the employee's choice, applied to supplementary pension plans or the INPS fund.
The latter were therefore recognized in the income statement based on the contributions due in each year; the Bank did not discount the obligation to the supplementary fund or the INPS as its maturity is less than 12 months.
Based on IAS 19, the T.F.R. paid to the Pension Fund Treasury (INPS) is considered as a defined contribution plan, as is the amount paid into the supplementary fund.
The portions accrued and paid into the supplementary pension funds are recognised in income statement sub-item 150 a).
These cases are configured as a defined contribution plan since the obligation of the company towards the employee ends with the payment of the accrued amounts. Therefore, for these cases, only the portion of the debt can be recorded under the Bank's liabilities (among 'other liabilities') for payments still to be made to the INPS or the supplementary funds, on the reference date.
IAS 19 requires all actuarial gains and losses accrued on the reference date to be immediately recognised in the 'Statement of comprehensive income' - OCI.
The 'other long-term benefits' described by IAS 19 also include the seniority bonuses to employees. These benefits must be valued, in compliance with IAS 19, with the same methodology used to determine the provision for severance indemnity, as these are compatible.

The liability for the seniority bonus is recorded under the provisions for risks and charges of the statement of financial position.
The allocation, as the reattribution to the Income Statement of any excesses of the specific fund (due for example to changes to the actuarial assumptions) are recognized in the Income Statement among the “Personnel costs”.

15.3 Recognition of revenues and costs

The Bank adopts a disaggregation of revenues from services at a given moment in time or over a period of time.
A ‘performance obligation’ is satisfied over a period of time if at least one of the following conditions is met:
- the customer controls the asset involved in the contract at the moment in which it is created or enhanced;
- the customer simultaneously receives or consumes the benefits provided by the entity’s performance as the entity performs;
- the company’s performance creates a personalised asset for the customer and the company has a payment right for the services completed at the date of transfer of the asset.

If none of the above criteria are met, then the revenue is recognised at a given moment in time. The indicators of the transfer of control are i) the payment obligation ii) the legal title to the right for the consideration accrued iii) the physical possession of the asset iv) the transfer of the risks and benefits connected with ownership v) acceptance of the asset.
With regards to revenues realised over a period of time, the Bank adopts a time-based accounting method.
In relation to the above, the main approaches adopted by the Bank are summarised below:
- the interest is recognised on a temporal basis, based on the contractual interest rate or the effective rate in the case of application of the amortised cost;
- the overdue interest, possibly set contractually, is booked in the Income Statement only at the time of its actual collection;
- the dividends are recorded in the Income Statement in the period in which their distribution is resolved, which coincides with the period when they are collected;
- the commissions for revenues from services are entered, based on the existence of contractual agreements, in the period when the same services were rendered;
- the revenues from the sale of non-financial assets are recorded at the time of finalising the sale, unless the bank has maintained most of the risks and benefits connected to the asset.

The costs are booked to the Income Statement according to the accruals principles; the costs relating to the obtainment and fulfilment of the contracts with the customer are recognised in the Income Statement in the periods in which the associated revenues are recognised.

15.4 Improvements to third-party assets

The restoration costs on third-party properties are capitalised in consideration of the fact that, throughout the duration of the lease, the using company has the control of the goods and may gain future economic benefits from them. The aforementioned costs are classified among the ‘Other assets’ and are amortised for a period not exceeding the duration of the lease.

15.5 Criteria for determining the fair value of financial instruments

IFRS 13 defines fair value as: 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial liabilities, the fair value definition in IFRS 13 requires identification as fair value of that amount that would be paid for the transfer of the same liability (exit price), rather than the value required to extinguish that liability.

With regards to the determination of the fair value of OTC derivatives in statement of financial position assets, IFRS 13 confirmed the rule of applying the Credit Valuation Adjustment - CVA. With regard to financial liabilities involving OTC derivatives, IFRS 13 introduces the Debit Valuation Adjustment (DVA), i.e. an adjustment to fair value which aims to reflect its own default risk on those instruments.

The Bank therefore considered it reasonable not to recognise a correction in the fair value of derivatives for CVA and DVA in the cases in which agreements had been made and remained operative for collateralisation of the positions and derivatives with the following characteristics:

- a bilateral exchange of guarantees with a high frequency (daily or at the most weekly);
- the type of guarantee provided in cash or highly liquid government securities with a high credit rating, subject to an appropriate spread;
- absence of a threshold of the fair value of the derivative under which an exchange of guarantees is not required or setting the level to such a threshold which is adequate to allow for effective and significant mitigation of the counterparty risk;
- MTA - Minimum Transfer Amount (that is the difference between the fair value of the contract and the value of the guarantee) under which there is no adjustment of the collateralisation of the positions, identified contractually at a level that allows for essential mitigation of the counterparty risk.

The fair value of the investments listed on active markets is determined based on the prices (the official price or another equivalent price on the last day that the stock exchange is open in the reporting period) of the principal or most advantageous market which the Bank has access to. To this end, a financial instrument is regarded as quoted in an active market if listed prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If there is no active market, the fair value is determined using the valuation techniques which are generally accepted (method based on market valuation, the cost method and the income method), which estimate the price that would apply in an ordinary transaction involving the sale or transfer of a liability between market operators on the valuation date, at arm's length. These valuation techniques provide the usage of, in the order of hierarchy indicated below:

1. the listed prices for assets and liabilities in markets which are not active (for example those prices which can be obtained from external info-providers) or the prices of similar assets and liabilities in active markets;
2. the fair value obtained from valuation models (for example, Discounting Cash Flow Analysis, Option Pricing Models) which include the representative risk factors that affect the fair value of a financial instrument (cost of money, credit risk, volatility, exchange rates, etc.) based on data which can be observed on the market, in relation also to similar instruments, on the valuation date. If market data is not available for one or more risk factors, internally determined parameters are used which are based on history and statistics.
   The valuation models are reviewed periodically to ensure their full and constant reliability;

3. the price indications provided by the issuing counterparty, as adjusted to take into account counterparty risk and/or liquidity risk (for example, the value of the unit communicated by the asset management company for closed end funds restricted to institutional investors or other types of non-harmonised UCITS - non UCITS Undertakings for Collective Investment in Transferable Securities, the redemption value determined pursuant to the issuing regulation for insurance contracts);
4. for equity-linked instruments, if the valuation techniques above do not apply: i) the value ensuing from independent appraisals if available; ii) the value corresponding to the portion of the equity held, as this results from the last financial statements approved by the company; iii) the cost, adjusted as necessary to take into account significant amounts of impairment, where the fair value cannot be determined reliably;
5. for loans and receivables, for which fair value is calculated only in order to provide appropriate information for the financial statements, the contractual cash flows are discounted net of the expected losses calculated on the basis of the borrower's credit rating, using the corresponding interest rate structure for the maturity.

The fair value used for valuation of the financial instruments, based on the criteria provided above, is broken down into the following levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process:

Level 1 - listed prices (without adjustments) in active markets for assets and liabilities that are identical which the entity can access on the valuation date and the last NAV (Net Asset Value) published by the asset management company for harmonised funds and sicavs (UCITS - Undertakings for Collective Investment in Transferable Securities);

Level 2 - inputs other than the listed prices which are included in Level 1 which can be observed directly or indirectly for the asset or the liability. The valuation methods based on market valuations that mainly use data that is observable on the market and the prices provided by external information providers belong to this level;

Level 3 - inputs that are not observable for assets and liabilities but which reflect the assumptions that market operators would use to determine the price of the asset or the liability. The prices provided by issuing counterparties or which are based on independent appraisals, as well as those obtained using valuation models that do not use market data to estimate significant factors that affect the fair value of the financial instrument belong to this level. Also under Level 3 are the valuations of financial instruments at cost or which correspond to the fraction of the equity held by the company.

A listed price on an active market provides the most reliable fair value and, where this is available, must be used without any adjustment in order to measure the fair value.

If there are no prices listed on active markets the financial instruments must be classified in levels 2 or 3.

Classification in Level 2 rather than Level 3 is determined based on the ability to observe on the market significant inputs used to determine the fair value.

The Level 2 inputs include:

- prices listed for similar assets or liabilities on active markets;
- prices listed for similar or identical assets or liabilities on non-active markets;
- figures other than the listed prices for assets or liabilities (for example the interest rates and yield curve which can be observed at intervals that are commonly listed; implicit volatility and credit spreads);
- inputs corroborated by the market.

All other variables used in valuation techniques that cannot be corroborated based on data observable on the market are not considered to be observable.
If the fair value of a financial instrument is not determined through the price recognised in an active market (Level 1), the overall fair value may present, at the phase of its determination based on valuation models, inputs which are observable or not observable. However, the level attributed must be unique and for this reason it must refer to the instrument as a whole; the unique level attributed thus reflects the lowest level of import with a significant effect in the determination of the fair value of the instrument.
In order for data which cannot be observed on the market to have a significant effect in the overall determination of the fair value of the instrument, the overall impact is measured such as to render uncertain (i.e. of significant variability), the overall valuations; in the event in which the weight of the data which cannot be observed prevails, the level attributed is '3'.
Among the main rules applied for the determination of the fair value levels we note that the following are considered to be "Level 1": government debt securities, corporate debt securities, equities, open ended funds, derivative financial instruments and financial liabilities issued the fair value of which corresponds, on the valuation date, to a price which is listed on an active market.
The following are considered to be 'Level 2':
- government debt securities, corporate debt securities, equities, open ended funds and financial liabilities issued by issuers of national and international stature, which are not listed on an active market and which are measured mainly through the data observable on the market;
- OTC (Over the counter) financial derivatives concluded with institutional counterparties measured mainly through observable data market.

Finally, the following are classified under 'Level 3':
- equities and financial liabilities issued, for which there are no listed prices on active markets on the valuation date and which are mainly valued on the basis of a technique using data which cannot be observed on the market and whose impacts are not negligible;
- OTC (Over the counter) financial derivatives concluded with institutional counterparties, which are valued on the basis of pricing models which are altogether similar to those used for the valuation in 'Level 2' and which are differentiated on the basis of the level of observe ability of the input data used in the pricing techniques (we refer mainly to implicit correlations and volatility);
- the derivative financial instruments concluded with customers for whom the fair value adjustment portion which takes into account the risk of default is significant compared to the total value of the financial instrument.

IFRS 13 furthermore requires that, for financial assets classified under 'Level 3',
a disclosure must be made in regard to the sensitivity of the economic results following the change to one or more non-observable parameters used and the measurement techniques for determination of the fair value.

15.6 Business Combinations

A business combination consists of the bringing together of companies or company activities in a single entity kept at the drafting of the financial statements.

A business combination may give rise to investment link between the parent company (acquiror) and subsidiary (acquiree). A business combination may also make provision for the purchase of the net assets of another company, including any goodwill, or the acquisition of the capital of another company (mergers and contributions).

Based on the provisions of IFRS 3, business combinations must be accounted for by applying the purchase method which envisages the following phases:

- identification of the purchaser;
- determination of the cost of the business combination;
- allocation, at the acquisition date, of the cost of the business combination to the assets acquired and liabilities assumed, including therein any contingent liabilities.

In particular, the cost of a business combination is determined as the sum of the fair value, at the date of the exchange, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued, in exchange for control of the acquiree. augmented by any cost directly attributable to the business combination.

The acquisition date is the date on which control of the acquiree is effectively obtained. When the acquisition is carried out via a single exchange, the exchange date coincides with the acquisition date.

When the business combination is achieved through several exchange transactions:

- the cost of the combination is the total cost of the individual transactions;
- the exchange date is the date of each exchange transaction (i.e. the date on which each investment is recognised in the financial statements of the acquiring company), while the acquisition date is the date on which control of the acquiree is obtained.

The cost of a business combination is allocated by recognising the identifiable assets, liabilities and contingent liabilities of the acquiree at the associated fair values at the acquisition date.

The identifiable assets, liabilities and contingent liabilities of the acquiree are recognised separately at the acquisition date only if, at said date, they satisfy the following criteria:

- in the event of an asset other than an intangible asset, it is likely that any future related economic benefits flow to the acquiror and it is possible to reliably measure its fair value;
- in the event of a liability other than a contingent liability, it is likely that, to extinguish the obligation, the use of resources aimed at generating economic benefits will be necessary and it is possible to reliably measure its fair value;
- in the event of an intangible asset or a contingent liability, the relevant fair value can be reliably measured.

The positive difference between the cost of the business aggregation and the acquiror's interest at the net fair value of the identifiable assets, liabilities and contingent liabilities must be accounted for as goodwill.

Following initial recognition, the goodwill acquired in a business combination is measured at the relevant cost, and is subject to an impairment test at least annually. In the event of a negative difference, a new measurement is performed. This negative difference, if confirmed, is booked immediately as revenue in the income statement.

15.7 Accruals and deferrals

Accruals and deferrals that include expenses and income pertaining to the period accrued on assets and liabilities are booked to the financial statements as an adjustment to the assets and liabilities to which they refer.

15.8 Share based payments

This case does not apply to the Bank, as it does not have a so-called 'stock option plan' in place on bank-issued shares.

A.3 - INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

During the year, the Bank did not carry out any business model changes in relation to its financial assets and, therefore, no transfers between portfolios of financial assets were registered.

A.4 - INFORMATION ON FAIR VALUE

For an examination of the methods used by the Bank to measure the fair value levels of the assets and liabilities, for the purposes of both financial statements valuations, and the disclosure to be provided in the Explanatory Notes for certain assets/liabilities measured at amortised cost/at cost, please also see the paragraphs relating to the different accounting categories contained in part 'A.1 General Part' and, in particular, 'Criteria for determining the fair value of financial instruments' in part A.2 'Part regarding the main items in the accounts', 15 - 'Other information'.

INFORMATION OF A QUALITATIVE NATURE

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

For assets and liabilities measured at fair value on a recurring basis in the financial statements, in the absence of prices on active markets, the Bank uses valuation methods in line with the requirements of the accounting standards (fair value levels) and with the methodologies generally accepted and used by the market.
The valuation models include techniques based on the discounting of future cash flows and estimated volatility, as well as the use of credit spreads. It should be noted that the only items measured at fair value in the financial statements are on a recurring basis and are represented by financial assets and liabilities.
In particular, in the absence of prices on active markets, the financial instruments are measured using the methods below. In some cases, the fair value of the assets and liabilities, in compliance with the following methods, was calculated via outsourcing by third parties. In particular, these valuation techniques provide the usage of, in the order of hierarchy indicated below:

1. the listed prices for assets and liabilities in markets which are not active (for example those prices which can be obtained from market info-providers) or the prices of similar assets and liabilities in active markets;
2. the fair value obtained from valuation models (for example, Discounting Cash Flow Analysis, Option Pricing Models) which include the representative risk factors that affect the fair value of a financial instrument (cost of money, credit risk, volatility, exchange rates, etc.) based on data which can be observed on the market, in relation also to similar instruments, on the valuation date. If market data is not available for one or more risk factors, internally determined parameters are used which are based on history and statistics. The valuation models are reviewed periodically to ensure their full and constant reliability;
3. the price indications provided by the issuing counterparty, as adjusted to take into account counterparty risk and/or liquidity risk (for example, the value of the unit communicated by the asset management company for closed end funds restricted to institutional investors or other types of non-harmonised UCITS - non UCITS Undertakings for Collective Investment in Transferable Securities, the redemption value determined pursuant to the issuing regulation for insurance contracts);
4. for equity-linked instruments, if the valuation techniques above do not apply: i) the value ensuing from independent appraisals if available; ii) the value corresponding to the portion of the equity held, as this results from the last financial statements approved by the company; iii) the cost, adjusted as necessary to take into account significant amounts of impairment, where the fair value cannot be determined reliably;
5. for loans and receivables, for which fair value is calculated only in order to provide appropriate information for the financial statements, the contractual cash flows are discounted net of the expected losses calculated on the basis of the borrower's credit rating, using the corresponding interest rate structure for the maturity.

If there are no prices listed on active markets the financial instruments must be classified in levels 2 or 3.
Classification in Level 2 rather than Level 3 is determined based on the ability to observe on the market significant inputs used to determine the fair value.

The Level 2 inputs include:
- prices listed for similar assets or liabilities on active markets;
- prices listed for similar or identical assets or liabilities on non-active markets;
- market figures other than the listed prices for assets or liabilities (for example the interest rates and yield curve which can be observed at intervals that are commonly listed; implicit volatility and credit spreads);
- inputs corroborated by the market.

All other variables used in valuation techniques that cannot be corroborated based on data observable on the market are not considered to be observable.

If the fair value of a financial instrument is not determined through the price recognised in an active market (Level 1), the overall fair value may present, at the phase of its determination based on valuation models, inputs which are observable or not observable. However, the level attributed must be unique and for this reason it must refer to the instrument as a whole; the unique level attributed thus reflects the lowest level of import with a significant effect in the determination of the fair value of the instrument.

In order for data which cannot be observed on the market to have a significant effect in the overall determination of the fair value of the instrument, the overall impact is measured such as to render uncertain (i.e. of significant variability), the overall valuations; in the event in which the weight of the data which cannot be observed prevails, the level attributed is '3'.

Among the main rules applied for the determination of the fair value levels we note that the following are considered to be "Level 1": government debt securities, corporate debt securities, equities, open ended funds, derivative financial instruments and financial liabilities issued the fair value of which corresponds, on the valuation date, to a price which is listed on an active market.

The following are considered to be 'Level 2':
- government debt securities, corporate debt securities, equities, open ended funds and financial liabilities issued by issuers of national and international stature, which are not listed on an active market and which are measured mainly through the data observable on the market;
- OTC (Over the counter) financial derivatives concluded with institutional counterparties measured mainly through observable data market.

Finally, the following are classified under 'Level 3':
- equities and financial liabilities issued, for which there are no listed prices on active markets on the valuation date and which are mainly valued on the basis of a technique using data which cannot be observed on the market whose impact is not negligible;
- OTC (Over the counter) financial derivatives concluded with institutional counterparties, which are valuated on the basis of pricing models which are altogether similar to those used for the valuation in 'Level 2' and which are differentiated on the basis of the level of observe ability of the input data used in the pricing techniques (we refer mainly to implicit correlations and volatility);
- the derivative financial instruments concluded with customers for whom the fair value adjustment portion which takes into account the risk of default is significant compared to the total value of the financial instrument.

IFRS 13 furthermore requires that, for financial assets classified under 'Level 3', a disclosure must be made in regard to the sensitivity of the economic results following the change to one or more non-observable parameters used and the measurement techniques for determination of the fair value.

A.4.2 PROCESSES AND SENSITIVITIES OF THE VALUATIONS

The Bank generally conducts a sensitivity analysis of the non-observable inputs, through a stress test on all significant non-observable inputs for the valuation of the different types of financial instruments belonging to level 3 of the fair value hierarchy; based on this test, the potential changes in fair value are determined, per instrument type, attributable to plausible variations in non-observable inputs.

With reference to the financial statements as at 31.12.2018, the Bank did not carry out said analysis with reference to the assets classified to level 3 of the fair value hierarchy represented by investments in unlisted equity instruments in active markets and whose fair value cannot be reliably determined; these instruments, as already stated, are maintained at cost and written down, with recognition in the income statement, in the event impairment is verified.

The fair value of AT1 instruments, subscribed by funds of the category as part of support initiatives, is determined on the basis of the methodologies described below.

The recent issuing and subscription of said instruments (so-called hybrid capitalisation instruments) involves pricing analysis being affected by a quite contained market and available historical references (sufficiently reliable) on significant events that characterise said instruments (continuous payments of coupons, reduction of nominal value for loss absorption clause, exercise of options present, etc.).

The instruments were issued and subscribed as part of the projects for the support and relaunch of banks as a result of combinations with more vulnerable sister companies, nonetheless, in view of the credibility and medium-term sustainability of the relevant relaunch plans as the three-year business plans examined by the subscribing institutions certify; therefore, they are not based on different and structural approaches to the long-term composition of the Bank's regulatory capital or the legislative requirements on the composition of liabilities (i.e. MREL) which can be traced back to other transactions on the markets but are impacted, within the context of the BCCs - by the reduced availability of "traditional" capital strengthening instruments (shares), which cooperative credit banks are structurally impacted by. Now partially remedied, prospectively speaking, through the parent company's possible subscription of the shares set out in art. 150-ter of the TUB.

They essentially assume the functions and purposes (best in terms of capital quality), up until today related to the majority of subordinated securities issued by the banks in the category.

Therefore, considering the absence of a market characterised by functional transactions to be taken as a reference, in defining a theoretical pricing model for said instruments (or similar instruments), two components take on significance:

a) Rate of return on subordinated securities with similar seniority;

b) Duration of the security as well as its structure.

A.4.3 FAIR VALUE HIERARCHY

For an examination of the methods used by the Bank to determine the fair value levels of the assets and liabilities, please see paragraph 'Criteria for determining the fair value of financial instruments' in part A.2 'Part regarding the main items in the accounts', 15 - 'Other information'.

A.4.4 OTHER INFORMATION

The Bank does not manage groups of financial assets and liabilities based on its net exposure to market risks or credit risk.

The Bank, with reference to derivatives concluded with financial counterparties with which it stipulated framework offsetting agreements, availed itself of the possibility to measure the fair value at overall portfolio exposure level in order to take account of the offsetting of counterparty risk. The CVA/DVA calculated at portfolio level is allocated to the individual derivative contracts based on the fair value of the said individual contracts forming the object of the offsetting agreements.

INFORMATION OF A QUANTITATIVE NATURE

A.4.5 FAIR VALUE HIERARCHY

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

Financial assets/liabilities measured at fair value	Total 2018		
	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss	52,085	15,814	21,001
a) financial assets held for trading	3,309	12,361	-
b) financial assets measured at fair value	-	3,098	-
c) other financial assets obligatorily measured at fair value	48,776	355	21,001
2. Financial assets measured at fair value through other comprehensive income	1,753,867	10,723	44,124
3. Hedging derivatives	-	-	-
4. Tangible assets	-	-	-
5. Intangible assets	-	-	-
TOTAL	1,805,952	26,537	65,125
1. Financial liabilities held for trading	-	11,597	-
2. Financial liabilities measured at fair value	-	9,449	-
3. Hedging derivatives	-	-	-
TOTAL	-	21,046	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	Of which: a) financial assets held for trading	Of which: b) financial assets measured at fair value	Of which: c) other financial assets obligatorily measured at fair value				
1. Opening balances	21,581	-	-	21,581	43,388	-	-	-
2. Increases	-	-	-	-	2,012	-	-	-
2.1 Purchases	-	-	-	-	1,680	-	-	-
2.2 Profit	-	-	-	-	-	-	-	-
2.2.1 Income Statement	-	-	-	-	-	-	-	-
- of which: Capital gains	-	-	-	-	-	-	-	-
2.2.2 Equity	-	-	-	-	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	332	-	-	-
3. Decreases	580	-	-	580	1,276	-	-	-
3.1 Sales	-	-	-	-	564	-	-	-
3.2 Reimbursements	126	-	-	126	-	-	-	-
3.3 Losses	-	-	-	-	-	-	-	-
3.3.1 Income Statement	-	-	-	-	-	-	-	-
- of which capital losses	-	-	-	-	-	-	-	-
3.3.2 Equity	-	-	-	-	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	454	-	-	454	712	-	-	-
4. Closing balances	21,001	-	-	21,001	44,124	-	-	-

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

At the reporting date, the Bank does not hold any liabilities measured at fair value on a recurring basis (level 3).

A.4.5.4 Assets and liabilities which are not measured at fair value or which are measured at fair value on non-recurring basis: breakdown by fair value levels.

Assets and liabilities which are not measured at fair value or which are measured at fair value on a non-recurring basis	December 2018				December 2017			
	Carrying amount	Level 1	Level 2	Level 3	Carrying amount	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	4,343,215	1,207,220	111,008	2,733,640	2,819,775	629,454	48,946	2,158,131
2. Tangible assets held for investment purposes	-	-	-	-	-	-	-	-
3. Non-current assets and groups of assets held for disposal	-	-	-	-	-	-	-	-
TOTAL	4,343,215	1,207,220	111,008	2,733,640	2,819,775	629,454	48,946	2,158,131
1. Financial liabilities measured at amortised cost	5,322,802	-	10,141	5,312,714	4,740,106	-	10,088	4,730,018
2. Liabilities associated to assets held for disposal	-	-	-	-	-	-	-	-
TOTAL	5,322,802	-	10,141	5,312,714	4,740,106	-	10,088	4,730,018

A.5 - INFORMATION ON THE'DAY ONE PROFIT LOSS'

The disclosure refers to any differences between the transaction price and the value obtained by using valuation techniques, which emerge at the moment of first-time recognition of a financial instrument and are not immediately booked to the income statement, based on the provisions of paragraph B5.1.2 A of IFRS 9.
In this regard, it should be noted that, during the year, the Bank did not carry out any transactions for which, at the moment of first-time recognition of a financial instrument, a difference emerges between the purchase value and the value of the instrument obtained using internal valuation techniques.
Consequently, no disclosure is provided as required by IFRS 7, par. 28.

PART B
INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

ASSETS

SECTION 1

CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	Total 2018	Total 2017
a) Cash	123,873	97,158
b) Demand deposits at central banks	-	599,987
TOTAL	123,873	697,145

The currencies with legal tender are recorded under this item. The sub-item 'Cash' includes foreign currencies for a value equal to EUR 7,292 thousand. The aggregate does not include the obligatory reserve since it is included in item 60 of the asset 'Loans to banks'. The sub-item 'Demand deposits at central banks' refers to these relations held with the Bank of Italy and the European Central Bank.

SECTION 2

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 20

2.1 Financial assets held for trading: breakdown by category

Items/Values	Total 2018		
	Level 1	Level 2	Level 3
A Cash assets			
1. Debt securities	-	-	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	-	-	-
2. Equities	3,309	-	-
3. UCITS units	-	-	-
4. Loans	-	-	-
4.1 Repos	-	-	-
4.2 Other	-	-	-
TOTAL A	3,309	-	-
B Derivative instruments			
1. Financial derivatives	-	12,361	-
1.1 trading	-	12,361	-
1.2 connected to the fair value option	-	-	-
1.3 other	-	-	-
2. Credit derivatives	-	-	-
2.1 trading	-	-	-
2.2 connected to the fair value option	-	-	-
2.3 other	-	-	-
TOTAL B	-	12,361	-
TOTAL (A+B)	3,309	12,361	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

This item contains the financial assets (debt securities, equities, UCITS units, and derivatives) classified in the trading portfolio. The cash assets under point 2. Equities mainly represent the financial instruments managed by third parties as part of securities asset management. The debt securities consist of Italian government bonds.

2.2 Financial assets held for trading: breakdown by debtors/issuers/counterparties

Items/Values	Total 2018
A. Cash assets	
1. Debt securities	-
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non financial companies	-
2. Equities	3,309
a) Banks	286
b) Other financial companies	408
of which: insurance companies	258
c) Non financial companies	2,616
d) Other issuers	-
3. UCITS units	-
4. Loans	-
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non financial companies	-
f) Households	-
TOTAL A	3,309
B. Derivative instruments	
a) Central counterparties	-
b) Other	12,361
TOTAL B	12,361
TOTAL (A + B)	15,670

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

2.3 Financial assets measured at fair value: breakdown by category

Items/Values	Total 2018		
	Level 1	Level 2	Level 3
1. Debt securities	-	3,098	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	-	3,098	-
2. Loans	-	-	-
2.1 Structured	-	-	-
2.2 Other	-	-	-
TOTAL	-	3,098	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

2.4 Financial assets measured at fair value: breakdown by debtors/issuers

Items/Values	Total 2018
1. Debt securities	3,098
a) Central Banks	-
b) Public bodies	-
c) Banks	3,098
d) Other financial companies	-
of which: insurance companies	-
e) Non financial companies	-
2. Loans	-
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non financial companies	-
f) Households	-
TOTAL	3,098

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

In this item only the bonds purchased from the CR-BCCs are classified. For these securities, related to bonds of equal characteristics and value issued by us and recorded in item 50 of Liabilities, the fair value option is applied. This methodology represented for the Bank the most reliable and convenient possibility to account for the hedging transactions that naturally offset one another (so-called natural hedge).

2.5 Other financial assets obligatorily measured at fair value: breakdown by category

Items/Values	Total 2018		
	Level 1	Level 2	Level 3
1. Debt securities	-	-	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	-	-	-
2. Equities	-	-	-
3. UCITS units	48,776	355	-
4. Loans	-	-	21,001
4.1 Repos	-	-	-
4.2 Other	-	-	21,001
TOTAL	48,776	355	21,001

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

2.6 Other financial assets obligatorily measured at fair value: breakdown by debtors/ issuers

Items/Values	Total 2018
1. Equities	-
of which: Banks	-
of which: other financial companies	-
of which: non financial companies	-
2. Debt securities	-
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non financial companies	-
3. UCITS units	49,131
4. Loans	21,001
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	16,011
of which: insurance companies	-
e) Non financial companies	4,780
f) Households	209
TOTAL	70,132

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

The item 'UCITS units' is composed of the following main categories of open funds:
- bond totalling EUR 31,626 thousand;
- balanced totalling EUR 17,150 thousand.

SECTION 3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - ITEM 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by category

Items/Values	Total 2018		
	Level 1	Level 2	Level 3
1. Debt securities	1,753,867	-	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	1,753,867	-	-
2. Equities	-	10,723	44,124
3. Loans	-	-	-
TOTAL	1,753,867	10,723	44,124

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

3.2. Financial assets measured at fair value through other comprehensive income: breakdown by debtors/issuers

Items/Values	Total 2018
1. Debt securities	1,753,867
a) Central Banks	-
b) Public bodies	1,753,867
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non financial companies	-
2. Equities	54,847
a) Banks	44,177
b) Other issuers:	10,671
- other financial companies	1,395
of which: insurance companies	-
- non financial companies	9,276
- other	-
3. Loans	-
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non financial companies	-
f) Households	-
TOTAL	1,808,715

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total value adjustments

	Gross value				Total value adjustments			Overall partial write-offs
	First stage		Second stage	Third stage	First stage	Second stage	Third stage	
		of which instruments with low credit risk						
Debt securities	1,756,365	-	-	-	2,498	-	-	-
Loans	-	-	-	-	-	-	-	-
TOTAL (T)	1,756,365	-	-	-	2,498	-	-	-
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	-	-

The division by stage of risk of financial assets measured at fair value through other comprehensive income is applied in compliance with the provisions of the new impairment model as introduced with the application of the new IFRS 9 accounting standard. For more details, please refer to Part A – Accounting policies, A.1 – General part, Section 4 - Other matters.

SECTION 4 FINANCIAL ASSETS MEASURED AT AMORTISED COST - ITEM 40

4.1 Financial assets measured at amortised cost: breakdown by category of loans to Banks

Transaction type/Values	Total 2018					
	Carrying amount			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	Level 1	Level 2	Level 3
A. Loans to Central Banks	173,126	-	-	-	-	173,126
1. Fixed-term deposits	-	-	-	-	-	-
2. Compulsory reserve	173,126	-	-	-	-	-
3. Repos	-	-	-	-	-	-
4. Other	-	-	-	-	-	-
B. Loans to banks	1,919,207	-	-	-	110,308	1,803,901
1. Loans	1,803,901	-	-	-	-	1,803,901
1.1 Current accounts and deposits on demand	78,906	-	-	-	-	-
1.2. Fixed-term deposits	116,909	-	-	-	-	-
1.3. Other loans:	1,608,085	-	-	-	-	-
- Repos receivables	-	-	-	-	-	-
- Finance leases	-	-	-	-	-	-
- Other	1,608,085	-	-	-	-	-
2. Debt securities	115,306	-	-	-	110,308	-
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	115,306	-	-	-	110,308	-
TOTAL	2,092,333	-	-	-	110,308	1,977,027

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

The item 'Other loans-other' consists of loans secured by eligible ECB securities offered to the BCC-CR-RAIKAs as part of the 'Collateral Account' service, activated in order to intermediate the BCC-CR-RAIKAs not only on the refinancing transactions by the European Central Bank but also on the repo market. As part of these services, based on the financial guarantee agreements pursuant to Italian Legislative Decree no. 170 of 21 May 2004, Cassa Centrale Banca obtained the transfer of legal ownership of eligible securities from the BCC-CR-RAIKAs. These securities can therefore be used by the Bank to guarantee the participation in the refinancing operations of the European Central Bank and for the stipulation of transactions on the repo market.

4.2 Financial assets measured at amortised cost: breakdown by category of loans to customers

Transaction type/Values	Total 2018					
	Carrying amount			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	Level 1	Level 2	Level 3
Loans	996,525	20,836	-	-	-	756,614
1.1. Current accounts	40,320	3,443	-	-	-	-
1.2. Repos receivables	-	-	-	-	-	-
1.3. Mortgage loans	827,437	15,523	-	-	-	-
1.4. Credit cards, personal loans and salary-backed loans	-	-	-	-	-	-
1.5. Finance leases	-	-	-	-	-	-
1.6. Factoring	-	-	-	-	-	-
1.7. Other loans	128,769	1,870	-	-	-	-
Debt securities	1,233,521	-	-	1,207,220	700	-
1.1. Structured securities	-	-	-	-	-	-
1.2. Other debt securities	1,233,521	-	-	1,207,220	700	-
TOTAL	2,230,046	20,836	-	1,207,220	700	756,614

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

Loans to customers are shown net of value adjustments from write-downs.
Impaired assets include the non performing loans, unlikely to pay and past due exposures according to the definitions of the Bank of Italy. Details of these exposures, the amounts and the breakdown of the value adjustments, are shown in Part E of the Explanatory notes – 'Credit quality'.
The fair value of short-term or revocable receivables was conventionally assumed to be equal to the carrying amount. For the impaired positions it was deemed appropriate to assume the fair value equal to the net carrying amount.
The receivables include loans in foreign currencies totalling EUR 69 thousand.
Among other things, 3 bonds were recognised under the sub-item 'Other debt securities' (EUR 897 thousand) issued by Lucrezia Securitation as part of the initiatives in favour of the CR-BCCs operated by the Institutional Guarantee Fund.

4.3 Finance leases

As at the date of the financial statements the Bank does not have finance leases in place.

4.4 Financial assets measured at amortised cost: breakdown by debtors/issuers of loans to customers

Transaction type/Values	Total 2018		
	First and second stage	Third stage	of which: impaired assets acquired or originated
1. Debt securities	1,233,521	-	-
a) Public bodies	1,232,623	-	-
b) Other financial companies	898	-	-
of which: insurance companies	-	-	-
c) Non financial companies	-	-	-
2. Loans to:	996,525	20,836	-
a) Public bodies	1,411	-	-
b) Other financial companies	514,482	359	-
of which: insurance companies	-	-	-
c) Non financial companies	450,908	17,751	-
d) Households	29,725	2,726	-
TOTAL	2,230,046	20,836	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

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

	Gross value				Total value adjustments			Overall partial write-offs
	First stage	of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	1,348,348	30,505	3,298	-	2,443	377	-	-
Loans	2,855,993	11,701	124,167	74,466	4,847	1,761	53,630	7,631
TOTAL	4,204,341	42,206	127,466	74,466	7,290	2,137	53,630	7,631
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	-	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

The division by stage of risk of financial assets measured at amortised cost is applied in compliance with the provisions of the new impairment model as introduced with the application of the new IFRS 9 accounting standard. For more details, please refer to Part A – Accounting policies, A.1 – General part, Section 4 - Other matters.

SECTION 5

HEDGING DERIVATIVES - ITEM 50

As at the date of the financial statements the Bank does not have hedging operations in place, this Section was not completed.

SECTION 6

ADJUSTMENT OF THE FINANCIAL ASSETS SUBJECT TO MACRO-HEDGING - ITEM 60

As at the date of the financial statements there are no assets subject to macro-hedging, this Section was not completed.

SECTION 7

EQUITY INVESTMENTS - ITEM 70

This item includes the equity investments in subsidiaries (IFRS 10), companies under joint control or subject to a significant influence (IAS 28).

7.1 Equity investments: information on investment ratios

Names	Registered office	Operating headquarters	Portion of direct equity investment (%)	Portion of indirect equity investment (%)
A. Wholly-owned subsidiaries				
1. Assicura Group S.r.l.	Udine	Udine	100.00%	100.00%
2. Centrale Credit & Real Estate Solutions S.r.l.	Trento	Trento	100.00%	100.00%
3. Centrale Soluzioni Immobiliari S.r.l.	Trento	Trento	100.00%	100.00%
4. Centrale Casa S.r.l.	Trento	Trento	100.00%	100.00%
5. Nord Est Asset Management S.A.	Luxemburg	Luxemburg	100.00%	100.00%
6. Claris Leasing S.p.A.	Treviso	Treviso	100.00%	100.00%
7. Phoenix Informatica Bancaria S.p.A.	Trento	Trento	80.31%	90.33%
8. Informatica Bancaria Finanziaria S.p.A.	Trento	Trento	69.75%	84.76%
9. Servizi Bancari Associati S.p.A.	Cuneo	Cuneo	67.49%	67.49%
10. Prestipay S.p.A.	Udine	Udine	60.00%	60.00%
11. Cesve S.p.A. consortile	Padua	Padua	25.09%	50.16%
B. Jointly controlled companies				
1. Casse Rurali RAIKA Finanziaria S.p.A.	Bolzano	Bolzano	50.00%	50.00%
C. Companies under significant influence				
1. Assicura Cooperazione Trentina S.r.l.	Trento	Trento	39.00%	39.00%
2. Centrale Trading S.r.l.	Trento	Trento	32.50%	42.50%
3. Formazione Lavoro S.c.a.r.l.	Trento	Trento	22.21%	22.21%

For the criteria and methods of determination of the consolidation scope and the reasons for which there is recourse to joint control or significant influence, please refer to Part A – Accounting policies.

7.2 Significant equity investments: carrying amount, fair value and dividends received

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

7.3 Significant equity investments: accounting information

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

7.4 Non significant equity investments: accounting information

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

7.5 Equity investments: annual changes

Items/Values	Total 2018	Total 2017
A. Opening balances	161,340	22,718
B. Increases	46,328	138,622
B.1 Purchases	46,278	137,871
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	50	751
C. Decreases	83	-
C.1 Sales	83	-
C.2 Value adjustments	-	-
C.3 Write-downs	-	-
C.4 Other changes	-	-
D. Closing balances	207,586	161,340
E. Total revaluations	199	199
F. Total adjustments	-	-

During the year, the Bank acquired control of the companies:

- Claris Leasing S.p.A. at a cost of EUR 24,000 thousand;
- Neam S.A., previously recorded under companies subject to a significant influence, at a cost of EUR 18,000 thousand;
- Servizi Bancari Associati S.p.A., previously recorded under companies subject to a significant influence, at a cost of EUR 3,078 thousand;
- Prestipay S.p.A. at a cost of EUR 1,200 thousand.

7.6 Commitments referring to equity investments in subsidiaries under joint control

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

7.7 Commitments referring to equity investments in companies subject to a significant influence

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

7.8 Significant restrictions

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

7.9 Other information

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

SECTION 8 TANGIBLE ASSETS - ITEM 80

8.1 Tangible assets for business use: breakdown of the assets measured at cost

Assets/Values	Total 2018	Total 2017
1. Assets owned		
a) land	3,665	3,665
b) buildings	5,992	6,282
c) furniture	1,475	1,227
d) electronic systems	1,353	923
e) other	1,403	1,134
2. Assets acquired through finance leases	-	-
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
TOTAL	13,888	13,231
of which: obtained through the enforcement of guarantees received	-	-

All the Bank's tangible assets are valued at cost as specified in part A of the Explanatory notes.

8.2 Tangible assets held for investment purposes: breakdown of the assets measured at cost

There are no tangible assets held for investment purposes; therefore, the relevant table was not filled in.

8.3 Tangible assets for business use: breakdown of the revalued assets

There are no revalued tangible assets for business use; therefore, the relevant table was not filled in.

8.4 Tangible assets held for investment purposes: breakdown of the assets measured at fair value

There are no tangible assets held for investment purposes measured at fair value; therefore, the relevant table was not filled in.

8.5 Inventories of tangible assets disciplined by IAS 2: breakdown

There are no tangible assets disciplined by IAS 2; therefore, the relevant table was not filled in.

8.6 Tangible assets for business use: annual changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balances	3,665	13,804	5,825	4,860	5,852	34,006
A.1 Total net impairment	-	7,523	4,598	3,936	4,718	20,775
A.2 Net opening balances	3,665	6,282	1,227	923	1,134	13,231
B. Increases:	-	-	502	856	721	2,079
B.1 Purchases	-	-	502	856	721	2,079
B.2 Expenditures for capitalised improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive fair value changes charged to:	-	-	-	-	-	-
a) Equity	-	-	-	-	-	-
b) Income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment purposes	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases:	-	290	254	427	451	1,422
C.1 Sales	-	-	-	-	16	16
C.2 Amortisation and depreciation	-	290	254	427	435	1,406
C.3 Value adjustments for impairment charged to	-	-	-	-	-	-
a) Equity	-	-	-	-	-	-
b) Income statement	-	-	-	-	-	-
C.4 Negative fair value changes charged to	-	-	-	-	-	-
a) Equity	-	-	-	-	-	-
b) Income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) tangible assets held for investment purposes	-	-	-	-	-	-
b) non-current assets and groups of assets held for disposal	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Net closing balances	3,665	5,992	1,475	1,353	1,403	13,888
D.1 Total net impairment	-	7,812	4,852	4,352	4,927	21,942
D.2 Gross closing balances	3,665	13,804	6,326	5,705	6,329	35,830
E. Valuation at cost	-	-	-	-	-	-

SECTION 9 INTANGIBLE ASSETS - ITEM 90

9.1 Intangible assets: breakdown by type of asset

Assets/Values	Total 2018		Total 2017	
	Definite duration	Indefinite duration	Definite duration	Indefinite duration
A.1 Goodwill	-	-	-	-
A.2 Other intangible assets	1,055	-	656	-
A.2.1 Assets valued at cost:	1,055	-	656	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	1,055	-	656	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
TOTAL	1,055	-	656	-

All the Bank's intangible assets are valued at cost.
The other intangible assets under item A.2, of definite duration, include the company software under user license and were amortised on a *pro rata temporis* basis with the straight-line rate method based on their useful life, estimated at three years.
No internally generated intangible assets were posted.

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		with definite duration	with indefinite duration	with definite duration	with indefinite duration	
A. Opening balances	-	-	-	7,942	-	7,942
A.1 Total net impairment	-	-	-	7,285	-	7,285
A.2 Net opening balances	-	-	-	656	-	656
B. Increases	-	-	-	865	-	865
B.1 Purchases	-	-	-	865	-	865
B.2 Increase in internal intangible assets	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive fair value changes:	-	-	-	-	-	-
- to Equity	-	-	-	-	-	-
- to Income Statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	466	-	466
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	466	-	466
- Amortisation and depreciation	-	-	-	466	-	466
- Write-downs:	-	-	-	-	-	-
+ Equity	-	-	-	-	-	-
+ Income statement	-	-	-	-	-	-
C.3 Negative fair value changes:	-	-	-	-	-	-
- to Equity	-	-	-	-	-	-
- to Income Statement	-	-	-	-	-	-
C.4 Transfers to non-current assets held for disposal	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balances	-	-	-	1,055	-	1,055
D.1 Total net value adjustments	-	-	-	7,752	-	7,752
E. Gross closing balances	-	-	-	8,807	-	8,807
F. Valuation at cost	-	-	-	-	-	-

The intangible assets described were entirely acquired externally and valued at cost.
Sub-item F. 'Valuation at cost' is not measured since its compilation is only set for intangible assets measured at fair value in the financial statements. This case does not apply to the Bank.

9.3 Intangible assets: other information

As required by paragraphs 122 and 124 of IAS 38, it is specified that the Bank did not:
- provide intangible assets as guarantee for its debts;
- commit to the purchase of intangible assets at the reporting date;
- acquire intangible assets via operating or finance lease agreements;
- acquire intangible assets via government concession;
- revalue intangible assets measured at fair value.

SECTION 10

TAX ASSETS AND TAX LIABILITIES - ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 Deferred tax assets: breakdown

Through the Income Statement	IRES	IRAP	Total
Loans	18,255	2,249	20,504
Tangible fixed assets	19	16	35
Provisions for risks and charges	6,617	248	6,865
Administrative expenses	48	-	48
Other items	-	905	905
TOTAL	24,939	3,418	28,357

Through Equity	IRES	IRAP	Total
Negative reserves for HTCS financial assets	7,404	1,657	9,061
Severance indemnity (TFR)	44	-	44
TOTAL	7,447	1,657	9,104

Advance taxes are recognised on the basis of the probability of sufficient future taxable income being generated to cover the recovery of values not deducted in previous financial years.
Unlike the case for adjusted write-downs and adjustments on receivables from customers not deducted and in place until 31 December 2015, these were in any case recognised taking into account the possibility of carrying out the conversion into tax credits in the presence of statutory or tax losses.
The item Receivables includes advance taxes relative to:
- Write-downs and impairments on receivables from customers which can be transformed in tax credits, independently of the future profitability of the company, both in the hypothesis of statutory and IRES tax losses or the negative value of production (art. 2, paragraphs 56-bis/56-bis.1, Italian Law Decree no. 225 of 29 December 2010, as modified by Law no. 214/2011) for EUR 19,064 thousand.

10.2 Deferred tax liabilities: breakdown

Through the Income Statement	IRES	IRAP	Total
- negative			

Through Equity	IRES	IRAP	Total
Positive reserves for HTCS financial assets	385	96	481
TOTAL	385	96	481

10.3 Changes in advance taxes (through the Income Statement)

	Total 2018	Total 2017
1. Opening amount	24,109	25,667
2. Increases	28,357	848
2.1 Advance taxes recorded in the year	28,357	848
a) relating to previous years	-	-
b) due to changed accounting criteria	-	-
c) write-backs	-	-
d) other	28,357	848
e) business combination operations	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	24,109	2,406
3.1 Advance taxes cancelled in the year	24,109	2,406
a) reversals	24,109	2,406
b) write-downs for uncollectible amounts	-	-
c) changed accounting criteria	-	-
d) other	-	-
e) business combination operations	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases:	-	-
a) transformation into tax credits under Law	-	-
214/2011.	-	-
b) other	-	-
4. Closing amount	28,357	24,109

10.3bis Changes in advance taxes according to Law 214/2011

	Total 2018	Total 2017
1. Opening amount	19,055	20,839
2. Increases	9	-
3. Decreases	-	1,784
3.1 Reversals	-	1,784
3.2 Transformation into tax credits	-	-
a) deriving from losses for the year	-	-
b) deriving from tax losses	-	-
3.3 Other decreases	-	-
4. Closing amount	19,064	19,055

The table shows changes in advanced taxes recognised on value adjustments of receivables from customers pursuant to Law no. 214/2011, calculated against adjustments of impairment on receivables. Due to the effect of the discipline introduced with Law no. 145/2018, there were no reversals relative to adjustments on receivables from customers pursuant to Law no. 214/2011 in the financial period.

10.4 Changes in deferred taxes (through the Income Statement)

During the year, and in the previous year, no changes were recorded with respect to the zero balance at the start of the period. Therefore, the compilation of the table is omitted.

10.5 Changes in advance taxes (through Equity)

	Total 2018	Total 2017
1. Opening amount	2,409	1,415
2. Increases	9,104	2,366
2.1 Advance taxes recorded in the year	9,104	2,366
a) relating to previous years	-	-
b) due to changed accounting criteria	-	-
c) other	9,104	2,366
d) business combination operations	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	2,409	1,372
3.1 Advance taxes cancelled in the year	2,409	1,372
a) reversals	2,409	1,372
b) write-downs for uncollectible amounts	-	-
c) due to changed accounting criteria	-	-
d) other	-	-
e) business combination operations	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing amount	9,104	2,409

10.6 Changes in deferred taxes (through Equity)

	Total 2018	Total 2017
1. Opening amount	949	2,027
2. Increases	481	949
2.1 Deferred taxes recorded in the year	481	949
a) relating to previous years	-	-
b) due to changed accounting criteria	-	949
c) other	481	-
d) business combination operations	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	949	2,027
3.1 Deferred taxes cancelled in the year	949	2,027
a) reversals	949	2,027
b) due to changed accounting criteria	-	-
c) other	-	-
d) business combination operations	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing amount	481	949

Advance and deferred taxes refer respectively to write-downs and revaluations of 'Financial assets measured at fair value through other comprehensive income'.
These changes have a counter-entry in the reserve on 'Financial assets measured at fair value through other comprehensive income'.

10.7 Other information

Breakdown of current taxes	IRES / IRPEG	IRAP	Other	Total
Current tax liabilities (-)	-8,264	-2,623	-	-10,887
Advances paid (+)	3,289	1,015	-	4,304
Withholding taxes incurred (+)	286	-	-	286
Other tax credits (+)	-	-	-	-
Tax credits under law 214/2011 (+)	-	-	174	174
Debt balance of item 60 a) of liabilities	-4,689	-1,608	0	-6,297
Credit balance of item 100 a) of assets	-	-	174	174
Tax credits that cannot be offset: capital portion	21	-	-	21
Tax credits that cannot be offset: interest portion	-	-	-	-
Balance of tax credits that cannot be offset	21	-	-	21
Credit balance of item 100 a) of assets	21	-	174	195

With regard to the Bank's tax position, for the financial years not yet prescribed, there have been no assessment notices received to date.
The item 'Tax credits under law 214/2011' includes the amount of the transformation of advanced taxes for EUR 174 thousand referred to the transfer of tax credits pursuant to art. 2, paragraphs 55-58 of Italian Law Decree no. 225/2010 by the liquidation procedure for Cooperative Credit Banks affected by recovery interventions.

SECTION 11 NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR DISPOSAL AND ASSOCIATED LIABILITIES - ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 Non-current assets and groups of assets held for disposal: breakdown by type of asset

No non-current assets or groups of assets held for disposal and related associated liabilities were present on the date of the financial statements.

11.2 Other information

The Bank does have any operations listed by the IFRS 5 accounting standard, par. 42.

SECTION 12 OTHER ASSETS - ITEM 120

12.1 Other assets: breakdown

	Total 2018	Total 2017
Tax receivables from tax authorities and other tax bodies	18,569	16,106
Cheques to be settled at the Clearing House or with Associates	118,219	-
Work in progress	61,310	51,370
Adjustments for illiquid items in the portfolio	17,076	14,425
Other debtors for security transactions	-	1,116
Customers and revenue to be collected	6,320	4,096
Prepayments and accrued income not capitalised	2,158	445
Improvement and enhancement expenses on separable assets	92	-
Advances to suppliers	424	147
Intrinsic value of securities transactions and exchanges to be settled	30	21
Other lenders	543	-
TOTAL	224,741	87,726

Sub-items 'Work in progress and other assets' and 'Cheques to be settled at the Clearing House or with Associates' refer mainly to the positive balance of electronic flows related to transactions not settled yet and that Cassa Centrale Banca sorts on the behalf of CR-BCCs towards the interbanking system and in the opposite direction.
'Other assets' includes the unbalance between the debt adjustments and the credit adjustments of the portfolio 'subject to collection' and 'after collection', for which details are stated in the specific Table 'Other information' of part B of these Explanatory notes.

PART B
INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

LIABILITIES

SECTION 1 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - ITEM 10

1.1 Financial liabilities measured at amortised cost: breakdown by category of due to Banks

Transaction type/Values	Total 2018			
	CA	Fair value		
		Level 1	Level 2	Level 3
1. Due to central banks	297,177	-	-	-
2. Due to banks	2,291,552	-	-	-
2.1 Current accounts and deposits on demand	1,433,194	-	-	-
2.2 Fixed-term deposits	812,588	-	-	-
2.3 Loans	45,770	-	-	-
2.3.1 Repos payables	45,770	-	-	-
2.3.2 Other	-	-	-	-
2.4 Liabilities for commitments to repurchase own equity instruments	-	-	-	-
2.5 Other payables	-	-	-	-
TOTAL	2,588,730	-	-	2,588,730

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

The criteria to determine the fair value are reported in Part A - Accounting policies.
The repos payables implemented against financial assets transferred but not derecognised are reported in Part E - Section E of the Explanatory Notes.
This item includes the due to banks in whatever form (deposits, current accounts, loans…).
In consideration of the main short-term duration of the due to banks, the related fair value is considered by convention to be equal to the carrying amount.

1.2 Financial liabilities measured at amortised cost: breakdown by category of due to customers

Type of securities/Values	Total 2018				Total 2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Lev. 1	Lev. 2	Lev. 3		Lev. 1	Lev. 2	Lev. 3
1 Current accounts and deposits on demand	372,929	-	-	-	354,068	-	-	-
2 Fixed-term deposits	35,943	-	-	-	38,890	-	-	-
3 Loans	2,041,813	-	-	-	682,880	-	-	-
3.1 Repos payables	2,040,923	-	-	-	682,505	-	-	-
3.2 Other	889	-	-	-	375	-	-	-
4 Liabilities for commitments to repurchase own equity instruments	-	-	-	-	-	-	-	-
5 Other payables	273,300	-	-	-	210,369	-	-	-
TOTAL	2,723,984	-	-	2,723,984	1,286,207	-	-	1,286,207

The sub-item 'Other payables' includes banker's drafts issued and not yet produced for payment (EUR 175,871 thousand) and funds on prepaid cards in circulation (EUR 97,429 thousand).
Due to customers include payables in foreign currencies amounting to EUR 260 thousand.
The repos payables under sub-item 3.1 exclusively concern the transactions with a forward resale obligation by the assignee for the assets subject to the transaction, since the Bank does not have any transaction in place that gives the assignee the right of forward resale. The existing transactions at year-end were stipulated on the MTS Repo platform and their counterparty is Cassa Compensazione e Garanzia. The item saw an increase of EUR 1,358.4 million, mainly in relation to the increase in loans to banks as part of the 'Collateral Account' service commented on in Section 4 of Assets.
The repos payables implemented against financial assets transferred but not derecognised are reported in Part E - Section E of the Explanatory Notes.

1.3 Financial liabilities measured at amortised cost: breakdown by category of debt securities in issue

Type of securities/Values	Total 2018			
	Carrying amount	Fair value		
		Lev. 1	Lev. 2	Lev. 3
A. Securities				
1. bonds	10,087	-	10,141	-
1.1 structured	-	-	-	-
1.2 other	10,087	-	10,141	-
2. other securities	-	-	-	-
2.1 structured	-	-	-	-
2.2 other	-	-	-	-
TOTAL	10,087	-	10,141	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

This item includes issued securities measured at amortised cost. Securities that at the date of the financial statements are expired but still not repaid are included. The portion of own issue debt securities not yet placed with third parties is excluded.
The fair value used for valuation of the financial liabilities measured at amortised cost (debt securities in issue), included only for the purpose of fulfilling reporting requirements, is broken down into levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process. For more details, please refer to Part A – Accounting policies, A.2 - Part regarding the main items in the accounts - 15 - Other information.

Details of item 30 'Debt securities in issue': subordinated securities

A subordinated nature characterises the payables whose right to reimbursement, in the event of liquidation of the issuing entity or if it is subject to other bankruptcy proceedings, can be exercised by the creditor only after other creditors who are not equally subordinated. Equity instruments which, according to international accounting standards, have equity characteristics, are excluded.
In relation to debt securities in issue, note that Table '1.3 Financial liabilities measured at amortised cost: breakdown by category of debt securities in issue' sub-item 1.2 'Bonds - Other' includes subordinated securities of EUR 10,000 thousand.
The issued security is eligible for inclusion in the Bank's Regulatory Capital.
For details of the characteristics please refer to the specific section in Part F 'Information on equity' - Section 2 'Regulatory capital and adequacy ratios' - at the bottom on sub-section 2.1 'Regulatory capital - A. Information of a qualitative nature'.
For more detailed information, please refer to paragraph 1.4 of this Section 1.

1.4 Details of subordinated debts/securities

	Total 2017
a. To Banks	-
b. To customers	-
c. Debt securities in issue	10,087
TOTAL	10,087

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

1.5 Details of structured debts

As at the date of the financial statements, there are no structured debts.

1.6 Payables for finance leases

As at the date of the financial statements the Bank does not have any such operations, both in reference to amounts due to banks and amounts due to customers.

SECTION 2 **FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20**

2.1 Financial liabilities held for trading: breakdown by category

Transaction type/Values	Total 2018				
	NV	Fair value			Fair value*
		Level 1	Level 2	Level 3	
A. Cash liabilities					
1. Due to banks	-	-	-	-	-
2. Due to customers	-	-	-	-	-
3. Debt securities	-	-	-	-	-
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. Derivative instruments					
1. Financial derivatives	-	-	11,597	-	-
1.1 Trading	-	-	11,595	-	-
1.2 Connected to the fair value option	-	-	2	-	-
1.3 Other	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-
2.1 Trading	-	-	-	-	-
2.2 Connected to the fair value option	-	-	-	-	-
2.3 Other	-	-	-	-	-
TOTAL B	-	-	11,597	-	-
TOTAL A+B	-	-	11,597	-	-

Key
Fair value* = Fair value calculated excluding the changes in value due to change in credit quality of the issuer with respect to the date of issue.

The amount under letter B point 1.1 refers to derivative contracts with negative value stipulated with known leading counterparties and CR-BCCs, for the 'matched trading' activity where Cassa Centrale Banca stipulates a derivative contract or a forward transaction with an institutional counterparty in relation to a mirrored derivative contract/forward transaction entered into with a CR-BCC or leading customers.

2.2 Details of 'Financial liabilities held for trading': subordinated liabilities

As at the date of the financial statements there are no subordinated financial liabilities held for trading.

2.3 Details of 'Financial liabilities held for trading': structured debts

As at the date of the financial statements there are no financial liabilities held for trading related to structured debts.

SECTION 3

FINANCIAL LIABILITIES MEASURED AT FAIR VALUE – ITEM 30

3.1 Financial liabilities measured at fair value: breakdown by category

Transaction type/Values	Total 2018				
	NV	Fair value			Fair Value*
		Level 1	Level 2	Level 3	
1. Due to banks	-	-	-	-	-
1.1. Structured	-	-	-	-	-
1.2. Other	-	-	-	-	-
of which: - commitments to issue funds	-	-	-	-	-
- financial guarantees issued	-	-	-	-	-
2. Due to customers	-	-	-	-	-
2.1 Structured	-	-	-	-	-
2.2 Other	-	-	-	-	-
of which: - commitments to issue funds	-	-	-	-	-
- financial guarantees issued	-	-	-	-	-
3. DEBT SECURITIES	9,292	-	9,449	-	-
3.1 Structured	6,000	-	6,255	-	-
3.2 Other	3,292	-	3,194	-	-
TOTAL	9,292	-	9,449	-	-

Key

Fair value* = Fair value calculated excluding the changes in value due to change in credit quality of the issuer with respect to the date of issue.

3.2 Details of 'Financial liabilities measured at fair value': subordinated liabilities

As at the date of the financial statements there are no subordinated financial liabilities measured at fair value.

SECTION 4

FINANCIAL LIABILITIES MEASURED AT FAIR VALUE – ITEM 40

As the Bank does not have hedging derivatives in place, this Section was not completed.

SECTION 5

ADJUSTMENT OF THE FINANCIAL LIABILITIES SUBJECT TO MACRO-HEDGING - ITEM 50

As at the date of the financial statements there are no liabilities subject to macro-hedging, this Section was not completed.

SECTION 6

TAX LIABILITIES - ITEM 60

For information on tax liabilities reference is made to Section 10 of the Assets.

SECTION 7

LIABILITIES ASSOCIATED TO ASSETS HELD FOR DISPOSAL - ITEM 70

For information on tax liabilities reference is made to Section 11 of the Assets.

SECTION 8

OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

	Total 2017
Tax payables to tax authorities and other tax bodies for indirect taxes	17,680
Temporary items Centralised Treasury management	3,309
Housing contributions - Public bodies	2,181
Due to suppliers and expenses to be settled	30,391
Collection on behalf of third parties and amounts available to customers or third parties	53,154
Due to employees	5,527
Due to social security institutions and external pension funds	1,217
Other work in progress	274,236
Accrued expenses and deferred income not attributable to own items	258
Intrinsic value of securities transactions and exchanges to be settled	82
Sundry creditors - other	500
TOTAL	388,535

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

This item includes the liabilities that are not attributable to other items in the Statement of financial position liabilities.
Sub-item 'Other work in progress' refers mainly to the negative balance of electronic flows related to transactions not settled yet and that Cassa Centrale Banca sorts on the behalf of CR-BCCs towards the interbanking system and in the opposite direction.

SECTION 9 PROVISION FOR SEVERANCE INDEMNITY - ITEM 90

9.1 Provision for severance indemnity: annual changes

	Total 2018	Total 2017
A. Opening balances	2,410	2,419
B. Increases	31	31
B.1 Allocation for the year	31	31
B.2 Other changes	-	-
C. Decreases	57	40
C.1 Payments made	8	40
C.2 Other changes	50	-
D. Closing balances	2,384	2,410
TOTAL	2,384	2,410

As at the date of the financial statements, the Bank recognised a TFR reserve in accordance with the provisions of IAS 19, therefore item D. 'Closing balances' of the provision recorded coincides with its actuarial value (Defined Benefit Obligation - DBO).
Sub-item B.1 'Allocation for the year' is composed of Net Interest Cost.
Sub-item C.2 'Other changes' includes actuarial gains.
The amount under sub item B.1 is included in the income statement table '9.1 Personnel costs: Breakdown', sub item e) 'provision for severance indemnity'; the amount under sub-item B.2 refers to the 'Valuation reserve: Actuarial gains (losses) on defined benefit plans' (see the Statement of Comprehensive Income).
In terms of operations, the application of the Project Unit Credit Method also required demographic and economic-financial hypotheses applied analytically to each employee. Estimating the charge according to IAS 19 was assigned to an independent and expert external firm. The portion accrued in the year was posted in the Income Statement under 'Personnel costs'.
The actuarial company used the following technical assumptions to define the aggregates:

- annual discount rate: Iboxx Eurozone Corporate AA equal to 1.57%;
- annual inflation rate: 1.50%;
- annual rate of increase in provision for severance indemnity: 2.625%;
- annual increase in employee salaries: 1.00%;
- annual increase in manager salaries: 1.00%;
- annual increase in executive salaries: 2.50%;
- turnover rate: 1.00%;
- frequency of advances; 3.00%.

In particular:
the annual discount rate used to determine the current value of the bond was determined in accordance with par. 78 of IAS 19 with reference to the Iboxx Eurozone Corporate AA index with duration comparable to the duration of the workers' collective agreement subject to valuation.

In conclusion, we provide the sensitivity analyses on the Actuarial Value (Defined Benefit Obligation – DBO) for the end of the period using:
a discount rate of +0.25% and of -0.25% compared to the one applied:
- in the event of an increase of 0.25%, the TFR provision would equal EUR 2,338 thousand;
- in the event of a decrease of 0.25%, the TFR provision would equal EUR 2,432 thousand;

an inflation rate of +0.25% and of -0.25% compared to the one applied:
- in the event of an increase of 0.25%, the TFR provision would equal EUR 2,414 thousand;
- in the event of a decrease of 0.25%, the TFR provision would equal EUR 2,355 thousand;

turnover rate of +1% and -1% compared to the one applied:
- in the event of an increase of 1%, the TFR provision would equal EUR 2,379 thousand;
- in the event of a decrease of 1%, the TFR provision would equal EUR 2,391 thousand.

9.2 Other information
Severance indemnity (TFR) fund calculated pursuant to art. 2120 of the Italian Civil Code

	Total 2018	Total 2017
Opening provision	2,236	2,235
Increases	192	127
Decreases	155	126
Closing provision	2,273	2,236

SECTION 10 PROVISIONS FOR RISKS AND CHARGES - ITEM 100

10.1 Provisions for risks and charges: breakdown

Items/Values	Total 2018
1. Provision for credit risk relative to commitments and financial guarantees issued	7,813
2. Provision for other commitments and guarantees issued	-
3. Company pension funds	-
4. Other provisions for risks and charges	13,231
4.1 legal and tax disputes	2,097
4.2 personnel expenses	239
4.3 other	10,894
TOTAL	21,045

With reference to the comparison data for 2017, as illustrated in Part A ‘Accounting policies’ in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

The content of item 2 ‘Other provisions for risks and charges’ is shown in point 10.6 below.

10.2 Provisions for risks and charges: annual changes

	Provision for other commitments and guarantees issued	Pension funds	Other provisions for risks and charges	Total
A. Opening balances	15,148	-	13,047	28,195
B. Increases	-	-	1,192	1,192
B.1 Allocation for the year	-	-	932	932
B.2 Changes due to the passing of time	-	-	-	-
B.3 Changes due to modifications in the discount rate	-	-	-	-
B.4 Other changes	-	-	259	259
C. Decreases	7,335	-	1,007	8,342
C.1 Use for the year	-	-	1,007	1,007
C.2 Changes due to modifications in the discount rate	-	-	-	-
C.3 Other changes	7,335	-	-	7,335
D. Closing balances	7,813	-	13,231	21,045

Sub-item B.1 - Allocation for the year - includes the increase in future estimated debt related to both existing funds and funds established in the year.
Sub-item B.2 - Changes due to the passing of time - includes value reversals linked to the passing of time corresponding to accrued interest, calculated on the basis of the discount rate used in the previous year for the discounting of provisions.
Sub-item B.3 - Changes due to modifications in the discount rate - includes the increases in the value of provisions determined by the application of discount rates lower than those used in the previous year.
Sub-item B.4 - Other increases - includes:

- increases in debt generated in case of payment earlier than at the previously estimated times;
- the portion of the profit for the previous year to be allocated to the provision for charity;

Sub-item C.1 - Use for the year - refers to payments made.
Sub-item C.2 - Changes due to modifications in the discount rate - includes the decreases in the value of provisions determined by the application of discount rates higher than those used in the previous year.
Sub-item C.3 - Other decreases - includes:

- the decrease due to a lower estimate of future debt relative to already existing provisions;
- the decreases in the provision for charity after using the specific allocations.

10.3 Provision for credit risk relative to commitments and financial guarantees issued

	Provision for credit risk relative to commitments and financial guarantees issued			
	First stage	Second stage	Third stage	Total
Commitments to issue funds	4,916	1,952	611	7,479
Financial guarantees issued	77	80	177	334
TOTAL	4,994	2,032	787	7,813

10.4 Provision for other commitments and guarantees issued

The Bank did not post any funds of this type in the accounts.

10.5 Defined benefit company pension funds

The Bank did not post any funds of this type in the accounts.

10.6 Provisions for risks and charges - other provisions

	Total 2018	Total 2017
Other provisions for risks and charges		
1. Provision for risks on revocatory actions	-	-
2. Provision for charity	-	-
3. Personnel risks and expenses	239	212
4. Legal and tax disputes	2,097	1,208
5. Other provisions for risks and charges	10,894	11,627
TOTAL	13,231	13,047

The item “Other provisions for risks and charges” includes:

Provision for future charges for legal disputes, for EUR 2,097 thousand.

The ‘Provision for future charges for legal disputes’ protects the Bank from probable negative outcomes deriving from court procedures against the Bank and complaints still pending; in detail, it includes provisions for:

- presumed losses from court procedures against the Bank for EUR 1,890 thousand;
- revocatory actions for EUR 207 thousand.

The nature of legal court procedures against the Bank is wide ranging and diversified. In fact, even though they generally have in common a demand for compensation from the Bank, they arise from events which can be very different from each other. Simply put, the most frequent reasons relate to the disputes on interests (compound interest, usury, rate not agreed, etc.), the implementation of investment services and the erroneous negotiation of cheques.

The timings of judgements are difficult to predict. With regard to the amounts of foreseeable disbursements, the hypothesis formulated for judgements with likely negative outcome refers to the overall estimate disbursement. It is specified, also in relation to what stated earlier, that both the amounts and the time of foreseeable disbursement of every individual dispute must necessarily be considered to be indicative as, especially for judgements of a compensatory nature, the judge's discretion in the assessment of the damage is very wide.
Revocatory action disputes are promoted to obtain, with reference to the periods before subjecting the customer to insolvency procedures, an order for the Bank to return sums deposited on current accounts or the declaration of ineffectiveness of acquired guarantees. In relation to negative outcomes provisions are made, on the occurrence of adverse events that may lead to determine reliable predictions of a negative outcome, to the extent of the amount of the anticipated disbursement.

Personnel expenses for EUR 239 thousand
The amount recorded in sub-item 4.2 'personnel expenses' - of Table 10.1 refers to: seniority/loyalty bonuses regarding the financial charge that the Bank must incur in future years in favour of the employees in relation to seniority of service.
In terms of operations, the application of the Project Unit Credit Method required the defined demographic and economic-financial hypotheses applied analytically to each employee.

Other for EUR 10,894 thousand
The amount recorded in sub-item 4.3 'Other' in table 10.1 breaks down as follows:
- provision for charity for EUR 595 thousand. The provision for charity, which originates from the Articles of Association (art. 49), is included under other provisions. The allocation is determined on an annual basis, at the time of allocation of profits, by the Shareholders' Meeting; the relative use is decided by the Board of Directors. The provision has not been discounted as its use is anticipated in the course of the following year;
- provision for potential requests for intervention on the part of the National Resolution Fund, amounting to EUR 10,299 thousand.

The charge connected with these liabilities was not discounted as it was deemed to be negligible.

Contingent liabilities
No contingent liabilities exist at year-end for which a financial disbursement is likely.

SECTION 11 REPAYABLE SHARES – ITEM 120

11.1 Repayable shares: breakdown
As the Bank has not issued any repayable shares, this Section was not completed.

SECTION 12 EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

12.1 "Capital" and "Own shares": breakdown

The share capital of the Bank, equal to EUR 952,031,808, comprises 18,158,304 ordinary shares and 150,000 preference shares, both with a nominal value of EUR 52.

There are no shares subscribed and not yet paid-up.

There are no repurchased own shares.

12.2 Capital - Number of shares: annual changes

Items/Types	Ordinary	Other
A. Shares at start of year	18,158,304	150,000
- fully paid-up	18,158,304	150,000
- not fully paid-up	-	-
A.1 Own shares (-)	-	-
A.2 Outstanding shares: opening balances	18,158,304	150,000
B. Increases	-	-
B.1 New issues	-	-
- paid:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free of charge:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of own shares	-	-
B.3 Other changes	-	-
C. Decreases	-	-
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Company transfers	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balances	18,158,304	150,000
D.1 Own shares (+)	-	-
D.2 Shares at year-end	18,158,304	150,000
- fully paid-up	18,158,304	150,000
- not fully paid-up	-	-

Unit values.

12.3 Capital: other information

There are no other information useful for the illustration of the Capital.

12.4 Profit reserves: other information

Equity items Art. 2427, par. 7bis (NB: data FED by NI Part F Tab. B1)	Total 2018	possibility of use	Uses made in 2018 and the three previous periods	
			to cover losses	for other reasons
Share capital:	952,031	to cover losses and repay the value of the shares	-	-
Capital reserves:				
Share premium reserve	19,029	to cover losses and repay the premium paid	-	-
Reserves (item 160 of liabilities in the Statement of financial position):				
Legal reserve	25,701	to cover losses	-	-
Losses carried forward	-			
Other profit reserves	75,605	to cover losses	-	-
Other reserves	18	to cover losses	-	-
Valuation reserves (item 130 of liabilities in the Statement of financial position):				
Monetary revaluation reserves	896	to cover losses	-	-
Valuation reserves for First time adoption: deemed cost	-	to cover losses	-	-
Instrumental valuation reserves Financial assets measured at fair value through other comprehensive income	-16,952	according to IAS/IFRS	-	-
Cash flow hedge reserve	-	according to IAS/IFRS	-	-
Reserve from fair value valuation of real estate (IAS 16)	-	according to IAS/IFRS	-	-
Reserve from actuarial gains/ losses IAS 19	-307	according to IAS/IFRS	-	-
Other valuation reserves	-	according to IAS/IFRS	-	-
TOTAL	1,056,022		-	-

The reserves amount to EUR 101,324 thousand and include: the legal reserve (EUR 25,701 thousand), the extraordinary reserve (EUR 72,795 thousand), the reserve pursuant to art. 6 of Italian Legislative Decree no. 38/2005 (EUR 78 thousand), the reserve according to Italian Legislative Decree no. 124/93 (EUR 18 thousand) as well as the reserve that incorporates the effect generated by the transition to the international accounting standards or subsequent additions (EUR 2,732 thousand).
As a result of the provisions of the Articles of Association, at least 5% of the profit for the year is allocated to the legal reserve while the remainder is available for distribution to the Shareholders and for the allocation of a portion of it to the Board of Directors for charity. As provided for by paragraph 76, lett. b) of IAS 1, a description is reported of the nature and purpose of each reserve included in the Equity.
Legal reserve
The legal reserve is formed with an allocation of at least 5% of the net profits.
The legal reserve also includes the portion of the residual net profits after the allocations established by law and the Articles of Association and resolved by the Shareholders' meeting. In compliance with article 2427, no. 7-bis of the Italian Civil Code, illustrated below is the detailed breakdown of the Equity of the Bank, excluding the profit for the year, with the origin and level of availability and distributability of the various items.
With reference to the valuation reserves, unavailable, where positive, pursuant to art. 6 of Italian Legislative Decree no. 38/2005, the following should be mentioned:
- the valuation reserves of financial instruments measured at fair value through other comprehensive income represent the gains or losses deriving from a change in fair value of the quoted financial activity;
- the reserves for the hedging of financial flows include changes in fair value of the hedging derivative for the effective portion of the hedge;
- the reserves from actuarial gains/losses IAS 19 relate to the valuation of severance indemnity.

12.5 Equity instruments: breakdown and annual changes
There are no equity instruments other than the capital and reserves.

12.6 Other information
There is no other information on equity instruments other than the capital and reserves.

OTHER INFORMATION

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

	Nominal value of commitments and financial guarantees issued			Total 2018
	First stage	Second stage	Third stage	
Commitments to issue funds	9,754,181	617,754	1,521	10,373,456
a) Central Banks	-	-	-	-
b) Public bodies	6,010	-	-	6,010
c) Banks	9,536,873	616,806	-	10,153,679
d) Other financial companies	66,559	838	-	67,397
e) Non financial companies	133,635	100	1,355	135,090
f) Households	11,103	10	167	11,280
Financial guarantees issued	57,073	2,176	529	59,779
a) Central Banks	-	-	-	-
b) Public bodies	-	-	-	-
c) Banks	27,252	2,133	-	29,386
d) Other financial companies	10,612	-	-	10,612
e) Non financial companies	11,697	43	529	12,269
f) Households	7,512	-	-	7,512

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

Financial guarantees include the personal guarantees securing the regular fulfilment of the debt service by the ordering entity.

Point 1 'Commitments to issue funds' also includes:

- purchases (spot and forward) of securities not yet settled for EUR 947 thousand;
- deposits and loans to be disbursed on a pre-determined future date for EUR 2,500 thousand;
- margins usable on irrevocable credit facilities for EUR 10,370,009 thousand.

2. Other commitments and guarantees issued

	Nominal value	
	Total 2018	Total 2017
Other guarantees issued	-	-
of which: impaired	-	-
a) Central Banks	-	-
b) Public bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non financial companies	-	-
f) Households	-	-
Other commitments	2,425	26,708
of which: impaired	-	-
a) Central Banks	-	-
b) Public bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non financial companies	2,425	26,708
f) Households	-	-

3. Asset-backed own liabilities and commitments

Portfolios	Total 2018
1. Financial assets measured at fair value through profit or loss	-
2. Financial assets measured at fair value through other comprehensive income	182,792
3. Financial assets measured at amortised cost	1,010,646
4. Tangible assets	-
of which: tangible assets that constitute inventories	-

Item 2 includes, in particular, with reference to 31 December 2018, the values of the securities relating to:
• pooling account at Bank of Italy/European Central Bank.
Item 3 includes the values of the securities relating to:
• issue of banker's drafts for EUR 48,793 thousand;
• repurchase agreements with Cassa Compensazione e Garanzia for EUR 958,880 thousand;
• daily margining on positions in derivatives for EUR 2,226 thousand;
• other for EUR 747 thousand.

4. Information on operating leases

On the date of the financial statements the Bank has no operating lease transactions in place.

5. Management and intermediation on behalf of third parties

Type of services	Total 2018
1. Execution of orders on behalf of customers	26,735
a) purchases	4,120
1. settled	4,120
2. not settled	-
b) sales	22,615
1. settled	22,338
2. not settled	277
2. Individual portfolio management	5,526,458
3. Custody and administration of securities	31,660,079
a) third-party securities under custody: connected to the role as depositary bank (excluding portfolio management)	-
1. securities issued by the bank that prepares the financial statements	-
2. other securities	-
b) third-party securities under custody (excluding portfolio management): other	28,387,068
1. securities issued by the bank that prepares the financial statements	971,168
2. other securities	27,415,900
c) third-party securities deposited with third parties	27,407,343
d) own securities deposited with third parties	3,273,011
4. Other transactions	-

6. Financial assets which are offset or subject to framework offsetting agreements or similar agreements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c=a-b)	Correlated amount not offset in the financial statements		Net amount - December 2018 (f=c-d-e)	Net amount - December 2017
				Financial instruments (d)	Cash deposits received as guarantee (e)		
1. Derivatives	12,025	-	12,025	-	-	12,025	10,166
2. Repos	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 2018	12,025	-	12,025	-	-	12,025	-
TOTAL 2017	-	-	-	-	-	-	10,166

7. Financial liabilities which are offset or subject to framework offsetting agreements or similar agreements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c=a-b)	Correlated amount not offset in the financial statements		Net amount - December 2018 (f=c-d-e)	Net amount - December 2017
				Financial instruments (d)	Cash deposits received as guarantee (e)		
1. Derivatives	11,539	-	11,539	-	-	11,539	10,413
2. Repos	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 2018	11,539	-	11,539	-	-	11,539	-
TOTAL 2017	-	-	-	-	-	-	10,413

8. Securities lending transactions

The Bank has not carried out securities lending transactions.

9. Information on joint operations

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

PART C
INFORMATION ON THE INCOME STATEMENT

SECTION 1 **INTEREST - ITEMS 10 AND 20**

1.1 Interest income and similar revenues: breakdown

Items/Technical forms	Debt securities	Loans	Other assets	Total 2018
1. Financial assets measured at fair value through profit or loss:	194	127	-	321
1.1 Financial assets held for trading	-	-	-	-
1.2 Financial assets measured at fair value	193	-	-	193
1.3 Other financial assets obligatorily measured at fair value	1	127	-	127
2. Financial assets measured at fair value through other comprehensive income	5,177	-	-	5,177
3. Financial assets measured at amortised cost:	8,627	10,626	-	19,253
3.1 Loans to banks	1,872	584	-	2,456
3.2 Loans to customers	6,755	10,043	-	16,798
4. Hedging derivatives	-	-	-	-
5. Other assets	-	-	-	-
6. Financial liabilities	-	-	-	9,783
TOTAL	13,998	10,753	-	34,535
of which: interest income from impaired financial assets	-	249	-	249

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

The item 'Financial liabilities' includes interest income accrued on financial liabilities.
The 'Loans' column, under sub-item 3.1 'Loans to banks', includes interest income relating to the following technical forms:
- current accounts and deposits totalling EUR 557 thousand;
- other loans totalling EUR 27 thousand.

The 'Loans' column, under sub-item 3.2 'Loans to customers', includes interest income relating to the following technical forms:
- mortgage loans totalling EUR 9,299 thousand
- advances subject to collection totalling EUR 28 thousand
- current accounts and other loans totalling EUR 355 thousand
- non performing loans for EUR 361 thousand.

1.2 Interest income and similar revenues: other information

1.2.1 Interest income from financial assets in foreign currency

Items/Values	Total 2018	Total 2017
Interest income from financial assets in foreign currency	479	316

1.2.2 Interest income from finance lease operations

The Bank is not a party to active finance lease operations.

1.3 Interest expenses and similar charges paid: breakdown

Items / Technical forms	Payables	Securities	Other transactions	Total 2018	Total 2017
1. Financial liabilities measured at amortised cost	(5,694)	(300)	-	(5,994)	(10,959)
1.1 Due to central banks	-	-	-	-	(2,054)
1.2 Due to banks	(3,641)	-	-	(3,641)	(7,914)
1.3 Due to customers	(2,053)	-	-	(2,053)	(692)
1.4 Debt securities in issue	-	(300)	-	(300)	(300)
2. Financial liabilities held for trading	-	-	-	-	(2)
3. Financial liabilities measured at fair value	-	(502)	-	(502)	(488)
4. Other liabilities and provisions	-	-	-	-	(1,425)
5. Hedging derivatives	-	-	-	-	-
6. Financial assets	-	-	-	(7,229)	-
TOTAL	(5,694)	(801)	-	(13,725)	(12,873)

1.4 Interest expenses and similar charges paid: other information

1.4.1 Interest expenses from liabilities in foreign currency

Items/Values	Total 2018	Total 2017
Interest expenses and similar charges paid from liabilities in foreign currency	(1,175)	(386)

1.4.2 Interest expenses from liabilities for finance lease operations

The Bank did not implement these operations.

1.5 Differentials relative to hedging transactions

The Bank did not enter into 'hedging derivatives' during the course of the year and, as a result, the relative table is not filled out.

SECTION 2 **COMMISSIONS - ITEMS 40 AND 50**

2.1 Commission income: breakdown

Type of services/Values	Total 2018	Total 2017
a) guarantees issued	369	325
b) credit derivatives	-	-
c) management, trading and consulting services:	64,894	51,982
1. trading of financial instruments	75	25
2. foreign currency trading	22	7
3. individual portfolio management	49,822	43,400
4. custody and administration of securities	3,032	2,050
5. custodian bank	-	-
6. placement of securities	1,577	815
7. order receipt and transmission	4,948	5,028
8. consulting	153	130
8.1. pertaining to investments	153	130
8.2. pertaining to financial structures	-	-
9. distribution of third party services	5,265	527
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	32	31
9.3. other products	5,233	496
d) collection and payment services	48,832	36,540
e) servicing activities for securitisation operations	-	-
f) services for factoring operations	-	-
g) collection and receiving operations	-	-
h) activities for the management of multilateral trading systems	-	-
i) current account maintenance and management	146	139
j) other services	13,696	11,884
TOTAL	127,937	100,871

The amount relative to sub-item j) 'Other services' is composed, in particular, of commissions from payment intermediation services connected to participation in UCITS, centralised securities database, the supply of financial information, Asset Liability Management, Value at Risk, valuation of prices of non-listed securities, brokerage of leases and factoring, structured finance and other residual services.

2.2 Commission income: distribution channels of products and services

Channels/Values	Total 2018	Total 2017
a) within its own counters:	56,663	44,742
1. portfolio management	49,822	43,400
2. placement of securities	1,576	815
3. third party services and products	5,265	527
b) offers outside the branch:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-
c) other distribution channels:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-

2.3 Commission expense: breakdown

Services/Values	Total 2018	Total 2017
a) guarantees received	(39)	(5)
b) credit derivatives	-	-
c) management and trading services:	(39,301)	(33,861)
1. trading of financial instruments	(1,133)	(1,142)
2. foreign currency trading	-	-
3. portfolio management:	(36,968)	(31,752)
3.1. own portfolios	(36,949)	(31,654)
3.2. delegated from third parties	(19)	(97)
4. custody and administration of securities	(1,036)	(732)
5. placement of financial instruments	(164)	(235)
6. out-of-branch offer of financial instruments, products and services	-	-
d) collection and payment services	(23,520)	(19,159)
e) other services	(1,255)	(972)
TOTAL	(64,115)	(53,996)

The amount relative to sub-item e) 'Other services' is composed, to a large extent, of commissions for retrocessions to CR-BCCs relative to lending operations and lease/factoring brokerage.

2.4 Commission income: type and timing of recognition

Type of services/Values	Total 2018		
	At a given moment in time	Over a period of time	TOTAL
a) guarantees issued	-	369	369
b) credit derivatives	-	-	-
c) management, trading and consulting services:	64,893	-	64,893
d) collection and payment services	48,832	-	48,832
e) servicing activities for securitisation operations	-	-	-
f) services for factoring operations	-	-	-
g) collection and receiving operations	-	-	-
h) activities for the management of multilateral trading systems	-	-	-
i) current account maintenance and management	146	-	146
j) other services	13,695	-	13,695
TOTAL	127,567	369	127,937

SECTION 3

DIVIDEND AND SIMILAR INCOME - ITEM 70

3.1 Dividend and similar income: breakdown

	Items/Income	Total 2018		Total 2017	
		Dividends	similar proceeds	Dividends	similar proceeds
A.	Financial assets held for trading	97	-	104	-
B.	Financial assets available for sale	-	-	-	-
C.	Financial assets measured at fair value	389	-	622	-
D.	Equity investments	12,451	-	400	-
	TOTAL	12,938	-	1,126	-

The item D ‘Equity investments’ includes the dividends relative to controlling interests and shareholdings in associates measured at cost.

SECTION 4 **NET RESULT FROM TRADING - ITEM 80**

4.1 Net result from trading: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B)-(C+D)]
1. Financial assets held for trading	71	95	(691)	(23)	(548)
1.1 Debt securities	-	19	-	(4)	15
1.2 Equities	71	76	(691)	(19)	(563)
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange rate differences	-	-	-	-	(1,679)
4. Derivative instruments	6,691	4,329	(6,321)	(4,263)	4,424
4.1 Financial derivatives:	6,691	4,329	(6,321)	(4,263)	4,424
- On debt securities and interest rates	6,691	4,329	(6,321)	(4,263)	437
- On equities and stock market indices	-	-	-	-	-
- On currencies and gold	-	-	-	-	3,988
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	-	-	-	-	-
TOTAL	6,762	4,424	(7,013)	(4,286)	2,197

The ‘net result’ from ‘other financial assets and liabilities: exchange rate differences’ reports the positive or negative balance from changes in value of financial assets and liabilities denominated in foreign currencies; they include profits and losses from currency trading.
‘Capital gains’, ‘Capital losses’ and ‘Trading profits and losses’ from derivative instruments also include potential exchange rate differences.

SECTION 5

NET RESULT FROM HEDGING ACTIVITIES - ITEM 90

The Bankdid not have hedging derivatives during the course of the year.

SECTION 6

PROFIT (LOSS) FROM DISPOSAL/REPURCHASE - ITEM 100

6.1 Profit (loss) from disposal/repurchase: breakdown

Items/Income components	Total 2018		
	Profit	Loss	Net result
A. Financial assets			
1. Financial assets measured at amortised cost:	4,853	-	4,853
1.1 Loans to banks	-	-	-
1.2 Loans to customers	4,853	-	4,853
2. Financial assets measured at fair value through other comprehensive income	10,067	-	10,067
2.1 Debt securities	10,067	-	10,067
2.2 Loans	-	-	-
TOTAL ASSETS	14,920	-	14,920
Financial liabilities measured at amortised cost	-	-	-
1.1 Due to banks	-	-	-
1.2 Due to customers	-	-	-
1.3 Debt securities in issue	-	-	-
TOTAL LIABILITIES	-	-	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

The table reports the economic result deriving from the sale of financial assets/liabilities other than those held for trading and those measured at fair value, as well as the result derived from the repurchase of the company's own financial liabilities.
In particular:

- the amount of EUR 4,853 thousand specified in line 1.2 refers to the net profit resulting from the disposal of a portfolio of non performing loans (EUR 4,611 thousand) and a bond issued by Funivie Folgarida S.p.A. (EUR 241 thousand);
- the amount of EUR 10,067 thousand specified in line 2.1 represents the profit relative to the transfer of bond securities (in particular, Italian government bonds C.T.Z., B.T.P., B.O.T.).

With regard to financial liabilities, international accounting standards require that the buyback of a company's financial liabilities must be reported within the financial statements in a manner which gives precedence to substance over form and, as a result, in relation to an actual advance redemption with a value cancellation or impairment for the financial instrument and the consequent realisation of gains or losses.

SECTION 7 NET RESULT OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities measured at fair value

	Capital gains (A)	Profit on sale (B)	Capital losses (C)	Loss on sale (D)	Net result [(A+B)-(C+D)]
1. Financial assets	-	-	(234)	-	(234)
1.1 Debt securities	-	-	(234)	-	(234)
1.2 Loans	-	-	-	-	-
2. Financial liabilities	543	-	-	-	543
2.1 Debt securities in issue	543	-	-	-	543
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities denominated in foreign currency: exchange rate differences	-	-	-	-	-
TOTAL	543	-	(234)	-	309

Trading profits (losses) and capital gains (losses) from valuations are reported with balances opened by type of financial instrument.
This item includes capital gains and losses that are derived from the fair value measurement of financial assets/ liabilities that are classified in the portfolio under item 20.b of Assets and Item 30 of Liabilities.
In particular, the amount of EUR (234) thousand under line 1.1, under the column 'capital losses', represents the valuation of the CR-BCC bonds which are related to bonds with similar characteristics and values issued by the Bank which, instead, show a capital gain of EUR 243 thousand. This capital gain is shown in line 2.1 together with another capital gain of EUR 300 thousand recorded on a floating rate bank-issued bond, with maturity in 2019.

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

	Capital gains (A)	Profit on sale (B)	Capital losses (C)	Loss on sale (D)	Net result [(A+B)-(C+D)]
1. Financial assets	1,235	28	(1,147)	(12)	104
1.1 Debt securities	-	-	-	-	-
1.2 Equities	-	-	-	-	-
1.3 UCITS units	480	28	(517)	(12)	(21)
1.4 Loans	755	-	(630)	-	125
2. Financial assets denominated in foreign currency: exchange rate differences	-	-	-	-	-
TOTAL	1,235	28	(1,147)	(12)	104

Trading profits (losses) and capital gains (losses) from valuations are reported with balances opened by type of financial instrument.
This item includes capital gains and losses that are derived from the fair value measurement of financial assets/liabilities that are classified in the portfolio under item 20.c of Assets.

SECTION 8 NET VALUE ADJUSTMENTS/WRITE-BACKS DUE TO CREDIT RISK - ITEM 130

8.1 Net value adjustments/write-backs due to credit risk relative to financial assets measured at amortised cost: breakdown

Transactions/Income components	Vale adjustments (1)			Write-backs (2)		Total 2018
	First and second stage	Third stage		First and second stage	Third stage	
		write-offs	Other			
A. Loans to banks	(4,805)	-	-	1,039	-	(3,767)
- loans	(4,272)	-	-	332	-	(3,940)
- debt securities	(533)	-	-	707	-	174
of which: impaired loans acquired or originated	-	-	-	-	-	-
B. Loans to customers:	(4,858)	(175)	(7,218)	2,787	13,784	4,319
- loans	(3,460)	(175)	(7,218)	2,766	13,784	5,696
- debt securities	(1,398)	-	-	21	-	(1,377)
of which: impaired loans acquired or originated	-	-	-	-	-	-
TOTAL	(9,664)	(175)	(7,218)	3,826	13,784	553

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

Write-backs include write-backs from collection equal to EUR 4,443 thousand.
Value adjustments within the column 'Third stage – Other' refer to analytical receivable write-offs while those reported in the column 'Third stage – write offs' derive from redemption events. In fact, due to the continuation of the economic crisis, even the Bank of Italy has requested that the banking system apply overall value adjustments on financial assets that are consistent with the current and forecast developments of risk in assets. In addition, the presence of guarantees collected by the CR-BCCs - as a guarantee of exposure - allows for additional guarantees for the recoverability of receivables. The write-backs, in the column 'First and second stage', correspond to the write-backs of performing positions.
For more detailed information pertaining to movements in net adjustments on receivables, refer to Part E of these Explanatory Notes.

8.2 Net value adjustments due to credit risk relative to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income components	Vale adjustments (1)			Write-backs (2)		Total 2018
	First and second stage	Third stage		First and second stage	Third stage	
		write-offs	Other			
A. Debt securities	(3,326)	-	-	1,849	-	(1,477)
B. Loans	-	-	-	-	-	-
- To customers	-	-	-	-	-	-
- To banks	-	-	-	-	-	-
of which: impaired financial assets acquired or originated	-	-	-	-	-	-
TOTAL	(3,326)	-	-	1,849	-	(1,477)

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies' in relation to the approach used for the presentation of comparative data, please refer to the information in the financial statements for the period closed as at 31 December 2017.

SECTION 9 PROFITS/LOSSES FROM CONTRACTUAL CHANGES WITHOUT DERECOGNITIONS - ITEM 140

9.1 Profits (losses) from contractual changes: breakdown

	Total 2018
140. Profits/losses from contractual changes without derecognitions	27

SECTION 10 ADMINISTRATIVE EXPENSES – ITEM 160

10.1 Personnel costs: breakdown

Types of expenses/values	Total 2018	Total 2017
1) Employees	(27,964)	(17,833)
a) salaries and wages	(19,673)	(12,414)
b) social security charges	(5,260)	(3,307)
c) severance indemnity	(1,077)	(733)
d) social security expenses	-	-
e) provision for employees' severance indemnity	(131)	(103)
f) allocation to retirement and similar obligations:	-	-
- with defined contribution	-	-
- with defined benefit	-	-
g) payments to external supplementary pension funds:	(766)	(537)
- with defined contribution	(766)	(537)
- with defined benefit	-	-
h) costs deriving from payment agreements based on own equity instruments	-	-
i) other benefits in favour of employees	(1,057)	(739)
2) Other operating personnel	(11)	(7)
3) Directors and Auditors	(694)	(611)
4) Retired personnel	-	-
5) Recovery of expenses for employees seconded to other companies	83	45
6) Reimbursement of expenses for third party employees seconded to the company	(96)	(15)
TOTAL	(28,683)	(18,421)

The sub-item 'c) severance indemnity' includes the sums allocated to the INPS treasury fund for EUR 47 thousand, in compliance with the provisions introduced by the social security reform pursuant to Italian Legislative Decree no. 252/2005 and Italian Law no. 296/2006, plus the accrued T.F.R. paid into the Supplementary Pension Plan of EUR 1,030 thousand.

Sub-item e) 'provision for employees' severance indemnity' is composed as follows:

- figurative financial charge (Interest Cost – IC) totalling EUR 16 thousand;
- allocation to TFR net of liquidations of EUR 147 thousand.

Sub item g) includes the portions contributed by the Bank into the supplementary pension fund of EUR 766 thousand.

Item 2) 'Other operating personnel' includes participation indemnities paid to trainees during the year, i.e. EUR 11 thousand.

Item 3) 'Directors and auditors' includes compensation for directors, including social security charges for the company and expense reimbursement totalling EUR 342 thousand as well as compensation for the Board of Statutory Auditors totalling EUR 182 thousand. They also include insurance premiums of EUR 170 thousand.

10.2 Average number of employees by sector

	Total 2018	Total 2017
Employees (a + b + c)	317	221
a) executives	15	8
b) Middle managers	116	76
c) remaining employees	186	137
Other personnel	16	16

Figures in units

The average number is calculated as the weighted average of employees where the weight is given by the number of months worked per year.
The value of "Other personnel" includes the Directors (13) and the Auditors (3).

10.3 Defined benefit company pension funds: costs and revenue

The Bank did not establish defined benefit company pension funds.

10.4 Other benefits in favour of employees

	Total 2018	Total 2017
Miscellaneous personnel costs: allocation of loyalty bonus	(28)	(7)
Miscellaneous personnel costs: insurance	(518)	(293)
Miscellaneous personnel costs: meal voucher expenses	(320)	(234)
Miscellaneous personnel costs: training expenses	(135)	(143)
Miscellaneous personnel costs: other benefits	(56)	(61)
OTHER BENEFITS IN FAVOUR OF EMPLOYEES	(1,057)	(739)

10.5 Other administrative expenses: breakdown

Administration expenses	Total 2018	Total 2017
Administration expenses	(54,423)	(37,949)
ICT expenses	(8,115)	(7,067)
IT expenses	(194)	(181)
Financial information	(2,704)	(2,360)
Data processing	(1,824)	(1,624)
Interbank network costs	(2,140)	(2,008)
Software maintenance	(1,113)	(822)
Telephone expenses	(140)	(71)
Advertising and entertainment expenses	(2,554)	(1,594)
Advertising & promotional expenses	(748)	(385)
Entertainment expenses	(1,806)	(1,209)
Expenses for real estate and furnishings	(1,558)	(1,070)
Expenses for real estate	(31)	(5)
Real estate property rentals	(310)	(73)
Cleaning	(172)	(133)
Utilities and heating	(233)	(209)
Maintenance	(673)	(535)
Other rentals	(138)	(114)
Expenses for security and transportation of valuables	(303)	(176)
Security	(22)	(22)
Counting and transportation of valuables	(281)	(154)
Expenses for insurance	(329)	(279)
Premiums for fire and theft insurance	(293)	(250)
Other insurance premiums	(36)	(29)
Expenses for professional services	(32,230)	(20,849)
Expenses for professional and consulting services	(31,170)	(19,645)
Certifications and ratings	(679)	(685)
Debt collection expenses	(381)	(519)
Association contribution expenses	(3,463)	(3,503)
Association contributions	(1,341)	(819)
Contributions to the National Resolution Fund and to the Deposit Guarantee System	(2,121)	(2,684)
Other expenses for the purchase of goods and services	(5,872)	(3,412)
Stationery	(383)	(275)
Postal and transport expenses	(1,305)	(789)
Other administrative expenses	(4,184)	(2,348)
Expenses for indirect taxes and duties		
indirect taxes and duties	(11,018)	(9,547)
- of which stamp duty	(10,216)	(8,782)
- of which property taxes	(101)	(107)
- of which substitute tax Presidential Decree 601/73	(461)	(361)
- other taxes	(240)	(297)
TOTAL OTHER ADMINISTRATIVE EXPENSES	(65,441)	(47,496)

The increase in 'Other administrative expenses' is due primarily to the increase in expenses for professional services incurred for the advisory services activated during the inception phase of the new banking Group, as well as the increase in the administrative expenses correlated to the increase in personnel and the increase in the stamp duty accrued on the securities portfolios, as a result of the increased volumes, to which, however, corresponds a similar increase in the income under item 190. 'Other operating charges/income' for the recovery made from customers.

In accordance with the provisions pursuant to Article 2427 of the Italian Civil Code, paragraph 16 bis, the compensation - net of VAT and expenses - which is due to the independent auditors as well as other companies of the KPMG Network - for services performed during the course of 2018 - are reported below:

Legal audit	233
Certification services	80
Other services	82

SECTION 11

NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 170

11.1 Net allocations for credit risk relative to commitments to issue funds and financial guarantees issued: breakdown

Items	Total 2018		
	Phase 1	Phase 2	Phase 3
	Allocations (Sign -)		
Commitments to issue funds			
- Commitments to issue funds	-	-	-
Financial guarantees issued			
- Financial guarantee contracts	-	-	-
TOTAL ALLOCATIONS (-)	-	-	-
	Reallocations (Sign +)		
Commitments to issue funds			
- Commitments to issue funds	7,095	-	-
Financial guarantees issued			
- Financial guarantee contracts	47	-	-
TOTAL REALLOCATIONS (+)	-	-	-
	Net allocation		
TOTAL	7,142	-	-

11.2 Net allocations relative to other commitments and guarantees issued: breakdown

The Bank did not make further allocations relative to commitments and guarantees issued other than those reported in the previous table.

11.3 Net allocations to other provisions for risks and charges: breakdown

Items	Total 2018		
	Allocations (with sign -)	Reallocations (with sign +)	Net total
Allocations and reallocations to other provisions for risks and charges			
1. for risks on revocatory actions	-	-	-
2. for charity	-	-	-
3. for personnel risks and charges	-	-	-
4. for legal and tax disputes	(890)	-	(890)
5. for other risks and charges	-	-	-
TOTAL	(890)	-	(890)

Allocations to other provisions for risks and charges refers to the adjustment of the Provisions for legal disputes.

SECTION 12

NET VALUE ADJUSTMENTS/WRITE-BACKS TO TANGIBLE ASSETS - ITEM 180

12.1 Net value adjustments to tangible assets: breakdown

Asset/Income components	Amortisation and depreciation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a + b - c)
A. Tangible assets				
A.1 Owned	(1,406)	-	-	(1,406)
- For functional use	(1,406)	-	-	(1,406)
- For investment	-	-	-	-
- Inventories	-	-	-	-
A.2 Acquired under finance lease	-	-	-	-
- For functional use	-	-	-	-
- For investment	-	-	-	-
TOTAL	(1,406)	-	-	(1,406)

The column 'Amortisation and depreciation' includes amounts for amortisation and depreciation pertaining to the financial year.

SECTION 13 NET VALUE ADJUSTMENTS/WRITE-BACKS TO INTANGIBLE ASSETS - ITEM 190

13.1 Net value adjustments to intangible assets: breakdown

Asset/Income components	Amortisation and depreciation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(466)	-	-	(466)
- Generated internally by the company	-	-	-	-
- Other	(466)	-	-	(466)
A.2 Acquired under finance lease	-	-	-	-
TOTAL	(466)	-	-	(466)

The column 'Amortisation and depreciation' includes amounts for amortisation and depreciation pertaining to the financial year.

SECTION 14 OTHER OPERATING INCOME/CHARGES - ITEM 200

14.1 Other operating charges: breakdown

	Total 2018	Total 2017
Amortisation of improvements to non-separable third-party assets	(7)	-
Non-existent items and contingencies not ascribable to own items	(64)	(192)
Allowances payable and rounding down	(9)	(6)
Other operating charges - other	(8)	-
TOTAL OPERATING CHARGES	(87)	(198)

Recoveries of taxes are ascribable to stamp duties on current accounts, savings accounts and financial products totalling EUR 8,151 thousand, as well as substitute taxes on medium-long term financing totalling EUR 361 thousand, and other taxes amounting to EUR 10 thousand.

14.2 Other operating income: breakdown

Items	Total 2018	Total 2017
Recovery of taxes	10,344	8,523
Receivable rents and payments	1	-
Recovery of other expenses	5,940	437
Non-existent items and contingencies not ascribable to own items	268	182
Other operating income - other	32	33
TOTAL OTHER OPERATING INCOME	16,584	9,176

Recoveries of taxes are mainly ascribable to stamp duties on current accounts, savings accounts and financial products totalling EUR 9,027 thousand, to stamp duties on banker' drafts issued for EUR 784 thousand as well as substitute taxes on medium-long term financing for EUR 461 thousand.
The item 'Recovery of other expenses' refers primarily to the share attributable to CR-BCCs for internal audit, compliance and data protection officer services that they outsource to Cassa Centrale Banca.

SECTION 15

PROFITS (LOSSES) ON EQUITY INVESTMENTS - ITEM 220

No economic changes to equity investments were recorded during the year.

SECTION 16

NET RESULT OF FAIR VALUE MEASUREMENT OF TANGIBLE AND INTANGIBLE ASSETS - ITEM 230

During the course of the year, no fair value measurement was implemented with respect to tangible or intangible assets.

SECTION 17

ADJUSTMENTS TO GOODWILL - ITEM 240

The Bank has not registered any asset item as goodwill.

SECTION 18

PROFIT (LOSS) FROM DISPOSAL OF INVESTMENTS - ITEM 250

18.1 Profit (loss) from disposal of investments: breakdown

Income component/Values	Total 2018	Total 2017
A. Real estate properties	-	-
- Gains from disposal	-	-
- Losses from disposal	-	-
B. Other assets	25	(1)
- Gains from disposal	30	-
- Losses from disposal	(5)	(1)
NET RESULT	25	(1)

SECTION 19 INCOME TAXES FOR THE YEAR ON CURRENT OPERATING ACTIVITIES - ITEM 270

This item includes the fiscal charges - equal to the balance between current and deferred taxes - pertaining to net income of the year.

19.1 Income taxes for the year on current operating activities: breakdown

Item/Values		Total 2018	Total 2017
1.	Current taxes (-)	(10,887)	(4,429)
2.	Changes in current taxes of previous years (+/-)	1,773	11
3.	Decrease in current taxes of the year (+)	-	-
3.bis	Decrease in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	-	-
4.	Change in prepaid taxes (+/-)	(851)	(1,558)
5.	Change in deferred taxes (+/-)	-	-
6.	Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(9,965)	(5,976)

Item '4. Change in prepaid taxes' of EUR 5,099 thousand also includes the portion of prepaid taxes recognised in the Income Statement to offset the Equity Reserve due to the effect of the transaction to IFRS 9.

Current taxes were booked in accordance with currently effective legislation:

- IRES: 27.5%;
- IRAP: 5.57% for the Value of production realised in the Province of Trento (Solely for banks operating in the Province of Trento, provincial law no. 21 of 30 December 2015 sets forth that the IRAP rate for the years 2018 is 5.57%).

19.2 Reconciliation between the theoretical fiscal charge and the effective fiscal charge in the financial statements

Item	Tax
Item/Values	
IRES income taxes - theoretical fiscal charge:	(10,639)
Effects of decreases in taxable income on IRES	10,450
Effects of increases in taxable income on IRES	(8,074)
A. Effective fiscal charge – current IRES tax	(8,264)
Increases in deferred tax assets	-
Decreases in deferred tax assets	(716)
Increases in deferred tax liabilities	-
Decreases in deferred tax liabilities	-
B. Total effects of deferred IRES taxation	(716)
C. Changes in current taxes of previous years	1,308
D. Total accrued IRES (A+B+C)	(7,672)
Theoretical fiscal charge for IRAP with application of nominal rate (difference between net interest and other banking income and allowable deductible costs):	(2,775)
Effect of decreases in value of production	1,519
Effect of increases in value of production	(1,367)
Changes in current taxes of previous years	465
E. Effective fiscal charge – current IRAP tax	(2,158)
Increases in deferred tax assets	-
Decreases in deferred tax assets	(135))
Increases in deferred tax liabilities -	-
Decreases in deferred tax liabilities -	-
F. Total effects of deferred IRAP taxation	(135)
G. Total accrued IRAP (E+F)	(2,292)
H. IRES/IRAP substitute tax for exemption of mismatches	-
TOTAL IRES - IRAP CURRENT TAXES (A+C+E+H)	(9,114)
TOTAL IRES - IRAP ACCRUED TAXES (D+G+H)	(9,965)

SECTION 20

PROFIT (LOSS) ON GROUPS OF ASSETS HELD FOR SALE, AFTER TAX - ITEM 290

During the course of the year, the Bank did not proceed with disposals of groups of assets.

SECTION 21

OTHER INFORMATION

There is no further information other than that already provided.

SECTION 22

EARNINGS PER SHARE

The international standards (IAS 33) assign particular relevance to the earning per share, (commonly known as EPS) rendering mandatory its publication in two forms:
- "Basic Earnings per share", calculated by dividing net income by the weighted average of ordinary shares in circulation;
- "Diluted Earnings per share", calculated by dividing net income by the weighted average of ordinary shares in circulation and while also taking into account classes of instruments with diluting effects.

Net result for the year in Euro	31,016,819
Number of ordinary shares outstanding	18,158,304
Number of preference shares outstanding	150,000
Basic EPS	1.71
Diluted EPS	1.71

In particular:
- given that the share capital is also represented by preference shares, the economic result which is attributable to parties owning ordinary equity instruments is given by the profit for the year minus the dividends paid to preference shares;
- given that no financial instruments or operations were issued/implemented during the year with potential diluting effects on net income, the calculation of basic EPS coincides with that of diluted EPS;
- there were no own shares.

PART D
COMPREHENSIVE INCOME

Analytical statement of comprehensive income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

	Items	Total 2018	Total 2017
10.	Profit (loss) for the year	31,017	13,431
	Other income components without reversal to the Income Statement		
20.	Equities measured at fair value through other comprehensive income:	(2,679)	
	a) fair value change	(2,679)	
	b) Transfers and other components of equity	-	
30.	Financial liabilities measured at fair value through profit or loss (changes in credit rating):	-	
	a) fair value change	-	
	b) Transfers and other components of equity	-	
40.	Hedging of equities measured at fair value through other comprehensive income:	-	
	a) fair value change (hedged instrument)	-	
	b) fair value change (hedging instrument)	-	
50.	Tangible assets	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	50	-
80.	Non-current assets and groups of assets held for disposal	-	-
90.	Quota of reserves from the valuation of shareholdings measured with the equity method	-	-
100.	Income taxes on other income components without reversal to the Income Statement	346	-
	Other income components reversed to the Income Statement		
110.	Hedging of foreign investments:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
120.	Exchange rate differences:	-	-
	a) value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
130.	Hedging of cash flows:	-	
	a) fair value changes	-	
	b) reversal to income statement	-	
	c) other changes	-	
	of which: result of net positions	-	
140.	Hedging instruments: (non designated elements)	-	
	a) value changes	-	
	b) reversal to income statement	-	
	c) other changes	-	
150.	Financial assets (other than equities) measured at fair value through other comprehensive income:	(31,665)	(9,745)
	a) fair value changes	(31,665)	(13,390)
	b) reversal to income statement	-	(3,273)
	- adjustments for credit risk	-	55
	- profits/losses on sale	-	(3,328)
	c) other changes	-	6,919
160.	Non-current assets and groups of assets held for disposal:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
170.	Quota of reserves from the valuation of shareholdings measured with the equity method:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	- impairment adjustments	-	-
	- profits/losses on sale	-	-
	c) other changes	-	-
180.	Income taxes on other income components with reversal to the Income Statement	6,817	4,428
190.	TOTAL OTHER INCOME COMPONENTS	(27,132)	(5,316)
200.	COMPREHENSIVE INCOME (ITEMS 10+190)	3,385	8,115

PART E
INFORMATION ON RISKS AND ON RELATED HEDGING POLICIES

INTERNAL CONTROL SYSTEM

The principle which serves as the inspiration and basis for the management of Cassa Centrale Banca can be expressed as the pursuit of satisfactory profitability which is based on operations that are compatible with the assumption of risks, both within regulatory limits as well as within those which are sustainable by the financial structure of the firm. The Bank has created a structured system of internal controls which, on a daily basis and proportionally to the complexity of the activities carried out, involve the entire organisational structure and conforms to the new legislation governing the 'Internal Control System', reported in Part One, Title IV, Chapter 3 of Circular 285/2013.

It is structured into the following three levels:

- line controls, or first level controls, which are assigned to production facilities and which aim to ensure the correct implementation of operations; they are implemented by means of IT barriers or organisational controls;
- controls on Risk Management and Compliance and Anti-money Laundering or second-level controls, whose objective is to ensure the correct implementation of the risk management process, verify compliance with the limits assigned to operational departments and guarantee the compliance of company operations with the rules, including those of self-regulation and, lastly, the management of the risks of money laundering and terrorism financing; they aim to identify, measure, monitor and manage risks and are assigned to independent structures that are excluded from the operational phase. The Risk Management department is required to monitor risks and verify compliance with the operational limits set by supervisory regulations and by internal regulations, including verification of the exercising of proxies and observance of the Risk Appetite Framework (RAF) at Group level. The Department also provides preventive judgments on the consistency of the most significant transactions with the RAF and drafts the ICAAP report.The Compliance department is entrusted with the task of identifying, evaluating, managing and monitoring risks derived from legal and administrative sanctions as well from financial losses or damages to the company's reputation due to external or internal violations of norms; the Anti-Money Laundering department oversees the management of the risks of money laundering and terrorism financing with regards to company activities, through the evaluation of the adequacy of the internal procedures targeted at preventing the violation of the applicable external regulations and provisions of self-regulation;
- the Internal Audit Department is directed, on the one hand, from a third level point of view, to supervise the regular activity of operations and the evolution of risks and, on the other hand, to evaluate the completeness, adequacy, functionality and reliability of the organisational structure and of the other components of the internal control system, bringing to the attention of corporate bodies any possible improvements. In implementation of the plan approved by the Board of Directors, the department conducts checks on the business areas and controls according to a mandatory frequency. The final outcomes of every intervention were reported to the competent departments and to the General Management for the adoption of corrective and improvement measures. The Department, in accordance with current regulations, regularly informs the Board of Directors, the Board of Statutory Auditors and the Board's Risks Committee on the outcomes of verifications carried out and the consequent risk valuations.

The role of the Board of Statutory Auditors is also important, as the Body with control function, which is responsible for monitoring the completeness, adequacy, functionality and reliability of the internal control system and the RAF, in compliance with the applicable legislation and the Articles of Association. The Board of Statutory Auditors carries out the functions of the supervisory body - established in accordance with Legislative Decree 231/2001, regarding entities' administrative liability - which oversees the functioning and observance of the organisation and management model for the purposes of said Legislative Decree. In relation to the different responsibilities attributed, this Body is required to ascertain the adequacy of all the Departments involved in the internal control system, the correct fulfilment of tasks and the adequate coordination of said tasks, promoting corrective measures where deficiencies and irregularities are identified. The Board of Statutory Auditors informs the Board of Directors of any deficiencies and irregularities identified, requests the adoption of the appropriate corrective measures and verifies their effectiveness over time.

The organisation of internal controls also ensures - in addition to a separation of operational functions from auditing ones - an adequate degree of risk management through the constant improvement of IT systems and reporting activities.

The Risks Committee – composed of General Manager, Area Managers and a representative of the Risk Management department – is an integral part of the internal control system; Risks Committee meetings are also attended by a representative of the Compliance department to present the topics under its competence. This body is entrusted by the Board of Directors to identify all significant risks to which the Bank is exposed during its operations in addition to formulating policies in relation to risk prevention, measurement or evaluation, management and mitigation. The presence of this body and the interaction that takes place between its members contribute to disseminating within the Bank the risk culture regarding the individual issues. Along this line, the provision has been added which allows the Bank's control functions to directly report their findings to the Board of Directors. Particular attention is also paid to the continuous updating of the Bank's personnel through participation in specialized courses held externally.

In accordance with the Regulatory Provisions for Banks on the matter of 'corporate governance, internal audits, risk management' the Board's Risks Committee (C.R.C.) of the Parent Company was created. The C.R.C. consists of 3 non executive directors, selected among the Directors of the Parent Company, with the majority of them being independent directors, with such knowledge, skills and experience as to be able fully to understand and monitor the Group's risk strategies and guidelines to the various risk profiles. The task of the C.R.C. is to assist the Board of Directors, by gathering facts, advising, and formulating proposals, in performing its duties as the strategic supervision body, as they are defined in regulations in force on the matter of risks and internal audit system, including the determination of the RAF and of the risk governance policies, as well as in the approval of the separate and consolidated financial statements.

The Bank also drafted its recovery plan, according to the guidelines of the competent authorities, which establishes the intervention methods and measures to restore the company solvency profiles in the event of serious deterioration in the financial position. To this end, the scenarios of tension able to highlight the main company vulnerabilities and measure their potential impact on the company's risk profile were identified.

In 2018, Cassa Centrale Banca, as part of the project for the establishment of the Cooperating Banking Group, which was officially launched on 1 January 2019, insourced the activities of the Internal Audit and Compliance Departments for the majority of the Cooperative Credit Banks belonging to the Group; the Risk Management and Anti-Money Laundering Departments were instead insourced as of 1 January 2019, in compliance with the provisions of the rules introducing the Cooperative Credit reform. With the launch of the Group, the members of the corporate bodies

were re-elected as were the various board committees; a new regulation governing Group activities will also be introduced.

SECTION 1 CREDIT RISK

INFORMATION OF A QUALITATIVE NATURE

1. General aspects

The sales policy of Cassa Centrale Banca - when implementing credit activities - has constantly pursued objectives and strategies which aim to contain a concentration, within its portfolio, of individual counterparties, economic sectors or geographical areas. The Bank operates primarily in a subsidiary manner with respect to shareholder or customer BCC-CR-RAIKAs by implementing operations targeting their customers; it is not possible to independently operate in relation to the latter due to regulatory and size-specific limits, or for technical reasons. Cassa Centrale Banca applies high standards to the analytical methodologies used to assess the credit repayment capacity of customers and has constantly updated and improved the process for monitoring loan positions, both in relation to commercial and territorial expansion and with reference to the size of the loans. This process was continued from the perspective of involving the proposing banks in the risk by means of pool financing or by issuing at least partial guarantees to back up granted loans.

Credit risk arising from loans disbursed under various forms to financial institutions, in particular to BCC-CR-RAIKAs which have liquidity needs, is managed by utilising an internal calculation model for scoring the financial statements of banks. This value acts as a discriminating factor for the powers delegated in relation to credit to banking counterparties. Additional information is used to evaluate the various risk profiles. The Risks Committee periodically monitors the exposure of the Bank to specific and generic risks, both credit and liquidity risks - which arise from operations with credit institutions.

Cassa Centrale Banca manages the cash deposited at the various BCC-CR-RAIKAs through investment on the collateralised market (MTS-Repo) or based on bilateral agreements with the leading market counterparties which make provision for the exchange of guarantees. These transactions were insignificant during the year, given that the remuneration conditions were in line or worse than those applied by the ECB. The counterparties with which the Finance Area operates, nonetheless, are entrusted with suitable credit limits in advance, following a favourable investigation which is conducted independently by the Credit Area in relation to creditworthiness. The prudent approach adopted by the Bank has, therefore, seen part of the available liquidity invested in the European Central Bank and the remainder has been used to support the loans requested by the BCC-CR-RAIKAs and the purchase of securities in the proprietary portfolio. During 2018, the brokerage activity involving auctions with the European Central Bank, carried out by Cassa Centrale Banca on behalf of the BCC-CR–RAIKAs subscribing to the service, saw an increase in the volumes brokered. This is related to the gradual centralisation of services at the Parent Company by member banks. It should be noted that the loans disbursed, which are charged to the financial statements, are secured by financial collateral securities which result in a significant reduction in risk.

Credit risk can also occur in the portfolio of own securities. The Finance Regulations provide for structured limits and proxies pertaining to the following: the overall amount of the securities portfolio; the ownership of non-listed securities; the stock portfolio; the concentration of risk within asset management companies; net open exchange rate positions; Value at Risk for HTCS and Trading portfolios; maximum losses; amount of the HTC portfolio and potentially related capital losses and risks associated with individual issuers. In the presence of specific market situations, the Risks Committee may establish more stringent limits compared to those provided

for in the Regulations. Each quarter, the Board of Directors and - on a weekly basis - General Management are updated on the movements in the portfolio of securities and on compliance with regulatory limits. Credit risk relative to securities issued by parties other than government or banking entities is marginal. Strategies for the securities portfolio are shared within the Risks Committee, and in specific cases they are subject to the positive and independent analysis of creditworthiness by the Credit Area.
Cassa Centrale Banca is exposed to counterparty risk in relation to OTC derivative activities and repurchase agreements. Operations pertaining to OTC derivatives are almost entirely balanced; there are therefore sporadic operations for the hedging of assets or liabilities which refer to properties while operations of speculative nature are not implemented. Note should be taken of the application of the provisions established by EU Regulation 648/2012 on OTC derivative instruments, central counterparties and the additions reported in Delegated Regulation of the European Commission of 04/10/2016. The limits assigned to BCC-CR-RAIKAs - in relation to their rate hedging activities - and those assigned to institutional counterparties are deliberated by the body of competence following an independent investigation by the Credit Area. Institutional counterparties all have acceptable credit standings, taking into account the generalised decrease in the ratings of financial institutions by the primary rating agencies; an ISDA master agreement was signed with the majority of these counterparties in order to offset mutual receivables in the case of default. In addition, collateralisation agreements were signed with primary institutional partners; these agreements provide for the payment - in cash or securities - of margins as guarantees of credit represented by the market values of the operations being implemented. Even in relation to the dynamics concerning counterparty risk, the Risk Management department periodically updates General Management and the Board of Directors. Collateralisation activities continued in 2018 with client banks in observance of the Delegated Regulation of the European Commission of 04/10/2016, supplementing Regulation (EU) no. 648/2012.

2. Policies for managing credit risk

2.1 Organisational factors

Banks are exposed to the risk of receivables not being paid by the debtors on their expiration dates and that, as a result, they must be booked as losses in the financial statements. A failed or delayed repayment can occur both in traditional credit disbursements to customers as well as in operations that are not booked within the financial statements (e.g., credit commitments). Customer defaults can originate from a lack of liquidity, incapacity to operate, economic events or other internal or external reasons, such as country risk or operating risks. Even activities that differ from traditional lending activities, such as the trading of securities or the underwriting of OTC derivatives, further expose the Bank to credit risk.
In compliance with the new provisions governing 'Internal control system' in Circular 285/13, the Cassa Centrale Banca has implemented an organisational structure which is adequate for the activities carried out and which is constantly updated in relation to the market environment. The preliminary evaluation process for investment projects is structured across separate departments which ensure extensive meetings and dialogue on creditworthiness. The same principle of functional separation also regulates the process of completion of loan assignments. The organisational process also includes audits on trends in individual relationships which are implemented by IT procedures and through the systematic and direct monitoring within the territory as well as through the development of relations with the BCC-CR-RAIKAs that are involved in the relationships. In addition to line controls, the second and third level control functions manage the monitoring of risks as well as the accuracy

and adequacy of the managerial and operational processes, as outlined previously.
The entire credit process is regulated by the Credit Process Regulations, internal regulations which are approved by the Board of Directors and which contain proxies for credit as well as for economic conditions which are subject to periodical annual audits, or in relation to new laws or regulations or commercial and organisational needs. In particular, it defines the following:

- the exercising of proxies which is managed within the Bank's IT system and which is continually verified, or audited by sampling, by the Risk Management and Internal Audit departments;
- the criteria and methodologies for assessing creditworthiness as well as for the auditing of loans, trend analysis and initiatives to implement in the event anomalies are identified.

The Credit Area is the company body delegated with the governance of the credit process (credit granting and auditing, monitoring, management of disputes) as well as the coordination and development of credit transactions and loans. The allocation of tasks and responsibilities within this Area aims - to the extent that is feasible - to separate activities that are in conflict of interest, particularly through an opportune ranking of authorisation profiles within the IT system.
As part of the regulation of related parties, the Bank is equipped with the appropriate decision-making procedures targeted at monitoring the risk of the closeness of said parties to decision-making centres compromising the impartiality and objectiveness of the decisions relating to the granting of loans among other things. From this perspective, the Bank is also equipped with recognition tools and an IT procedure aimed at supporting the correct and complete registration of related parties. These references were supplemented, through the adoption of specific policies, with organisational structures and internal controls aimed at defining the roles and responsibilities of the company bodies and functions regarding the prevention and management of conflicts of interest, at ensuring the accurate registration of related parties, at monitoring the trend in the associated exposures and constant compliance with the limits defined, and at guaranteeing prompt and proper implementation of the decision-making procedures regulated. The Bank has also defined the levels of risk appetite and tolerance thresholds consistent with its strategic profile and organisational characteristics.
The systematic monitoring of the processes for managing and detecting problematic positions is also guaranteed through the operations of the Risks Committee.
The Risk Management Department is required to carry out controls targeted at periodically verifying that the monitoring of credit exposures, the classification of exposures, allocations and the recovery process, are carried out in compliance with the internal procedures and that these procedures are effective and reliable, with reference to the capacity to promptly report any anomalies that should arise, and to ensure the adequacy of the value adjustments and associated classification as losses.
More generally speaking, the Risk Management Department must periodically monitor and check compliance with the risk objectives, operating limits and risk indicators defined by the Board of Directors according to the methods and timescales defined in the RAF Regulation and in the risk management processes. It also verifies the adequacy of the RAF, also availing itself of the outcomes of monitoring of the risk objectives, limits, risk indicators and the recognition/measurement metrics used.
The Department also provides preventive judgments on the consistency of the most significant transactions with the RAF by acquiring, based on the nature of the transaction, the judgment of the other departments involved in the risk management process. For these purposes, it identifies the risks to which the Bank may be exposed in undertaking the transaction; it quantifies and assesses, based on the data acquired by the competent company

departments involved, the impacts of the transaction on the risk objectives, on the tolerance thresholds and on operating limits; it evaluates, based on the aforementioned impacts, the sustainability and consistency of the transactions with the risk appetite defined beforehand by the Board of Directors; it identifies the measures to be adopted to adjust the overall risk governance and management system, including therein the need to update the risk appetite and the system of operating limits.

2.2 Management, measurement and control systems

The credit risk is identified and valuated even through forecasting, at the level of the individual client; periodical analyses focus on the credit repayment capacity of the requesting party over time as well as the validity and sustainability of the entrepreneurial projects, on the historical and future stability of company financial equilibriums. A similar evaluation is applied in addition to offered guarantees, with particular attention to their level of liquidity. The management and control of individual positions is facilitated by a list of trends in anomalies as well as by access to external databases (e.g. a list of adverse acts) and by implementing targeted audits that are adequately spread out over time. The IT system of the Bank reports, in an orderly and synthetic manner, the primary quantitative information for each individual client (profitability, trends in risk levels, operations, central credit register, financial statements). The management and control phase is completed through the periodical auditing of the positions. The portfolio of receivables is subdivided into 5 risk categories (performing, under observation, expired/exceeded limit, unlikely to pay, non performing) on the basis of evaluations provided by the Risks Committee and without prejudice to specific deliberative powers assigned to top corporate boards. Following the transposition by the European Commission of the Implementing Technical Standards (ITS) published by the EBA in October 2013, the definitions of non performing exposures (NPE) and forbearance were introduced, with these profiles integrated within the Bank's IT procedures.

The phases of identification, measurement, management and control of credit risk within the portfolio also include periodical monthly observations on the distribution by sector and business branches as well as by type of use, geographical location and concentrations of amount, paying specific attention to the main sectors of intervention.

The assets of the Bank would allow for the granting of credit to individual clients or to groups of connected clients within the threshold of EUR 230 million (25% of eligible capital); if we exclude the counterparties attributable to the cooperative credit movement and the market there are no positions relating to private entities that qualify as large exposures, i.e. that exceed the 10% threshold at nominal amount level.

Cassa Centrale Banca has resolved to:

- adopt the standardised methodology for the calculation of the minimum capital requirement for credit risk (First Pillar);
- utilise the creditworthiness evaluations issued by ECAI DBRS for the determination of weighting factors for positions included within the following portfolios:
  - "Central Administrations and Central Banks" as well indirectly for those included in the portfolios "Monitored Intermediaries", "Entities of the public sector" and "Territorial entities";
  - as well as the evaluations issued by the ECAI Moody's Investors Service for the determination of weighting factors for positions included within the following portfolios:

- ‘Exposures with respect to Multilateral Development Banks’;
- ‘Exposures with respect to Collective Investment Undertakings’;
- ‘Positions relative to securitisations’.

With regard to exposures that fall within all other portfolios, diversified weighting coefficients are applied, in accordance with the aforementioned prudential regulations and within the domain of the standardised methodology (Part two, Chapter 3, Section I, Circular 285/13).

With reference to internal capital adequacy assessment process (ICAAP) that is required by the Second Pillar of currently effective prudential regulations, and in execution of the principles of proportionality and graduality, the Bank has drafted the ICAAP report of 31/12/2017 by adopting the methodologies which the Supervisory Board requires for class 2 intermediaries.

With regard to this point, Cassa Centrale Banca adopts the following methodologies:

- in order to quantify internal capital in connection with the risk of concentration for individual counterparties or groups of related clients, a simplified algorithm is utilised to determine the Granularity Adjustment through the Herfindahl index (Part One, Title III, Chapter 1, Annex B, Circ. 285/13); as of the reporting of December 2010, the model developed within ABI by the ‘Laboratory for Geo-Sectorial Concentration Risk’ and its subsequent amendments will also be utilised;
- in order to determine internal capital in connection with interest rate risk for the banking book, a simplified algorithm is utilised to determine the change in the economic value of the banking book in the case of rate shock of 200 basis points (Part One, Title III, Chapter 1, Annex C, Circular 285/13);
- in order to define procedures for measuring and controlling liquidity risk, the guidelines proposed by the Supervisory authorities are followed.

With reference to the performance of stress tests, the following methodologies were applied:

- with regard to concentration risk for individual counterparties or groups of related clients, an increase in the rate of classification of non performing loans within the portfolio was assumed and based on the worst rate of decline recorded on the historical series available for an individual branch of economic activity;
- in relation to the implementation of the stress test relative to interest rate risk for the banking book, an increase of 50 basis points - with respect to the threshold of 200 basis points for the ordinary scenario - was applied;
- with reference to credit risk, the execution of the stress test is implemented as follows:
  the level of risk of the banking book is identified, redefined on the basis of the relationship between impaired positions and company loans (values net of write-downs or provisions for risks) verified in the worst credit period experienced by the Bank over the last 10 years. Based on the risk of the portfolio, the new requirements in terms of coverage to be allocated in the income statement can then be estimated on the one hand and, on the other, the effects of the reduction in net exposures in calculating the requirement can be quantified.

Stress tests are conducted on the basis of forecasted data, which includes the possibility of development of assets that are prepared at the time of definition of the company budget.

With regard to investment activities for the portfolio of own securities, periodical evaluations are performed on the instruments that are present within the portfolio, both within the Finance Area as well as within the Risks Committee. Compliance with the limits and proxies that are assigned in this area are verified on a weekly basis.

The entire credit risk process is periodically checked by the Internal Audit Department.

2.3 Measurement methods of expected losses

IFRS 9 introduced, for instruments measured at amortised cost and at fair value through equity (other than equity instruments), a model based on the concept of 'expected loss', replacing the 'incurred loss' approach of IAS 39. The amendments introduced by IFRS 9 are characterised by a prospective view which, in given circumstances, may require the immediate recognition of all expected losses over the life of a loan. In particular, unlike IAS 39, it will be necessary to recognise, immediately and regardless of the presence or not of a so-called trigger event, the initial amounts of expected future losses on own financial assets, and this estimate must be continuously adjusted also in consideration of the counterparty credit risk. In order to prepare this estimate, the impairment model must not only consider past and present data, but also information relating to future events.

This 'forward looking' approach makes it possible to reduce the impact of the losses and enable loan adjustments to be posted in proportion to the increase in risks, allowing entities to avoid overloading the income statement on the occurrence of loss events and reducing the pro-cyclical effect.

The perimeter of application of the new model for the measurement of expected losses on loans and securities subject to impairment adopted by Cassa Centrale Banca refers to financial assets (loans and debt securities), commitments to disburse funds, guarantees and financial assets not subject to measurement through FVTPL.For credit exposures falling within the perimeter of application[1] of the new model, the accounting standard provides for the allocation of the individual positions in one of the 3 stages based on the changes in credit quality, defined on a 12-month expected credit loss model or lifetime expected credit loss model in the event a significant increase in risk has been verified (lifetime).In particular, three different categories are envisaged, which reflect the model of impairment of credit quality from the initial recognition, which make up the stage allocation:

- in stage 1, positions that do not present, at the valuation date, a significant increase in credit risk (SICR) or which can be identified as 'Low Credit Risk';
- in stage 2, positions that, at the reference date, present a significant increase or that do not present the characteristics to be identified as 'Low Credit Risk';
- in stage 3, non performing positions.[2]

The estimate of expected loss using the Expected Credit Loss (ECL) criterion, for the classifications defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1, expected loss must be calculated on a time horizon of 12 months;[3]
- stage 2, expected loss must be calculated by considering all the losses that are expected to be incurred over the entire life of the financial asset (lifetime expected loss): therefore, with respect to the calculation performed in accordance with IAS 39, entities will move from the estimate of incurred loss over a time horizon of 12 months to an estimate that takes into consideration the entire residual life of the loan; in addition, given that IFRS 9 requires entities to also adopt forward-looking estimates for the calculation of the lifetime expected loss, it will therefore be necessary to consider the scenarios connected with macro-economic variables (e.g. GDP, unemployment rate, inflation, etc.) which, through a macro-economic statistical model, are able to estimate the forecasts over the residual duration of the loan;

[1] The application segments are separated into ordinary customers, interbank segment and securities portfolio.
[2] Non performing loans concern: impaired past due and/or overrun, 'unlikely to pay' and non performing exposures.
[3] The calculation of Expected Loss for the purposes of the calculation of collective impairment for said exposures is carried out on a 12-month 'Point in Time' basis.

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

The risk parameters (PD, LGD and EAD) are calculated by the impairment models; in order to improve the coverage of positions not covered by ratings at origin, which originated after 2006, the default rates made available by the Bank of Italy were used.[4] It should be underlined that the Bank calculates the ECL based on the allocation stage, per individual position, with reference to cash and off-balance sheet exposures.

Ordinary customer segment

The drivers common to all approaches identified for the construction of the PD to be used concern:

- estimate of the 12-month PD developed through the construction of a consortium type model, on a statistical basis, appropriately segmented on the basis of the counterparty type, for the evaluation of creditworthiness by adhering to the market best practices and the rules dictated by the legislator in relation to IFRS 9;
- the inclusion of forward-looking scenarios, through the application of multipliers defined by the 'Satellite Model' to the PD PiT and the definition of a series of possible scenarios capable of incorporating current and future macroeconomic conditions;
- the transformation of the 12-month PD to lifetime PD, in order to estimate the PD term structure over the entire residual life class of the loans.

The drivers common to all approaches identified for the construction of the LGD to be used concern:

- a consortium type model which is composed of two parameters: the Danger Rate (DR) and Non performing LGD (LGS);
- the parameter Danger Rate IFRS 9 is estimated starting from a set of matrixes of transition between the administrative statuses with an annual observation horizon. These matrixes were calculated on a set of counterparties with a segmentation in line with that utilised for developing PD models. The DR parameter, as with the PD, is subject to the economic cycle, based on possible future scenarios, in order to incorporate the assumptions of future macroeconomic conditions;
- the nominal LGS parameter is calculated as the arithmetic mean of the nominal LGS, segmented by guarantee type, and subsequently discounted on the basis of the average recovery times observed per cluster of positions consistent with those of the nominal Non performing LGD.

The EAD IFRS 9 model adopted differs depending on the type of technical macro form and based on the stage the exposure belongs to. For the estimate of the EAD parameter over the lifetime horizon of the instalment-based positions, it is necessary to consider the contractual repayment flows, for each residual year of life of the position. An additional element that influences the future EAD values, i.e. the gradual repayment of instalment-based loans on the basis of a contractual repayment plan, is the prepayment rate (parameter that brings together the early and partial settlement events with respect to the contractual maturity).

The Bank made provision for the allocation of the individual cash and off-balance sheet positions, in one of the 3 stages listed below, based on the following criteria:

[4] In 2018, the Bank of Italy provided a historical series of default rates from 2006, subdivided by some drivers (region, amount bracket, economic sector...) and constructed on the basis of a broader definition of solely positions classified as non performing.

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the following point;
- in stage 2, positions which, at the reference date, present at least one of the characteristics described below:
  - a significant increase in credit risk from the disbursement date has been identified, defined in accordance with the operating methods set out in the appropriate technical documentation;
  - positions which, at the valuation date, are classified to 'watch list', i.e. 'performing under observation';
  - positions which, at the valuation date, present an increase of 200% in the PD with respect to that at origination;
  - presence of a 'forborne performing' attribute;
  - presence of past due amounts and/or overrun by more than 30 days;
  - positions (without 'lifetime PD' at the disbursement date) that, at the measurement date, do not present the characteristics to be identified as 'Low Credit Risk' (i.e. performing positions that, at the measurement date, present the following characteristics: absence of 'PD lifetime' at the disbursement date and rating class at the reporting date less than or equal to 4).[5]
- in stage 3, non performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and non performing exposures.

Interbank segment

The bank adopts different models, developed on a statistical basis. For Cooperative Credit Banks, two models are envisaged, one complete (for banks that are members of the Cassa Centrale Cooperative Banking Group) and a reduced one (for other Cooperative Credit Banks). For other institutions, the PD parameter is provided by an external provider and extrapolated from listed credit spreads or listed bonds. For institutions without listed credit spreads, the PD parameter is always provided by an external provider, however calculated based on comparable approaches, constructed on external information (financial statements, external ratings, economic sector).
The LGD parameter is established prudentially through the basic application of the regulatory level set forth in the IRB domain at 45%, with subsequent increases to take account of the different levels of seniority of the securities. For the EAD, similar approaches are applied to those envisaged for the ordinary customer model. It should be noted that a prepayment parameter of zero was applied to interbank positions, consistent with the underlying technical forms and relating to the specific characteristics of the positions underlying said segment.
The Bank made provision for the allocation of the individual positions to the 3 stages, consistent with the approach to loans to customers. The application of the 'Low Credit Risk' concept is defined on performing positions that possess the following characteristics at the measurement date: absence of 'lifetime PD' at the disbursement date and Point in Time PD of less than 0.3%.

[5] The rating model provides 13 classes.

Securities portfolio

The PD parameter is provided by an external provider based on two approaches:

- exact: the default probability term structure for each issuer is obtained from the listed credit spreads (CDS) or listed bonds;
- comparable: where the market data do not permit the use of specific credit spreads, given absent, illiquid or insignificant, the default probability term structure associated to the issuer is obtained through the proxy methodology. This methodology connects the issuer measured to a comparable issuer for which specific credit spreads are available or to a reference cluster for which it is possible to estimate a representative credit spread.

The LGD parameter is assumed to be constant for the time horizon of the financial asset under analysis and is obtained on the basis of 4 factors: issuer type and instrument, instrument ranking, rating of the instrument and issuer country. The minimum level starts from 45%.

The Bank has made provision for the allocation of the individual tranches of purchase of the securities into 3 stages.

The following are placed in the first stage of creditworthiness: the tranches which are classifiable as 'Low Credit Risk' (i.e. that have a PD below 0.26% at the reporting date) and those which, at the measurement date, have not experienced a significant increase in credit risk with respect to the moment of purchase.

The tranches that, at the measurement date, present an increase in credit risk with respect to the purchase date, are placed in the second stage.

The third and final stage includes tranches for which the ECL is calculated using a probability of default of 100% (therefore in default).

2.4 Techniques for mitigating credit risk

The techniques for mitigating credit risk which are most frequently utilised by Cassa Centrale Banca include the acquisition of collateral securities and personal guarantees of both a financial and non-financial nature.

These forms of guarantee are collected in relation to the results of the creditworthiness assessment of the applicant as well as of the type of loan requested by the customers and duration of the credit line granted. Most of the medium to long-term exposures of the Bank are secured by mortgage guarantees on residential or commercial properties, normally first-ranked.

Over the last few years, as a result of activities connected with the collateral account with the BCC-CR–RAIKAs and the other client banks, notable quantities of securities to guarantee the loans disbursed have been acquired. The securities appear under financial statements assets, given their acquisition adheres to the provisions of Legislative Decree 170/2004 and the provisions of the Bank of Italy, which require, for the purposes of the drafting of the financial statements, the maintenance of the values within the relative financial statements of the BCC-CR–RAIKAs and the client banks, which effectively gain the benefits produced from these values.

Specific attention is given to the process of collection and stipulation of the guarantees so that risks of contractual or operational nature are not incurred during the phase of their potential enforcement; specialised human resources are involved in this process which is structured across several levels of operations and control.

With reference to activities within securities markets, and given that the breakdown of the portfolio primarily targets sovereign issuers, it was not deemed necessary, at the moment, to implement specific forms of credit risk mitigation.

OTC derivative contracts stipulated with institutional counterparties - balancing out the hedging implemented by Cassa Centrale Banca with the BCC-CR–RAIKAs - are regulated by ISDA framework agreements which allow for compensation in the case of default. In addition, collateralisation agreements have already been stipulated, as of 2010, with certain counterparties, providing for the creation of a guarantee in cash or securities for the creditor.

With regard to regulatory provisions pertaining to risk mitigation techniques, Cassa Centrale Banca has stated that it will progressively utilise all required Credit Risk Mitigation (CRM) instruments, i.e.:

- financial collateral securities involving cash and financial instruments, and lent through agreements for the pledging and transfer of ownership;
- residential and non-residential real estate mortgages;
- other forms of real protection, represented, e.g., by deposits in cash with third parties, life insurance policies (with the requirements pursuant to Regulation (EU) no. 575/2013, financial instruments issued by monitored intermediaries which the issuer has committed to buy back upon request of the bearer party;
- sureties, warranty bonds, guarantees – within the realm of authorised guarantors – from monitored intermediaries.

For the purposes of the benefits provided by CRM, the following are also currently taken into consideration:

a. personal guarantees issued by monitored intermediaries;
b. personal guarantees issued by territorial entities and by the SME Guarantee Fund managed by Mediocredito Centrale;
c. financial collateral pursuant to the provisions of Italian Legislative Decree no. 170 of 21 May 2004;
d. financial (collateral) guarantees involving cash and financial instruments, and lent through repurchase agreements.

Cassa Centrale Banca did not implement any operations on credit derivatives.

3. Impaired financial assets

3.1 Management strategies and policies

Cassa Centrale Banca's objective is to gradually reduce the stock of impaired exposures in the financial statements. This is also necessary to comply with the guidelines set by the Supervisory Authorities. Also in 2018, the coordination of large-scale transfers of non performing loans continued, in order to provide the client banks with the necessary tools to pursue a reduction in the stock of NPLs. The Bank participated in one of these transactions, arranging for the sale of some positions that have already been widely written down.

Alongside this transaction, additional positions were transferred on an individual basis, either with a specialised market operator or in favour of private entities that expressed an interest in acquiring the assets pledged as guarantee underlying the loans.

The actions undertaken allowed an overall reduction in the stock of impaired exposures of approximately Euro 34 million, therefore in line with the forecasts set out at the start of the year.

The classification, management and control of receivables are organised by the Bank through IT facilities and procedures. On each date of the financial statements, and in accordance with IAS/IFRS, the presence of objective elements of a decline in value (impairment) is verified for each financial instrument or for each group of financial instruments.

The 7th update of 20 January 2015 of Bank of Italy Circular no. 272/2008 transposed, for financial statements purposes as well, the new definitions of Non performing exposures and of Forbearance introduced by the technical implementation regulations pertaining to the supervisory statistical reports defined by the European Banking Authority, approved by the European Commission on 9 January 2015, with Regulation (EU) no. 227/2015: the purpose of this is to continue to have a single notion of impaired financial assets applicable to all monitored intermediaries, valid both within the field of reporting (supervisory, statistical and Central Credit Register), and within disclosure (financial statements and reporting to the public).
The new scope of impaired financial assets, corresponding to the Non performing exposures aggregate as per the ITS, no longer contemplates watch-list exposures and restructured exposures, because they have been abolished; the 'unlikely to pay' category was introduced. It consists of credit exposures, other than non performing loans, for which the Bank deems it unlikely that, without initiating actions like the enforcement of guarantees, the debtor will fully comply with his credit obligations (principal and/or interest). Instead, positions in a state of insolvency or in substantially comparable situations, for which it is deemed that the normal capacity for repayment of credit no longer exists due to the worsening of the economic/financial situation or due to the effect of the enforcement actions of third parties, are classified as non performing.
The scope of the new categories of impaired financial assets includes cash assets (loans and debt securities) and 'off-balance-sheet' assets (guarantees issued, irrevocable and revocable commitments to disburse funds), other than the financial instruments allocated in the accounting portfolio of 'Financial assets held for trading' and than derivative contracts. For the purposes of the classification of the financial assets among impaired ones, the existence of any guarantees (collateral or personal guarantees) securing the asset is not considered.
In addition, non-impaired past due exposures include both individual exposures that are overdue and/or overrun for over 90 days which are not considered impaired (e.g. because they do not exceed the threshold of significance set within the approach for each individual debtor), and those that have not been overdue and/or overrun for less than 90 days.
Potential re-classification as performing positions of 'non performing' and 'unlikely to pay' positions is only authorised by means of a resolution of the Executive Committee; this resolution is typically only approved following repayment of past credit due to the Bank and following a significant resolution of disputes with respect to the system or creditors that are qualitatively or quantitatively significant. In addition, the current and future normality of the entity's financial and economic situation must be demonstrated.
The Credit Area is responsible for the overall management of impaired positions. A specific office was set up in the Area for managing these positions. With regard to positions classified as non performing, and for which legal debt recovery actions have been initiated, management of the position can also be implemented in collaboration with external legal firms. The resolutions of the Board of Directors always serve as the basis for decisions which are also assumed following a prior analysis of the Risks Committee, which discusses and proposes both a correct classification for the positions as well as the most appropriate solutions for improving their status.
The activities of the Credit Area primarily involve:

- monitoring impaired positions, in compliance with the Risk Management department;
- applying the measures recommended by the Risks Committee or resolved by the Board of Directors in order to restore regularity in payments or a return of the credit;

- reporting forecasts for losses on positions to the Risk Management department and the Risks Committee, and presenting them for approval to the Board of Directors;
- proposing – to the Board of Directors – the re-classification as non performing of those positions which – due to new difficulties – are not expected to normalise.

The evaluation of impaired positions is implemented in an analytical manner and whose level of intensity is proportional to the results which emerge from the monitoring process.

Company policy in relation to adjustments is particularly strict, and the continuation of the effects of a difficult economic period has seen the company take an especially prudent approach to the determination of write-down policies.

During the analysis of individual positions, assumptions relative to the depreciation of the realisable value of collateral security were applied while, in the case of personal guarantees, the financial profile of the guarantor was taken into account. In addition, the time periods for recovery of credit were identified, adding additional discounting losses to the calculation.

3.2 Write-offs

In 2018, the Bank did not adopt a specific internal regulation relating to write-off policies. Moreover, a document was prepared which governs these procedures in view of the launch of the Cooperative Banking Group.

As regards the application of write-offs of impaired loan positions, the Bank partially adopted this option for 9 positions for which it became certain that the credit would not be recovered. It should be noted that the positions written off were already widely written down and, therefore, there were no significant impacts on the income statement.

3.3 Impaired financial assets acquired or originated

Acquisitions of impaired financial assets do not fall under the Bank's business model.

4. Financial assets subject to renegotiations and concessions

The category of 'forborne non performing exposures' was introduced; it is not a distinct and additional category of impaired exposures with respect to the ones referenced above (non performing, unlikely to pay and overdue-overrun), but only a sub-set of each of them, which includes cash exposures and commitments to disburse funds that are forborne ('forborne exposures'), if they meet both of the following conditions:

a. the debtor is in a situation of economic-financial hardship that does not allow him fully to comply with the contractual commitments in his debt agreement and that puts him in a state of 'credit deterioration' (classification in one of the categories of impaired exposures: non performing, unlikely to pay, exposures that have been overdue and/or overrun for over 90 days);
b. and the Bank agrees to amend the terms and conditions of that agreement, or to refinance it in full or in part, to enable the debtor to comply with it (there would have been no such forbearance if the debtor had not been in a state of hardship).

Forborne exposures to debtors in a condition of economic-financial hardship that has not reached a state of 'credit impairment' are instead classified in the category of 'forborne performing exposures' and are included among the 'Other non-impaired exposures', or among the 'Non-impaired past due exposures' if they meet the requirements for this classification.

Under the terms of the Bank's internal regulation, after having ascertained that a forbearance measure meets the forbearance requirements, the forborne exposure attributed is structured into:

- 'forborne performing' if both the following conditions are met:
  - the debtor was classified as ordinary performing or under observation before approval of the forbearance measure;
  - the debtor was not reclassified under impaired counterparties by the Bank due to the forbearance measures agreed;
- 'forborne non performing' if both the following conditions are met:
  - the debtor was classified under impaired exposures before approval of the forbearance measure;
  - the debtor was reclassified under impaired exposures, due to the forbearance measures agreed, including therein the assumption in which (aside from the other regulatory cases), significant impairment emerges as a result of the evaluation performed.

For a credit exposure classified as forborne non performing to move to forborne performing, the following conditions must be simultaneously satisfied:

- passage of at least 1 year from the assignment of the forborne non performing attribute (so-called'cure period');
- absence of the conditions for classifying the debtor as impaired;
- absence of past due amounts on all existing debtor positions with the Bank;
- presumed capacity of the debtor, based on the documentary evidence, to fully meet its contractual obligations based on the reimbursement conditions determined on the basis of the forbearance measure; this prospective reimbursement capacity is considered to be verified when both the following conditions are satisfied:
  - the debtor has repaid, through regular payments made under the renegotiated terms, an amount equal to that which was past due (or which was cancelled) at the moment of the forbearance measure;
  - the debtor has observed the post-forbearance measure payment terms over the last 12 months.

A credit exposure classified as forborne performing becomes forborne non performing when even just one of the following conditions is satisfied:

- the conditions for the classification of the counterparty under impaired loans are met;
- the credit exposure was previously classified as impaired with the forborne non performing attribute and subsequently, when the conditions are met, the financed counterparty was brought back to under observation (with the simultaneous transfer of the relevant line to forborne performing), but: i) one of the credit lines of the financed counterparty has accrued, while it remained in forborne performing, an amount past due by more than 30 days; or ii) the counterparty holding the relevant credit line, while classified as forborne performing, was subject to the application of additional forbearance measures.

For a credit exposure classified as 'forborne performing' to lose said attribute, with the subsequent return to a state of solely ordinary performing or performing under observation, the following conditions must be simultaneously satisfied:

- at least 2 years have passed since the assignment of the forborne performing attribute (so called 'probation period');
- the debtor has, subsequent to application of the forbearance measure, made regular principal or interest payments on the credit line subject to the forbearance measure for a total amount equal to at least 5% of the residual principal payable recognised at the moment of application of the forbearance measure; these payments must have been made in accordance with the timescales and methods as such to allow full observance of the contractual obligations for a period, including non-continuous, equal to at least half of the 'probation period';
- the debtor does not present any amount past due for more than 30 days on any of the existing positions at the Bank at the end of the 'probation period'.

In 2018, the Bank applied forbearance measures to 27 counterparties, of which 19 already classified under impaired and 8 instead as performing. On the whole, these concerned 43 lines of financing; 3 of these were extinguished during the year. The majority of positions are secured by a mortgage.

With respect to the positions classified as forborne at the end of 2018, roughly two-thirds have a forbearance measure seniority within 4 years.The position subject to the oldest forbearance measure and still outstanding dates back to 2011.

INFORMATION OF A QUANTITATIVE NATURE

A. Credit quality

A.1 Impaired and non-impaired credit exposures: amounts, value adjustments, trend and economic distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amounts)

Portfolios/quality	Non performing	Unlikely to pay	Impaired past due exposures	Non-impaired past due exposures	Non-impaired assets	Total
1. Financial assets measured at amortised cost	6,849	13,987	0	3,023	4,319,356	4,343,215
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	1,753,867	1,753,867
3. Financial assets measured at fair value	-	-	-	-	3,098	3,098
4. Other financial assets obligatorily measured at fair value	-	193	-	-	20,808	21,001
5. Financial assets held for disposal	-	-	-	-	-	-
TOTAL 2018	6,849	14,179	-	3,023	6,097,129	6,121,181
TOTAL 2017	9,889	21,720	1,330	3,475	5,030,756	5,067,170

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

Portfolios/quality	Impaired assets				Non-impaired assets			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Partial write-offs*	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortised cost	74,466	53,630	20,836	7,631	4,331,806	9,428	4,322,379	4,343,215
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	1,756,365	2,498	1,753,867	1,753,867
3. Financial assets measured at fair value	-	-	-	-	-	-	3,098	3,098
4. Other financial assets obligatorily measured at fair value	193	-	193	-	-	-	20,808	21,001
5. Financial assets held for disposal	-	-	-	-	-	-	-	-
TOTAL 2018	74,659	53,630	21,029	7,631	6,088,172	11,926	6,100,152	6,121,181
TOTAL 2017	109,155	76,216	32,939	-	5,043,266	12,174	5,034,231	5,067,170

Portfolios/quality	Assets with manifestly poor credit quality		Other assets
	Accumulated capital losses	Exposure	Net exposure
1. Financial assets held for trading	-	-	12,361
2. Hedging derivatives	-	-	-
TOTAL 2018	-	-	12,361
TOTAL 2017	-	-	11,368

* Value to be stated for disclosure purposes.

A.1.3 Distribution of financial assets by past due bracket (carrying amounts)

Portfolios/risk stages	First stage			Second stage			Third stage		
	from 1 to 30 days	From over 30 days to 90 days	Over 90 days	from 1 to 30 days	From over 30 days to 90 days	Over 90 days	from 1 to 30 days	From over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	2,952	-	-	19	-	52	37	-	11,004
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
TOTAL 2018	2,952	-	-	19	-	52	37	-	11,004

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

Reasons/risk stages	Total value adjustments													Total allocations on commitments to disburse funds and financial guarantees issued			Total
	Assets falling under the first stage				Assets falling under the second stage				Assets falling under the third stage				Of which: impaired financial assets acquired or originated				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual write-downs	of which: write-downs		First stage	Second stage	Third stage	
Opening balances	3,894	2,254	0	*6,147*	3,537	-	-	3,537	75,750	0	75,750	-	-	13,895	993	260	100,583
Increases from financial assets acquired or originated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-302	-	-	-302	-184	-	-	-184	-7,109	-	-7,109	-	-	-	-	-	-7,594
Net value adjustments/ write-backs due to credit risk (+/-)	3,698	244	-	3,942	-1,216	-	-	-1,216	-2,784	-	-2,784	-	-	-8,901	1,039	527	-7,393
Contractual changes without derecognitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes of estimate methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-	-7,265	-	-7,265	-	-	-	-	-	-7,265
Other changes	-	-	-	-	-	-	-	-	-4,611	-	-4,611	-	-	-	-	-	-4,611
Closing balances	7,290	2,498	0	9,788	2,137	-	-	2,137	53,981	-	53,981	-	-	4,994	2,032	787	73,719
Recoveries from collection on financial assets subject to write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	175	-	175	-	-	-	-	-	175

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the different credit risk stages (gross and nominal values)

Portfolios/risk stages	Gross values/nominal value					
	Transfers between first and second stages		Transfers between second and third stages		Transfers between first and third stages	
	From first stage to secondo stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
1. Financial assets measured at amortised cost	105,308	44,950	950	423	5,457	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued	630,673	39,376	-	-	1,421	-
TOTAL 2018	735,981	84,326	950	423	6,878	-

A.1.6 Cash and off-balance-sheet credit exposures to banks: gross and net values

Types of exposures/ values	Gross exposure		Total value adjustments and total allocations	Net exposure	Overall partial write-offs*
	Impaired	Non-impaired			
A. Cash credit exposures					
a) Non performing	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-
b) Unlikely to pay	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-
c) Impaired past due exposures	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-
d) Non-impaired past due exposures	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-
e) Other non-impaired exposures	-	2,100,542	5,112	2,095,431	-
- of which: forborne exposures	-	-	-	-	-
TOTAL A	-	2,100,542	5,112	2,095,431	-
B. OFF-BALANCE-SHEET CREDIT EXPOSURES					
a) Impaired	-	-	-	-	-
b) Non-impaired	-	10,200,912	5,822	10,195,090	-
TOTAL B	-	10,200,912	5,822	10,195,090	-
TOTAL A+B	-	12,301,455	10,934	12,290,521	-

* Value to be stated for disclosure purposes.

A.1.7 Cash and off-balance-sheet credit exposures to customers: gross and net values

Types of exposures/ values	Gross exposure		Total value adjustments and total allocations	Net exposure	Overall partial write-offs*
	impaired	non-impaired			
A. Cash credit exposures					
a) Non performing	42,772	-	35,922	6,849	7,631
- of which: forborne exposures	18,002	-	15,772	2,230	-
b) Unlikely to pay	31,887	-	17,708	14,179	-
- of which: forborne exposures	26,020	-	13,701	12,319	-
c) Impaired past due exposures	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-
d) Non-impaired past due exposures	-	3,027	4	3,023	-
- of which: forborne exposures	-	54	2	52	-
e) Other non-impaired exposures	-	4,008,508	6,810	4,001,698	-
- of which: forborne exposures	-	10,313	867	9,446	-
TOTAL A	74,659	4,011,535	60,444	4,025,750	7,631
B. OFF-BALANCE-SHEET CREDIT EXPOSURES					
a) Impaired	2,051	-	787	1,263	-
b) Non-impaired	-	252,871	1,204	251,668	-
TOTAL B	2,051	252,871	1,991	252,931	-
TOTAL A+B	76,710	4,264,406	62,435	4,278,681	7,631

* Value to be stated for disclosure purposes.

A.1.8 Cash credit exposures to banks: trend in gross impaired exposures

On the date of the financial statements, the Bank has no impaired exposures of the kind.

A.1.8bis Cash credit exposures to banks: trend in gross forborne exposures broken down by credit quality

On the date of the financial statements, the Bank has no impaired exposures of the kind.

A.1.9 Cash credit exposures to customers: trend in gross impaired exposures

Descriptions/Categories	Non performing	Unlikely to pay	Impaired past due exposures
A. Initial gross exposure	64,807	42,363	1,525
- of which: exposures disposed and not derecognised	-	-	-
B. Increases	6,616	4,605	-
B.1 transfers from non-impaired exposures	-	2,662	-
B.2 transfers from impaired financial assets acquired or originated	-	-	-
B.3 transfers from other categories of impaired exposures	6,236	1,525	-
B.4 contractual changes without derecognitions	-	-	-
B.5 other increases	380	419	-
C. Decreases	28,652	15,081	1,525
C.1 transfers to non-impaired exposures	-	470	-
C.2 write-offs	7,010	430	-
C.3 collections	8,487	7,941	-
C.4 gains from disposal	5,923	-	-
C.5 losses from disposal	-	-	-
C.6 transfers to other categories of impaired exposures	-	6,236	1,525
C.7 contractual changes without derecognitions	-	-	-
C.8 other decreases	7,231	3	-
D. Final gross exposure	42,772	31,887	-
- of which: exposures disposed and not derecognised	-	-	-

A.1.9bis Cash credit exposures to customers: trend in gross forborne exposures broken down by credit quality

Descriptions/Categories	Forborne exposures: impaired	Forborne exposures: non-impaired
A. Initial gross exposure	52,208	17,228
- of which: exposures disposed and not derecognised	-	-
B. Increases	3,921	2,749
B.1 transfers from non-impaired non-forborne exposures	1,022	1,689
B.2 transfers from non-impaired forborne exposures	260	-
B.3 transfers from impaired forborne exposures	-	470
B.4 other increases	2,638	590
C. Decreases	15,106	9,610
C.1 transfers to non-impaired non-forborne exposures	-	6,306
C.2 transfers to non-impaired forborne exposures	470	-
C.3 transfers to impaired forborne exposures	-	260
C.4 write-offs	1,643	-
C.5 collections	9,496	3,044
C.6 gains from disposal	1,061	-
C.7 losses from disposal	-	-
C.8 other decreases	2,437	-
D. Final gross exposure	41,022	10,367
- of which: exposures disposed and not derecognised	-	-

A.1.10 Impaired cash credit exposures to banks: trend in total value adjustments

On the date of the financial statements, the Bank has no impaired exposures of the kind.

A.1.11 Impaired cash credit exposures to customers: trend in total value adjustments

Descriptions/Categories	Non performing		Unlikely to pay		Impaired past due exposures	
	Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
A. Initial overall adjustments	54,918	19,394	20,637	15,950	195	-
- of which: exposures disposed and not derecognised	-	-	-	-	-	-
B. Increases	6,029	4,584	6,911	4,962	373	-
B.1 value adjustments of impaired financial assets acquired or originated	-	-	-	-	-	-
B.2 other value adjustments	3,726	3,517	6,357	4,407	373	-
B.3 losses from disposal	-	-	-	-	-	-
B.4 transfers from other categories of impaired exposures	2,302	1,067	555	555	-	-
B.5 contractual changes without derecognitions	-	-	-	-	-	-
B.6 other increases	-	-	-	-	-	-
C. Decreases	25,025	8,206	9,840	7,211	568	-
C.1. write-backs from valuations	1,844	707	7,108	5,714	13	-
C.2 write-backs due to collection	4,451	679	-	-	-	-
C.3 gains from disposal	4,611	2,383	-	-	-	-
C.4 write-offs	7,010	457	430	430	-	-
C.5 transfers to other categories of impaired exposures	-	-	2,302	1,067	555	-
C.6 contractual changes without derecognitions	-	-	-	-	-	-
C.7 other decreases	7,109	3,981	-	-	-	-
D. Final overall adjustments	35,922	15,772	17,708	13,701	-	-
- of which: exposures disposed and not derecognised	-	-	-	-	-	-

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

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

Exposures	External rating classes						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	20,532	-	1,213,791	60,000	-	-	3,111,950	4,406,272
- First stage	20,532	-	1,213,791	60,000	-	-	2,910,018	4,204,341
- Second stage	-	-	-	-	-	-	127,466	127,466
- Third stage	-	-	-	-	-	-	74,466	74,466
B. Financial assets measured at fair value through other comprehensive income	-	-	1,756,365	-	-	-	-	1,756,365
- First stage	-	-	1,756,365	-	-	-	-	1,756,365
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
TOTAL (A+B)	20,532	-	2,970,156	60,000	-	-	3,111,950	6,162,637
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	-	-
C. Commitments to disburse funds and financial guarantees issued	-	-	-	-	-	-	10,433,203	10,433,203
- First stage	-	-	-	-	-	-	9,811,222	9,811,222
- Second stage	-	-	-	-	-	-	619,930	619,930
- Third stage	-	-	-	-	-	-	2,051	2,051
TOTAL C	-	-	-	-	-	-	10,433,203	10,433,203
TOTAL (A + B + C)	20,532	-	2,970,156	60,000	-	-	13,545,152	16,595,840

In order to fill out the table, the ratings from Moody's were utilised. The individual ratings were distributed to the risk categories required by the table, provided by the Joint Final Draft Implementing Technical Standards (Regulation no. 575/2013 - CRR), outlined below:

Risk category	Rating
1	from Aaa to Aa3
2	from A1 to A3
3	from Baa1 to Baa3
4 and 5	from Ba1 to B3
6	from Caa1 to lower

A.2.2 Distribution of financial assets, commitments to disburse funds and financial guarantees issued: by internal rating classes (gross values)

The table is not filled out because, on the date of the financial statements in question, no internal ratings were utilised.

A.3 Distribution of secured credit exposures by type of guarantee

A.3.1 Secured cash and off-balance-sheet credit exposures to banks

			Collateral (1)				Personal guarantees (2)									
							Credit derivatives					Credit commitments				Total (1+2)
								Other derivatives								
	Value of exposure	Value of exposure	Real estate properties	Property finance leases	Securities	Other collateral	Credit Linked Notes	Governments and Central Banks	Other public bodies	Banks	Other subjects	Governments and Central Banks	Other public bodies	Banks	Other subjects	
1. Secured cash credit exposures:	1,659,500	1,655,394	-	-	1,650,475	5,369	-	-	-	-	-	-	-	-	-	1,655,844
1.1 totally secured	1,652,264	1,648,158	-	-	1,650,475	1,789	-	-	-	-	-	-	-	-	-	1,652,264
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	7,236	7,236	-	-	-	3,580	-	-	-	-	-	-	-	-	-	3,580
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance-sheet credit exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Secured cash and off-balance-sheet credit exposures to customers

	Value of exposure	Value of exposure	Collateral (1)				Personal guarantees (2)									Total (1+2)
			Real estate properties		Securities	Other collateral	Credit derivatives					Credit commitments				
			Mortgages	Finance leases			Credit Linked Notes	Other derivatives								
								Governments and Central Banks	Other public bodies	Banks	Other subjects	Governments and Central Banks	Other public bodies	Banks	Other subjects	
1. Secured cash credit exposures:	471,537	418,703	300,635	-	246	40,718	-	-	-	-	-	61,320	39,963	5,124	26,481	474,488
1.1 totally secured	436,184	388,463	297,292	-	246	36,457	-	-	-	-	-	49,080	35,766	2,653	19,168	440,662
- of which impaired	70,100	19,988	19,643	-	-	119	-	-	-	-	-	154	72	72	154	20,214
1.2 partially secured	35,353	30,240	3,342	-	-	4,262	-	-	-	-	-	12,240	4,198	2,471	7,313	33,826
- of which impaired	1,502	697	313	-	-	-	-	-	-	-	-	-	-	-	-	313
2. Secured off-balance-sheet credit exposures:	13,511	13,370	-	-	-	300	-	-	-	-	-	2,311	3,625	5,906	4,591	16,732
2.1 totally secured	4,075	3,945	-	-	-	50	-	-	-	-	-	1,693	306	1,806	3,591	7,446
- of which impaired	418	291	-	-	-	-	-	-	-	-	-	5	286	286	5	581
2.2 partially secured	9,435	9,426	-	-	-	250	-	-	-	-	-	617	3,319	4,099	1,001	9,286
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.4 Financial assets and non-financial assets obtained through the enforcement of guarantees received

On the date of the financial statements, the Bank has no assets of the kind.

B. Distribution and concentration of credit exposures

B.1 Distribution by sector of cash and "off-balance-sheet" credit exposures to customers

Exposures/ counterparties	Public bodies		Financial companies		Financial companies (of which: insurance companies)		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. Cash credit exposures										
A.1 Non performing	-	-	-	-	-	-	5,610	33,942	1,240	1,980
- of which: forborne exposures	-	-	-	-	-	-	2,014	14,824	216	948
A.2 Unlikely to pay	-	-	359	185	-	-	12,335	17,034	1,486	489
- of which: forborne exposures	-	-	359	185	-	-	10,834	13,332	1,126	184
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	2,987,902	4,200	531,391	440	-	-	455,495	2,026	29,934	148
- of which: forborne exposures	-	-	-	-	-	-	8,913	831	585	38
TOTAL (A)	2,987,902	4,200	531,749	625	-	-	473,440	53,002	32,660	2,617
B. Off-balance-sheet credit exposures										
B.1 Impaired exposures	-	-	-	-	-	-	1,097	787	167	-
B.2 Non-impaired exposures	6,007	3	76,889	850	-	-	150,169	243	18,603	107
TOTAL (B)	6,007	3	76,889	850	-	-	151,266	1,030	18,769	107
TOTAL (A+B) 2018	2,993,909	4,203	608,638	1,475	-	-	624,705	54,032	51,429	2,724
TOTAL (A+B) 2017	2,854,711	2	44,299	630	8,788	-	460,179	83,631	35,473	4,127

B.2 Territorial distribution of cash and "off-balance-sheet" credit exposures to customers

Exposures/ Geographical areas	Italy		Other EU 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. Cash credit exposures										
A.1 Non performing	6,849	35,922	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	14,179	17,708	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	3,974,098	6,806	30,498	8	125	1	-	-	-	-
TOTAL (A)	3,995,127	60,435	30,498	8	125	1	-	-	-	-
B. Off-balance-sheet credit exposures										
B.1 Impaired exposures	1,263	787	-	-	-	-	-	-	-	-
B.2 Non-impaired exposures	251,649	1,203	19	-	-	-	-	-	-	-
TOTAL (B)	252,912	1,991	19	-	-	-	-	-	-	-
TOTAL (A+B) 2018	4,248,040	62,426	30,516	8	125	1	-	-	-	-
TOTAL (A+B) 2017	3,400,896	88,386	2,328	-	225	3	-	-	-	-

B.3 Territorial distribution of cash and "off-balance-sheet" credit exposures to banks

Exposures/ Geographical areas	Italy		Other EU 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. Cash credit exposures										
A.1 Non performing	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	2,053,583	5,073	13,855	22	27,556	16	120	-	317	-
TOTAL (A)	2,053,583	5,073	13,855	22	27,556	16	120	-	317	-
B. Off-balance-sheet credit exposures										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Non-impaired exposures	10,192,203	5,804	2,347	17	-	-	4	-	536	1
TOTAL (B)	10,192,203	5,804	2,347	17	-	-	4	-	536	1
TOTAL (A+B) 2018	12,245,786	10,877	16,201	39	27,556	16	124	-	853	2
TOTAL (A+B) 2017	1,739,601	-	8,700	-	13,780	-	195	-	1,304	-

B.4 Large exposures

The provision in question is regulated by Circular 285/13 of the Bank of Italy and subsequent updates, Chapter 10, Second Part, and aims to limit the risks of instability derived from the default of a single counterparty to which the Bank is exposed in a significant manner; this objective is pursued not only through prudential limits but also organisational controls relating to the assessment of the creditworthiness of customers to which the Bank is significantly exposed, as well as the monitoring of the associated positions and recording of interrelationships between customers.

	Total 2018	Total 2017
a) Amount of large exposures		
a1) Carrying amount	15,213	15,490
a2) weighted value	552	104
b) Number of positions of large exposures	48	54

The main positions reported above are with the following counterparties:

- Italian government securities
- ECB/Bank of Italy
- Cassa Compensazione e Garanzia

The remaining ones relate primarily to banking counterparties, almost all CR-BCCs, proof of the commitment made for the pursuit of the development objectives and the support of the cooperative movement, which is part of the typical "mission" of Cassa Centrale Banca.

C. Securitisation operations

C.1 Securitisation operations

INFORMATION OF A QUALITATIVE NATURE

Third party securitisation operations

The bank retains, within its portfolio, securities from third party securitisation operations for a total of EUR 3.7 million. In particular:

- EUR 1.4 million in unrated securities issued by the SPV 'Lucrezia Securitisation S.r.l.' as part of the initiatives of the Institutional Guarantee Fund for the resolution of the crisis of Banca Padovana in A.S., Bcc Irpinia in A.S., Bcc Crediveneto in A.S. and Bcc di Teramo in A.S. The securities were issued by the SPV following the securitisation of the portfolios of non performing loans acquired as part of the aforementioned initiative, have a ten-year term and pay deferred quarterly interest. The assets underlying these securities are composed of impaired loans, largely secured by properties.These securities are included in the Bank's Statement of financial position assets under item '70. Loans to customers'. It should be noted that, in relation to the aforementioned securitisation transactions, the Bank does not perform any role as servicer. In addition, the Bank does not hold any interest in the SPV. Prudential value adjustments on securities in the portfolio were made during the year amounting to EUR 73 thousand.

INFORMATION OF A QUANTITATIVE NATURE

C.1 Exposures deriving from primary "own" securitisation operations subdivided by type of securitised asset and type of exposure

The table is not filled out because, on the date of the financial statements in question, there were no balances ascribable to this item.

C.2 Exposures deriving from primary "third party" securitisation operations subdivided by type of securitised asset and type of exposure

Type of underlying assets/ Exposures	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Value adjustments/write-backs	Carrying amount	Value adjustments/write-backs	Carrying amount	Value adjustments/write-backs	Carrying amount	Value adjustments/write-backs	Carrying amount	Value adjustments/write-backs	Carrying amount	Value adjustments/write-backs	Carrying amount	Value adjustments/write-backs	Carrying amount	Value adjustments/write-backs	Carrying amount	Value adjustments/write-backs
Lucrezia Securitisation S.r.l. - securities	898	363	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Securitisation special purpose vehicles

Securitisation name/SPV name	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Lucrezia Securitisation S.r.l. - Padovana/Irpinia	Rome		128,620	-	-	155,483	-	-
Lucrezia Securitisation S.r.l. - Crediveneto	Rome		53,711	-	-	59,992	-	-
Lucrezia Securitisation S.r.l. - Teramo	Rome		28,162	-	-	32,461	-	-

C.4 Unconsolidated securitisation special purpose vehicles

The table is not filled out because, on the date of the financial statements, there were no balances ascribable to this item.

C.5 Servicer activities - own securitisations: collections of securitised receivables and reimbursements of securities issued by the securitisation special purpose vehicle

The table is not filled out because, on the date of the financial statements, there were no balances ascribable to this item.

D. Disclosure on structured entities not consolidated from an accounting viewpoint (different from securitisation special purpose vehicles)

The information and the table are not provided because on the date of the financial statements in question, there were no balances ascribable to this item.

E. Disposal transactions

A. Financial assets disposed and not fully derecognised

INFORMATION OF A QUALITATIVE NATURE

Financial assets disposed and not derecognised and financial liabilities related to assets disposed and not derecognised shown in the tables of this Section pertain mainly to repos carried out on own securities recognised as assets in the statement of financial position.

INFORMATION OF A QUANTITATIVE NATURE

E.1 Financial assets disposed and fully booked and associated financial liabilities: carrying amounts

	Financial assets disposed and fully booked				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to sale contracts with repurchase agreement	of which impaired	Carrying amount	of which: subject to securitisation transactions	of which: subject to sale contracts with repurchase agreement
A. Financial assets held for trading	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
4. Derivatives	-	-	-	-	-	-	-
B. Other financial assets obligatorily measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	982,680	-	985,680	-	952,349	-	952,349
1. Debt securities	982,680	-	985,680	-	952,349	-	952,349
2. Loans	-	-	-	-	-	-	-
Total December 2018	982,680	-	985,680	-	952,349	-	952,349
Total December 2017	591,264	-	591,264	-	590,934	-	590,934

E.2 Financial assets disposed and partially booked and associated financial liabilities: carrying amounts

The information and the table are not provided because on the date of the financial statements in question, there were no balances ascribable to this item.

E.3 Disposals with liabilities with reimbursement exclusively on disposed assets and not fully derecognised: fair value

The information and the table are not provided because on the date of the financial statements in question, there were no balances ascribable to this item.

B. Financial assets disposed and fully derecognised with recognition of continuing involvement

The information is not provided because on the date of the financial statements in question, there were no balances ascribable to this item.

F. Credit risk measurement models

The Bank does not apply internal models for credit risk measurement.

SECTION 2 MARKET RISKS

2.1 Interest rate risk and price risk - Regulatory trading portfolio

INFORMATION OF A QUALITATIVE NATURE

A. General aspects

The Bank carries out trading activities, on its own behalf, of financial instruments which are exposed to interest rate and price risk. The 'regulatory trading portfolio' is defined in the regulations on the supervisory reporting of market risks in Circular no. 286 'Instructions for the compilation of prudential reports for banks and securities brokerage firms' issued by the Bank of Italy. Trading on own account is primarily based on compliance with treasury requirements while not neglecting to maximise the risk/return profile of portfolio investments for the elements of interest rate risk and credit risk of the counterparty.

The positions held thus far for trading purposes are those which are intentionally allocated for a subsequent short-term disposal or which are acquired for the purposes of benefiting, in the short-term, from differences in acquisition and sales price along with an opportune diversification of investments.

Bond securities and OTC derivatives represent the sources of interest rate risk in the portfolio in question; with regard to operations with derivatives, the Bank does not assume speculative positions but implements transactions with BCC-CR–RAIKAs or customers that are balanced out by complementary transactions initiated with primary counterparties and which aim to hedge against the interest rate risk assumed by these BCC-CR–RAIKAs or customers; these types of transactions allow for a substantial neutralisation of interest rate risk in the specific segment. During 2018, analyses of a portfolio representing OTC derivatives were continued by using Value at Risk techniques.These tests have confirmed that the market risk is effectively residual given the methods and nature of the transactions that were carried out.

The trading of financial instruments on its own behalf exposes the Bank to price risk when investing in debt securities or equities, in UCITS and in derivative contracts on UCITS, equities and stock market indices. Investments in equity instruments almost exclusively refer to listed shares.

The Finance Regulations establishes specific quantitative limits to the trading portfolio; the Risks Committee defines strategies and objectives on the basis of market trends and periodically reviews performance. As at 31 December 2018, an equity asset management line was active and deemed consistent with the investment strategies of the Bank concerning the basket of investable securities, the risk profile and profitability objectives. The performance of this equity asset management is reported to the Board of Directors on a quarterly basis.

B. Management processes and measurement methods for interest rate and price risk

Management of interest rate risk of the trading portfolio is implemented by the Risks Committee on the basis of the limits and proxies established by the Board of Directors, while activities for the measurement, control and verification of interest rate risk are implemented by the Risk Management department which also utilises the documentation produced by the Finance Area.

Management and control of interest rate and price risk for the trading portfolio utilises a series of reports that also include Value at Risk techniques. Calculation of the maximum potential loss of the trading portfolio occurs on a daily basis and over a time period of 10 working days along with a confidence interval of 99%. The model is based on a Montecarlo simulation method. The result is also monitored in order to control the operational limits established in the Finance Regulations.

The objective of the reporting is to supply the information which is necessary for the control and correct management of market risk for operational purposes, in compliance with currently effective regulations. The monitored data may also serve to support decisions relative to the asset allocation of portfolios within the specific quantitative limits established by the Finance Regulations.The utilisation of What-If Analysis for simulation allows for a prior evaluation of the impact of a specific transaction on the potential losses of a portfolio.

The market data utilised by the model are updated on a daily basis. Volatility is of the historical type and is calculated with the exponential moving average method in order to lend greater weight to more recent observations compared to past ones. In this way, it is possible to obtain estimates of VaR values which are more reactive to market shocks and which return to phases of normality in faster time periods compared to the use of volatilities which are calculated with a simple average. The length of the historical data series is 1 year of data. The estimate of the exponential moving average is linked to the decay factor, equal to 0.94, which is deemed a good indicator in the case of calculation of a VaR with a holding period of 10 working days at 99%. The use of the exponential moving average is also utilised for the correlation estimate which is directly implemented within the software used for calculating the VaR. The maximum potential loss is subdivided into various risk factors (interest rate, exchange rate, performance of the stock market, inflation risk, specific risk of the issuer, if available and country risk for Italian government securities) and takes into account their correlations.

The reports that are produced allow for a detailed analysis of the specific risk level of the trading portfolio, not only in terms of VaR, but also in terms of the sensitivity of the specific components to the primary factors of risk, by utilizing numerous statistics and stress scenarios. The maximum potential loss of the trading portfolio is illustrated in detail for each individual security by grouping the various typologies (funds, stocks, government securities with fixed or variable rates, corporate securities, transnational securities, and so forth) in order to highlight the specific risk level for the selected grouping level.

Control over the reliability of the model is implemented through theoretical backtesting activities which verify daily changes in the market value of the trading portfolio, as calculated by the model with an estimate of the expected loss for the day. In the most recent year of data collection, deviations were primarily due to sudden fluctuations in market factors linked in particular to geo-political tensions at international level or monetary policy expectations.

The year 2018 saw a continuation, with respect to VaR, of the quantification of issuer risk for Italian government securities, understood as VaR relating only to the risk factor expressed as the spread between the Italian and German government securities.

The risk measurement model described is not utilised to determine capital requirements (whose calculation is not required by regulations for the portfolio in question) but represents an internal tool to support the management and internal control of risk.

With regard to overall monitoring of (interest rate, price and exchange rate) risk, the Finance Regulations define:

- the maximum sustainable level of loss, calculated as the sum of net income and losses realised in the year and structured according to a network of powers differentiated by competent body;
- the maximum VaR limits in order to set limits on portfolio asset allocation activities by the Risks Committee, and structured according to a network of powers differentiated by competent body.

Information about the VaR calculations for the securities component of the regulatory trading portfolio during the course of 2018 is reported below:

VaR 31.12.2018	Minimum VaR	Maximum VaR
242,508	114,027	283,646

Amounts rounded to nearest Euro

With regard to stress tests, the outcomes of simulations of the impact of different shock scenarios on the theoretical value of the trading portfolio on 31.12.2018 is reported below.The shocks replicate:

1. a period of significant losses: it includes a time period relative to the second half of 2011 in which there were significant increases in interest rates of the Italian government curve and a shock in the markets of the Euro zone which then had a strong impact on the owned portfolio;
2. a specific case of non-parallel shift upwards in the Italian rates curve which was composed of the primary daily changes recorded in various points of the curve in the second half of 2011;
3. a stress on stock market indices: includes a 10% decrease in the primary European stock market indices.

Theoretical market value change			
Theoretical market value 31.12.2018	Significant losses	Shift in Italian rates curve	Stock market indices -10%
3,311,161	-678,853	-62,918	-281,592

Amounts rounded to nearest Euro

As part of the Asset & Liability Management (ALM) analysis, the valuation of the impact on the interest margin and on Equity - following cases of rate shifts equal to +/- 100 basis points - should be noted. The data reported in the table are based on a dynamic model with constant volumes that assume the regeneration of items which expire during the course of the year so that the asset amounts remain constant during the period of analysis. The time period which was utilised is that of a calendar year and the percentage changes are calculated by taking the Regulatory Capital as a base of reference.

	Increase 100 bp		Decrease 100 bp	
	Impact on interest margin	Change in equity	Impact on interest margin	Change in equity
Trading portfolio: securities (absolute values in thousands of Euro)	-	-	-	-
as percentage of regulatory capital	-	-	-	-

Even with regard to price risk, the trading portfolio is constantly monitored by the Finance Area and by the Risk Management department; the latter monitors that the limits set by the Finance Regulations are not exceeded for investments in securities which expose the Bank to this risk. Reporting information is available on a daily basis and reports details on securities, completed operations and economic results.
The price risk of the trading portfolio is managed by the Finance Area on the basis of structured proxies which limit exposure in terms of total invested amount, listed markets and maximum capital loss amounts.
The price risk measurement model is not utilised to determine capital requirements but represents a tool to support management and internal control.

1. Regulatory trading portfolio: distribution by residual duration (re-pricing date) of cash financial assets and liabilities as well as financial derivatives

Type/ Residual duration	on demand	up to 3 months	from over 3 months to 6 months	from over 6 months to 1 year	from over 1 year to 5 years	from over 5 years to 10 years	over 10 years	indefinite duration
1. Cash assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	576,691	167,938	389,715	-	-	-	-
2.1 Repos payables	-	576,691	167,938	389,715	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-57	44	26	-	-	-	-
3.1 With underlying security	-	-2	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-2	-	-	-	-	-	-
+ long positions	-	945	270	-	382	291	-	-
+ short positions	-	947	270	-	382	291	-	-
3.2 Without underlying security	-	-55	44	26	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	2,592	4,892	3,553	6,672	55,430	45,881	23,813	-
+ short positions	2,592	4,892	3,553	6,672	55,430	45,881	23,813	-
- Other derivatives	-	-55	44	26	-	-	-	-
+ long positions	36,042	334,707	94,083	35,975	131,063	63,157	85,487	-
+ short positions	36,042	334,762	94,039	35,949	131,063	63,157	85,487	-

2. Regulatory trading portfolio: distribution of exposures in equities and stock market indices for the main countries of the listed market

The table is not reported given that a price risk sensitivity analysis for an internal model is supplied.

3. Regulatory trading portfolio: internal models and other methodologies for sensitivity analysis

Information relative to VaR calculations for equities and stock market indices included within the regulatory trading portfolio is reported below:

VaR 31.12.2018	Minimum VaR	Maximum VaR
242,508	114,027	283,646

Amounts rounded to nearest Euro

2.2 Interest rate risk and price risk - Banking book

INFORMATION OF A QUALITATIVE NATURE

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

Primary sources of interest rate risk

Fair value interest rate risk is derived from fixed rate items while interest rate risk from cash flows is derived from variable rate items.

The Bank is exposed to different sources of interest rate risk for the banking book: these include credit, collection and finance processes given that the banking book is primarily composed of funding and loans in the interbank sector as well as financing to customers and various forms of customer deposits.

Items on demand generally include asymmetrical behaviours, depending on whether one considers liability or asset items; the former - being characterised by greater stability - primarily refer to fair value risk while the second are more sensitive to markets changes and therefore ascribable to cash flow risk.

The Bank - during the course of its operations - focuses adequate attention on both asset and liability items in order to determine interest rate risk.

The banking book includes, amongst other items, investments in equities whose purpose is to attain medium to long-term strategic objectives. The banking book therefore also includes - in addition to traditional loans to customers and bond instruments, financial instruments which expose the Bank to price risk, i.e.:

- shareholdings relative to interests in companies promoted by the Cooperative Credit movement or in companies or entities which are instrumental for the development of the Bank's activities or the cooperative movement;
- investment funds;
- stocks.

Internal management processes and measurement methods for interest rate risk

Cassa Centrale Banca implements measures for mitigating and controlling interest rate risk in order to avoid the possibility of assuming positions that exceed a certain level of risk.

These mitigation and control measures are listed within company regulations, with the latter providing for monitoring that is based on position limits as well as systems with alert thresholds that are proportional to regulatory capital; once these thresholds are reached, various corrective actions are initiated.

With regard to this point, the following are defined:

- policies and procedures for managing interest rate risk that are consistent with the nature and complexity of the activity carried out;
- operational limits and internal procedural provisions which aim to maintain exposure within limits that are consistent with the managerial policy and with the alert thresholds pursuant to prudential regulations;
- measurement of risk which generates warning levels and informational flows so as to allow for the prompt identification and initiative of suitable corrective actions.

The Bank has appointed the Finance Area, as well as the Risk Management department and the Risks Committee, as the company bodies which will supervise the process for managing interest rate risk within the banking book.
By means of the 20th update to Bank of Italy Circular no. 285/2013, the ABE guidelines on the management of interest rate risk in the banking book were acknowledged in national legislation. With reference to the measurement of interest rate risk from the perspective of the interest margin or expected profits, the Bank avails itself of the instruments provided by the ALM system for management purposes.
Monitoring exposure to interest rate risk within the banking book is implemented on a quarterly basis, in compliance with regulations, as well as on a monthly basis on a managerial level and on the basis of internal regulations. In addition, specific simulations are prepared before carrying out operations of a certain amount which result in capital requirement increases. The Board of Directors of the Bank has resolved to use the simplified algorithm described in Attachment C, Title III, Chapter 1, Section III of Bank of Italy Circular no. 285/2013 for the methodology used to measure risk and quantify the corresponding internal capital.
The methodology estimates the change in the economic value of the banking book in the case of a hypothetical change in interest rates.
The application of the aforementioned simplified methodology is based on the following logical steps:

1. definition of the banking book: composed of a group of assets and liabilities which are not part of the trading portfolio for supervisory purposes;
2. determination of 'relevant currencies', i.e. currencies whose measured weight - as a percentage of total assets or liabilities of the banking book - is greater than 5%. Each relevant currency defines a group of positions. Currencies whose weight is less than 5% are grouped together;
3. classification of financial assets and liabilities in time periods: 14 time periods are defined. Assets and liabilities with a fixed rate are classified on the basis of their residual useful life, while those with variable rates are classified on the basis of the date of re-pricing of the interest rate. Without prejudice to certain specific classification rules that are explicitly provided for, assets and liabilities are inserted within the maturity ladder according to the criteria pursuant to Circular 272 "Manual for filling out the Accounts Matrix". Non performing, unlikely to pay and overdue-overrun positions are re-classified within the relevant brackets of residual life and on the basis of forecasts - for recovery of underlying cash flows – made by the Bank for the purposes of financial statements valuations. Impaired positions for which there are no cash flow recovery forecasts are typically allocated within the various time period sectors on the basis of a proportional allocation, utilising - as a basis for the allocation - the distribution of the recovery forecasts - for the other impaired positions - within the various brackets of residual life (given the same type of impairment);

4. weighting of net positions for each bracket: within each bracket, asset and liability positions are offset, thereby resulting in a net position. The net position per bracket is multiplied by the corresponding weighting factor. Weighting factors per bracket are calculated as a product of the approximated duration - modified in relation to the bracket - and a hypothetical change in rates of 200 basis points for all brackets;
5. sum of net weighted positions for the various brackets: the net weighted position of the individual aggregate values is an estimate - in the case of the forecasted rate shock - of the change in present value of the items denominated in the currency of the aggregated value;
6. aggregation within the various currencies: positive positions relative to individual 'relevant currencies' as well as the aggregate value of the 'non-relevant currencies' are summed together. The value which is obtained represents the change in company economic value in the case of the forecasted scenario;
7. determination of the risk indicator which is represented by the ratio between the value of the sum obtained and the Regulatory Capital value.

   The provisions of prudential regulations which regulate the Internal Capital Adequacy Assessment Process (ICAAP) provide for an alert threshold of the risk indicator equal to 20%.

In the event this indicator exceeds the alert threshold, the Supervisory Body will analyse the results in depth with the Bank and reserves the right to implement the necessary actions. The risk indicator was not exceeded in 2018 for Cassa Centrale Banca on the four official quarterly calculations. The Bank also carried out annual stress tests through the aforementioned methodology by considering an increase of an additional 50 basis points for the rate shock.

In addition to the monitoring activities for interest rate risk through the methodology described above, the Bank implements operational management activities by availing itself of the support offered by monthly ALM reporting. Within the analysis, assessment of the impact on capital for various cases of rate shocks is illustrated in the Sensitivity Report; the latter estimates the impact of parallel and simultaneous shifts in the yield curve of +/-100 and +/-200 basis points on the present value of assets, liabilities and derivatives. This impact is further broken down by individual type of asset and liability in order to highlight their contribution to overall sensitivity and to understand the various levels of reactivity of items with fixed, variable and mixed rates; in addition, its incidence on the Bank's capital is reported over time in order to promote systematic monitoring. Additional control activities in relation to overall exposure to interest rate risk on the part of the Bank are implemented through the measurements that are offered within the realm of the ALM Reports. In particular, variability of both the interest margin as well as of Equity is analysed for the different scenarios of changing interest rates and Bank growth across a time period of 12 months. The simulation assumes that the Bank maintains constant assets under management during the 12-month period of analysis with gradual changes in interest rates of +/- 100 basis points, thereby isolating the variability of the margin and Equity in different environments.

The ALM analyses are presented by the Risk Management department to the Risks Committee. The Finance Regulations provide for an alert threshold for interest rate risk which is calculated as the net negative value - in the case of a shock increase or decrease of 200 basis points - equal to 25% of the Regulatory Capital.

The Bank holds some bond securities issued by BCC-CR–RAIKAs; in order to specifically hedge against only interest rate risk for these securities, it issued debenture loans with the same characteristics of duration and rate; both asset and liability instruments are classified in the financial statements at their fair value.

In relation to the securities component of the banking book, the calculation of the VaR - subdivided by specific portfolio (HTC, HTCS and Trading) - is available on a daily basis.

With regard to price risk, the Finance Regulations provide for specific limits to operations with stocks and similar instruments (ETFs, Certificates) as well as with investment funds with a stock component, structured by means of a grid of proxies regardless of the IFRS 9 classification category; compliance with regulatory limits is verified with first and second-level controls. Limits to the acquisition of investment funds issued by individual asset management companies are also provided for and also structured on the basis of a network of proxies.
The Risk Management department prepares periodical weekly reports which outline the details of the securities and the economic results which were attained.

B. Fair value hedging activities

Objectives and strategies underlying fair value hedging transactions, types of derivative contracts utilised for hedging and nature of the hedged risk.

The Bank has implemented hedging transactions in order to hedge against changes in fair value; the Fair Value Option provisions are used to book these operations.The strategy adopted by the Bank aims to only contain interest rate risk and to stabilise the interest margin by means of non-listed interest rate swap transactions that are carried out with primary counterparties and in order to specifically hedge against interest rate risk deriving from loans or bond issues with fixed interest rates.
The Bank does not implement fair value hedging transactions that are booked on the basis of fair value hedge accounting.

C. Cash flow hedging

Objectives and strategies underlying cash flow hedging transactions, types of derivative contracts utilised and nature of the hedged risk

The Bank does not implement hedging transactions that are booked with cash flow hedge accounting.

D. Hedging of foreign investments

The Bank does not implement operations for the hedging of foreign investments.

1. Banking book: distribution by residual duration (re-pricing date) of financial assets and liabilities

Type/ Residual duration	on demand	up to 3 months	from over 3 months to 6 months	from over 6 months to 1 year	from over 1 year to 5 years	from over 5 years to 10 years	over 10 years	indefinite duration
1. Cash assets	293,962	1,601,579	674,334	926,017	2,117,846	420,320	82,122	-
1.1 Debt securities	-	-	351,019	375,624	1,932,253	383,839	63,058	-
- with option of advance reimbursement	-	-	-	-	9,938	17,112	-	-
- other	-	-	351,019	375,624	1,922,315	366,727	63,058	-
1.2 Loans to banks	79,623	1,004,779	239,668	517,648	134,616	693	-	-
1.3 Loans to customers	214,339	596,800	83,647	32,745	50,977	35,789	19,065	-
- current accounts	40,823	-	-	646	1,732	561	-	-
- other loans	173,516	596,800	83,647	32,099	49,245	35,227	19,065	-
- with option of advance reimbursement	31,441	556,522	75,415	29,293	45,106	33,845	18,148	-
- other	142,075	40,278	8,232	2,805	4,139	1,382	917	-
2. Cash liabilities	1,899,139	1,648,718	28,910	56,561	356,189	32,480	38	-
2.1 Due to customers	464,845	948,373	2,979	348	115	32,480	38	-
- current accounts	365,031	5,474	-	38	-	32,309	-	-
- other payables	99,815	942,899	2,979	310	115	171	38	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	99,815	942,899	2,979	310	115	171	38	-
2.2 Due to banks	1,434,293	700,345	25,931	49,958	342,793	-	-	-
- current accounts	1,358,226	-	-	-	-	-	-	-
- other payables	76,068	700,345	25,931	49,958	342,793	-	-	-
2.3 Debt securities	-	-	-	6,255	13,281	-	-	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	-	-	-	6,255	13,281	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-

Type/ Residual duration	on demand	up to 3 months	from over 3 months to 6 months	from over 6 months to 1 year	from over 1 year to 5 years	from over 5 years to 10 years	over 10 years	indefinite duration
3. Financial derivatives	-12	-35,943	-11,321	10,872	33,546	2,540	318	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-12	-35,943	-11,321	10,872	33,546	2,540	318	-
- Options	-12	-35,965	-11,321	10,876	33,564	2,540	318	-
+ long positions	1	7,424	2,609	12,771	33,564	2,540	318	-
+ short positions	13	43,389	13,930	1,895	-	-	-	-
- Other derivatives	-	22	-	-4	-18	-	-	-
+ long positions	-	26	-	-	-	-	-	-
+ short positions	-	4	-	4	18	-	-	-
4. Other off-balance-sheet operations	2,500	-2,500	-	-	-	-	-	-
+ long positions	2,500	-	-	-	-	-	-	-
+ short positions	-	2,500	-	-	-	-	-	-

2. Banking book: internal models and other methodologies for sensitivity analysis

In accordance with what has been reported in the section relative to the regulatory trading portfolio, the measurement of market risk of the banking book is also supported by VaR reporting; information concerning the results, calculated with relation to solely the securities component of the banking book, are provided below:

VaR 31.12.2018	Minimum VaR	Maximum VaR
41,518,308	8,821,538	167,794,562

Amounts rounded to nearest Euro

Control over the reliability of the model is implemented through theoretical backtesting activities which verify daily changes in the market value of the banking book, as calculated by the model with an estimate of the expected loss for the day.In the most recent year of data collection, deviations were primarily due to sudden fluctuations in market factors linked in particular to geo-political tensions at international level or monetary policy expectations; an example of these shocks are those relating to the increase on the spread on Government issues recorded at the end of May in which the maximum value of the VaR reported in the table is registered.

The year 2018 saw a continuation, with respect to VaR, of the quantification of issuer risk for Italian government securities, understood as VaR relating only to the risk factor expressed as the spread between the Italian and German government securities.

With regard to stress tests, the outcomes of simulations of the impact of different shock scenarios on the theoretical value of the portfolio on 31.12.2018 is reported below.For the two scenarios relating to the parallel rate shocks, it was deemed appropriate to maintain the levels of 15 and 30 basis points, more consistent with the current market situation, which is still recording negative rates. The case of upwards shift of the Italian rates curve was assigned new parameters to dampen distorting effects of excessive change of the volatility and of the correlation on the shorter part of the curve.The shocks replicate:

1. a period of significant losses. It includes a time period relative to the second half of 2011 in which there were significant increases in interest rates of the Italian government curve and a shock in the markets of the Euro zone which then had a strong impact on the owned portfolio;
2. a specific case of non-parallel shift upwards in the Italian rates curve which was composed of the primary daily changes recorded in various points of the curve in the second half of 2011;
3. a stress on stock market indices. Includes a decrease in the primary European stock market indices by 10%;
4. parallel rate shocks of +15 and +30 basis points for the primary rate curves that were used in the valuation of securities within the owned portfolio.

	Theoretical market value change				
Theoretical market value 31.12.2018	Significant losses	Shift in Italian rates curve	Stock market indices -10%	Rates curves +15 basis points	Rates curves +30 basis points
3,105,646,573	-219,957,982	-72,106,417	-20,811,640	-10,060,997	-20,035,526

Amounts rounded to nearest Euro

For managerial purposes, the Bank also utilises the quantitative results contained in the monthly ALM reporting. On the basis of dynamic ALM analyses with constant volumes as at 31 December 2018 - and given a scenario of an increase in interest rates of +/-100 basis points distributed over a time period of one year and uniformly across the entire rates curve (short, medium and long-term) – the effects on the interest margin and on the Equity are reported in relation to the banking book with a specification of the percentage impact compared to Equity/regulatory capital.

	Increase 100 bp		Decrease 100 bp	
	Impact on interest margin	Change Equity	Impact on interest margin	Change Equity
Banking book: securities (absolute values in thousands of Euro)	2,970	-45,364	-	12,770
as a percentage of Equity/Regulatory Capital	0.29%	-4.17%	0.00%	1.17%
Banking book: receivables (absolute values in thousands of Euro)	3,030	-9,421	-276	1,641
as a percentage of Equity/Regulatory Capital	0.30%	-0.87%	-0.03%	0.15%
Liabilities (absolute values in thousands of Euro)	7,120	-8,074	-237	-
as a percentage of Equity/Regulatory Capital	0.69%	-0.74%	-0.02%	0.00%

2.3 Exchange rate risk

INFORMATION OF A QUALITATIVE NATURE

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

Given its role as currency supplier for BCC-CR–RAIKAs and as a result of transactions with customers, the Bank is exposed to exchange rate risk.

The measurement involves the calculation of the 'net exchange rate position', i.e. the balance of all assets and liabilities (in the financial statements and off-statement of financial position) relative to each currency, including operations in Euro which are indexed to currency exchange rate changes. The Bank has, in any case, established a structure of internal limits and operational proxies for both the net exchange rate position at the end of the day as well as for the net position for individual currencies, thereby confirming a strategy which aims to minimise this type of risk; compliance with limits and proxies is continually verified by the Finance Area and, at the end of each day, by the Risk Management department.

During 2018, the analysis based on Value at Risk techniques was continued in order to monitor trends in the risk levels of the net exchange rate position, as defined above. This model is not utilised to determine capital requirements but represents an internal tool to support management and internal control of risk.

B. Exchange rate risk hedging activities

Exchange rate risk hedging activities are implemented through a policy of essentially balancing booked foreign currency positions; for this purpose, during 2018 the Bank has implemented hedging transactions against exchange rate risk by using outright derivative instruments.

1. Distribution of assets, liabilities and derivatives by currency

Items	Currencies					
	USD	Pounds	Yen	Canadian dollars	Swiss francs	Other currencies
A. Financial assets	41,329	1,034	4,457	1,728	13,158	3,513
A.1 Debt securities	-	-	-	-	-	-
A.2 Equities	-	-	-	-	-	-
A.3 Loans to banks	41,260	1,034	4,457	1,728	13,103	3,513
A.4 Loans to customers	69	-	-	-	55	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	1,744	1,436	424	576	1,683	1,968
C. Financial liabilities	95,309	4,262	260	3,073	16,839	4,235
C.1 Due to banks	94,531	4,255	260	3,073	16,839	4,222
C.2 Due to customers	778	7	-	-	-	14
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	28	-	-	-	-	1
E. Financial derivatives	48,798	1,773	-1,272	753	1,947	-1,139
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	48,798	1,773	-1,272	753	1,947	-1,139
+ long positions	77,297	2,788	3,422	3,029	6,130	863
+ short positions	28,499	1,015	4,694	2,276	4,183	2,002
TOTAL ASSETS	120,369	5,258	8,303	5,333	20,971	6,344
TOTAL LIABILITIES	123,836	5,277	4,954	5,349	21,022	6,238
IMBALANCE (+/-)	-3,467	-19	3,348	-16	-51	106

2. Internal models and other methodologies for sensitivity analysis

Internal models for sensitivity analysis are not utilised.

SECTION 3

Derivative instruments and hedging policies

3.1 Trading derivatives

A. Financial derivatives

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

Underlying assets/type of derivatives	Total December 2018				Total December 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 securities and interest rates	-	713,471	54,251	-	-	-	-	-
a) Options	-	113,495	-	-	-	-	-	-
b) Swaps	-	599,976	54,251	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and stock market indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	111,001	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	111,001	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
TOTAL	-	824,472	54,251	-	-	-	-	-

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

Underlying assets/type of derivatives	Total December 2018			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With offsetting agreements	Without offsetting agreements	
1. Positive fair value				
a) Options	-	-	-	-
b) Interest rate swaps	-	11,849	336	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	536	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
TOTAL	-	12,025	336	-
1. Negative fair value				
a) Options	-	-	-	-
b) Interest rate swaps	-	10,947	33	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	618	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
TOTAL	-	11,565	33	-

A.3 OTC financial trading derivatives: notional values, gross positive and negative fair values by counterparties

Underlying assets	Central counterparties	Banks	Other financial companies	Other subjects
Contracts not part of offsetting agreements				
1) Debt securities and interest rates	-	-	-	54,620
- notional value	-	-	-	54,251
- positive fair value	-	-	-	336
- negative fair value	-	-	-	32
2) Equities and stock market indices	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
Contracts that are part of offsetting agreements				
1) Debt securities and interest rates	-	622,412	-	-
- notional value	-	599,976	-	-
- positive fair value	-	11,489	-	-
- negative fair value	-	10,947	-	-
2) Equities and stock market indices	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold	-	112,155	-	-
- notional value	-	111,001	-	-
- positive fair value	-	536	-	-
- negative fair value	-	618	-	-
4) Commodities	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

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

Underlying/residual life	Up to 1 year	From 1 year to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	210,522	146,418	410,783	767,722
A.2 Financial derivatives on equities and stock market indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	110,570	431	-	111,001
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
TOTAL 2018	321,092	146,849	410,783	878,723
TOTAL 2017	428,984	181,086	147,010	757,079

B. Credit derivatives

This section is not filled out given that the Bank does not hold credit derivatives.

3.2 Accounting hedges

This section is not filled out given that the Bank does not hold credit derivatives.

3.3 Other information on derivative trading instruments and hedging instruments

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair values by counterparties

	Central counterparties	Banks	Other financial companies	Other subjects
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	599,976	-	-
- net positive fair value	-	11,489	-	-
- net negative fair value	-	10,947	-	-
2) Equities and stock market indices				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	111,001	-	-
- net positive fair value	-	536	-	-
- net negative fair value	-	618	-	-
4) Commodities				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B. Credit derivatives				
1) Purchase and protection				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
2) Sale and protection				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-

SECTION 4 LIQUIDITY RISK

INFORMATION OF A QUALITATIVE NATURE

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

Liquidity risk is defined as the possibility that the Bank does not manage to maintain its payment obligations due to an incapacity to collect new funds (funding liquidity risk), the incapacity to sell assets on the market to cover an imbalance requiring financing (asset liquidity risk) or the fact that it may be forced to liquidate its assets in unfavourable market conditions, thereby sustaining very high costs in order to meet its commitments (market liquidity risk).

The Board of Directors of the Bank has deliberated in favour of a document named 'Policy for the governance and management of liquidity and of funding' which defines the policies, responsibilities, processes, operational limits and tools for managing liquidity risk, both during normal business operations as well as during potential liquidity crises, thus in line with current liquidity regulations.

The policies include the strategies and organisational measures which serve to promptly contain liquidity risk; the ordinary and stress scenarios which the Bank may encounter are defined. The sources of liquidity risk to which the Bank is exposed can primarily be identified within the Finance/Treasury, Funding and Credit processes.

The Bank has adopted a liquidity risk governance and management system that, in accordance with the provisions of the Supervisory Authorities, pursues the goal of financing the development of its activities at the best market conditions in normal operating circumstances and to guarantee the ability of meeting payment commitments even if a liquidity crisis situation emerges, without interrupting operational continuity or alter the Bank's financial balance.

With the purposes of knowing future liquidity requirements with adequate advance notice, to have available fund supply sources that can be activated within the time intervals and at the costs deemed appropriate, and to carry out the activity efficiently, the management of liquidity risks requires:

1. defining the organisational structure that has to specify and implement the liquidity policy;
2. setting up an adequate information system to:
    - know and measure, at any time, the Bank's current liquidity position and its future evolution;
    - assess the impact of different scenarios, in particular of unforeseen and adverse conditions, on the future evolution of the Bank's liquidity position;
    - monitor the different fund procurement channels, in the evolution of their profiles in terms of times required for activation, amounts and costs.
3. defining a Contingency Funding Plan, to be activated promptly if the Bank experiences a liquidity crisis, establishing the chain of responsibility and the system of initiatives to overcome the crisis situation successfully.
   The organisational structure tasked with governing and managing the liquidity risk provides for the operational management of the Bank's liquidity position to be entrusted to the Treasury department, which acts according to the indications given by the Risks Committee. Control activities are carried out by the Risk Management Department in coordination with the Treasury Department. The results of the control activities are passed on to the Risks Committee.

The principles for managing liquidity risk are defined within the liquidity policy.
The Policy for the Governance and Management of Liquidity comprises four processes:

1. Operating Liquidity, whose objective is to assure the ability to meet expected and unexpected payment commitments by maintaining a sustainable ratio between incoming and outgoing cash flows. Management of operational liquidity is carried out by the Treasury Department, according to the indications received and in compliance with the guidelines set by the Risks Committee. Within the analysis of operational liquidity, the Bank monitors intra-day liquidity by using the two indicators derived from the 'Annual report on financial stability' of the Bank of Italy of November 2011 (LCNO – Largest cumulative net out flow and LIIP – Liquidity and intraday payment commitments).To complete the monitoring of the daily liquidity risk, a stress scenario is analysed, constructed according to the model presented in the study of the Bank of England 'Intraday liquidity risk and regulation' of June 2011.Furthermore, to measure and control operating liquidity risk, the Bank uses as a reference the Liquidity Coverage Ratio (LCR).
2. Structural Liquidity, whose objective is to maintain an adequate ratio between medium/long term assets and total liabilities, in order to avoid pressures on current and prospective short-term sources; structural liquidity is managed by the Risks Committee and it is directed at assuring the financial balance of the structure by maturity over a time horizon exceeding one year. Through the analysis of the Bank's structural liquidity position, the ability to finance assets and to meet payment commitments through an adequate balance of the maturity of asset and liability items is assessed. Hence, the main objective is to manage funding through strategic decisions pertaining to funding sources and to the loans to be made in such a way as to prevent the emergence of excessive imbalances deriving from short-term financing of medium-long term operations.To measure and control structural liquidity risk, the Bank uses as a reference the Net Stable Funding Ratio (NSFR) and the due dates Transformation Report.
3. Stress test and scenario analyses, a process during which the financial balance is assessed in plausible, albeit improbable, extreme conditions. The data collected through reports during the year, along with the historic records of the same types of data, provide support in the execution of stress tests and scenario analyses, carried out with the goal of verifying the Bank's ability to address alert and crisis conditions outside normal operations.
   The procedure for carrying out operational liquidity stress tests entails modifying the profile of incoming and outgoing cash flows on the basis of the effects deriving from the occurrence of stress cases. These cases, tied to factors inside and outside the Bank, are selected taking into consideration scenarios built ad hoc, which can prove to be sufficiently severe, and contemplating even low-probability events.
   The Treasury Department, in collaboration with the Risk Management Department estimates, on a half-yearly basis, the maximum amount of liquidity that can be obtained under conditions of alert and crisis (back up liquidity estimates).
4. Contingency Funding Plan, or emergency Plan, a process directed at managing the emergence of a severe liquidity crisis of the Bank.

The liquidity risk tolerance thresholds are set by the Board of Directors on the basis of the following limits:

- for Operational Liquidity, the limit is set to the value assumed by the Liquidity Coverage Ratio (LCR) indicator, i.e. the ratio between basic and supplementary liquid assets and total net cash outflows in the 30 subsequent calendar days in a stress scenario.The structure of the indicator is based on Commission Delegated Regulation (EU) 2015/61, supplementing Regulation (EU) no. 575/2013 (CRR) and hence transposes into Italian law the provisions of the Basel Committee in the document "Basel 3 - The Liquidity Coverage Ratio and liquidity risk monitoring tools". At the management level, then, a series of indicators are analysed and monitored;
- for Structural Liquidity, the limit is set at the value assumed by the Net Stable Funding Ratio (NSFR) indicator, i.e. by the ratio between the elements that provide stable financing and the elements that require stable financing.The structure of the indicator is based on the document by the Basel Committee 'Basel III: the Net Stable Funding Ratio', of October 2014.

If the limits are exceeded, the Risks Committee evaluates the possible corrective actions and carries out all actions necessary to restore an exposure to liquidity risk that is consistent with the tolerance thresholds thus defined. In addition, the Risks Committee shall report, as soon as possible, to the Board's Risks Committee and to the Board of Directors the reasons for the failure to comply with the limits and the actions taken to restore the Bank's liquidity position.

Regulation (EU) no. 575/2013 (CRR) prescribes that financial intermediaries shall use additional liquidity monitoring metrics (ALMM) to obtain a full picture of the liquidity risk profile.

Specifically, the Implementing Regulation (EU) 2016/313 prescribes that the following six models must be set up as control information instruments:

- funding concentration by counterparty: its purpose is to collect information about funding concentration by counterparty of the reporting entities, highlighting the first 10 funding contributors;
- funding concentration by type of product: its purpose is to collect information about funding concentration by type of product of the reporting entities, broken down by the following types of funding: retail funding and wholesale funding;
- prices for funding of various durations: its purpose is to collect information about the average value of the transactions and the average prices paid by the entities for funding with duration ranging from overnight to 10 years;
- renewal of the funding: its purpose is to collect information about the volume of funds due and on the new funding obtained, i.e. on the renewal of funding at the daily level over a one-month time horizon;
- concentration of the offsetting capacity by issuer/counterparty: its purpose is to collect information about the concentration of the offsetting capacity of the reporting entities with reference to the ten main assets held or liquidity lines granted to the entity for that purpose;
- Maturity Ladder: serves to represent the assets and liabilities expiring, subdivided into a series of time brackets; it is therefore possible to determine any gaps per individual time bracket and compare them with the Bank's offsetting capacity.

These information models are produced on a quarterly basis and the Risks Committee, in relation to possible criticalities, assesses whether to implement adequate governance strategies to prevent the emergence of stress situations.

The monitoring of the Bank's liquidity situation, based on the reports, on the scenario analyses and on the signals provided by the risk indicators, is carried out, according to their related competences and functions, by the Treasury Department, by the Risks Committee and by the Risk Management Department.
The results of the liquidity risk analysis are presented on a monthly basis from the Risk Management department to the Risks Committee; the latter also offers an evaluation in relation to needs deriving from financial flows as well as in relation to the growth plans of the Bank, financing requirements or resources that must be invested in addition to supplying general guidelines for the directly involved organisational units. The positioning of the Bank with regard to operational and structural liquidity is also reported to the Board of Directors on a quarterly basis.
The requirements of Cassa Centrale Banca are largely ascribable to decreases in liquidity available to shareholder banks or clients; the Risks Committee continually evaluates the Bank's capacity to meet its needs, while taking the following into account, in particular:
- availability and price of securities that can be easily liquidated;
- availability of credit within the interbank system;
- potential of institutional bond funding;
- use of other funding tools.

With regard to attainable credit and the potential for bond funding, the Bank adopts the best practices in order to safeguard or improve the ratings attained thus far.
The internal regulation of liquidity risk management meets the requirements set out in the supervisory provisions and guarantees consistency between the management measurements and the regulatory ones.

INFORMATION OF A QUANTITATIVE NATURE

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

Items/time brackets	On demand	from over 1 day to 7 days	from over 7 days to 15 days	from over 15 days to 1 month	from over 1 month to 3 months	from over 3 months to 6 months	from over 6 months to 1 year	from over 1 year to 5 years	Over 5 years	indefinite duration
Cash assets	292,547	203,645	34,951	648,436	365,164	615,752	1,114,129	2,297,916	659,538	-
A.1 Government securities	-	-	329	-	1,941	354,586	380,381	1,927,612	350,000	-
A.2 Other debt securities	-	-	-	3	530	1,078	2,354	13,319	118,359	-
A.3 UCITS units	49,131	-	-	-	-	-	-	-	-	-
A.4 Loans	243,416	203,645	34,623	648,433	362,693	260,089	731,394	356,985	191,179	-
- Banks	79,733	203,519	34,303	245,778	349,567	240,674	692,958	135,433	703	-
- customers	163,683	125	319	402,655	13,126	19,415	38,436	221,552	190,476	-
Cash liabilities	2,073,822	526,113	518,921	631,788	550,786	197,297	448,057	46,252		-
B.1 Deposits and current accounts	1,800,522	3,172	6,170	406,523	281,194	28,956	50,351	45,450	32,309	-
- Banks	1,433,223	3,102	6,170	400,747	281,107	25,977	49,987	45,450	-	-
- customers	367,299	70	-	5,776	87	2,978	365	-	32,309	-
B.2 Debt securities	-	-	-	-	15-	-	6,450	12,900	-	-
B.3 Other liabilities	273,300	522,941	512,750	225,265	269,441	168,341	391,256	299,565	210	-
Off-balance-sheet transactions	849	-67	23	-50	37	44	26	-	-	-
C.1 Financial derivatives with exchange of capital	-	-67	23	-50	37	44	26	-	-	-
- long positions	-	26,636	18,675	31,519	35,565	9,433	5,269	802	291	-
- short positions	-	26,702	18,653	31,569	35,528	9,388	5,243	802	291	-
C.2 Financial derivatives without exchange of capital	849	-	-	-1	-	-	-	-	-	-
- long positions	11,930	-	-	-	-	-	-	-	-	-
- short positions	11,081	-	-	1	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to issue funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	2,500	-	-	-	-	-	-	-
- short positions	-	-	2,500	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

Items/time brackets	On demand	from over 1 day to 7 days	from over 7 days to 15 days	from over 15 days to 1 month	from over 1 month to 3 months	from over 3 months to 6 months	from over 6 months to 1 year	from over 1 year to 5 years	Over 5 years	indefinite duration
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

The above table shows both transactions denominated in Euro and in foreign currencies, considering that the currency component is not significant; repos of securities or currencies are included in the item 'Off-balance-sheet operations'.

SECTION 5 OPERATING RISKS

INFORMATION OF A QUALITATIVE NATURE

A. General aspects, management processes and measurement methods for the operating risk of an event

Operating risk is the "risk of sustaining losses deriving from the inadequacy or dysfunction of procedures, human resources and internal systems or those caused by exogenous events". This definition includes legal risk, but not reputational and strategic risk.

Operating risk is a pure risk given that only negative symptoms of the event are linked to it. These symptoms are directly attributable to the activities of the Bank and concern its entire structure (governance, business and support).

Operating risk - which is inherent in the performance of banking activities - is generated across all company processes. In general, the primary sources of operating risk are internal fraud, external fraud, workplace employment and safety reports, professional obligations with respect to clients or the nature and characteristics of products as well as damages from external events and the breakdown of IT systems. Risks related to significant outsourcing activities are relevant in this case.Given that it is a transversal risk across processes, operating risk can be controlled and mitigated through currently effective internal regulations (regulations, executive provisions, proxies) which are drafted primarily for the purposes of prevention. Specific line controls are then set up on the basis of these regulations as a verification and additional system for monitoring this type of risk. Currently effective regulations are also applied to IT procedures with the aim of constantly monitoring the correct assignment of authorisation as well as compliance with functional subdivisions on the basis of company roles.

The Bank mapped the main banking processes, formalising the related controls within a specific database; this is based on the belief that process documentation represents the best answer to the need to monitor operating risks.All phases and activities which form standard operating procedures have been recorded, and the potential risks as well as the first level control contents have been identified for these. Specific audits were implemented with regard to authorisations and access to the company IT system as well as to the internet portal; with regard to this point, criteria and rules for risk containment have been adopted.

The Bank has an "Operational Continuity Plan" which was drafted in order to protect the Bank itself in the case of crises which could damage its full operational capability; it therefore formalised the operational procedures that must be adopted in the crisis scenarios in question and clearly outlined the roles, responsibilities and time schedules of the various parties that are involved.

With regard to organisational safeguards, the Compliance Department - delegated to monitor and control compliance with norms - provides ex ante support to the process of preventing and managing the risk of being subject to judicial or administrative sanctions as well as the risk of reporting significant losses following the violation of external regulations (laws or regulations) or internal ones (Articles of Association, codes of conduct, corporate governance codes), carrying out ex post audit activities according to a risk based approach.

The Security Manager and the ICT Manager are tasked with controlling the risks connected with the management of the IT system.

The Internal Audit Department – which is responsible for third level controls – conducts periodical audits on the overall functionality of the system of controls within the realm of the various company processes.

With regard to the regulatory measurement of the prudential requirement for operating risks, the Bank - given that it does not reach the specific thresholds for accessing the advanced methodologies identified by Supervisory Authorities, and in light of its organisational, operational and size characteristics - applies the Basic Indicator Approach (BIA).
On the basis of this methodology, the capital requirement for operating risks is measured by applying the regulatory coefficient of 15% to the average of the last three data recordings - on an annual basis - of an indicator of the volume of company operations, (so-called 'relevant indicator') relating to the situation at the end of the year (31 December), pursuant to art. 316 of Regulation (EU) no. 575/2013 (CRR).
With regard to the governance of operating risks, importance was attached to the controls adopted on the outsourcing of company functions in accordance with Circular 285/2013 (Part I, Title IV, Chapter 3, Section IV), which defines an organic framework of principles and rules to adhere to when outsourcing company functions, and of the additional, more stringent requirements for the outsourcing of important operational functions. The Circular requires the implementation of specific controls to cover the connected risks, and the maintenance of the capacity to control the work of the supplier and the necessary skills for any re-insourcing, if required, of outsourced activities.
The process of amending the agreements whereby the client banks outsource their own company functions to the Bank continued during the year with the inclusion in the contractual text of the provisions of Circular 285/2013 on the outsourcing of important operational functions.
Within the issues pertaining to the IT systems and business continuity, the Bank, recognising the value of the management of IT risk as a tool to ensure the effectiveness and efficiency of the protection measures of its IT system, defined a method for analysing IT risk and the associated management process which is incorporated within the wider Bank risk management system.
The adoption of this method will make it possible to integrate the management of operating risks by also considering the risks connected to IT and business continuity profiles, and to document the evaluation of IT risk based on the continuous information flows established with the software house.
The adoption of these references is prior to the preparation of the process of verification, at least annually, of the evaluation of IT risk based on the results of the monitoring of the effectiveness of the measures to protect ICT resources.

Year	Amount
December 2018	116,442,126
December 2017	69,303,617
December 2016	69,010,879
Relevant indicator average last 3 years	84,918,874
Capital requirement (15% of the average)	12,737,831

Figures in Euro

The requirement is calculated by using exclusively the values of the relevant indicator determined in accordance with art. 316 of CRR no. 575/2013.
For the purposes of a more structured evaluation of operating risks, a series of activities have been initiated as of 2009 for the implementation of processes relative to funding as well as the preservation and analysis of internal data relating to the most significant events and operational losses. The use of a database - where events which caused operational losses, even potential, could be registered - was introduced; this tool represents a development in risk assessment methodologies and serves the purpose of identifying and removing process defects which could result in negative events.

Disclosure of information to the public

In accordance with Circular 285/2013 (Part Two, Chapter 13, Section I), it should be known that Cassa Centrale Banca - with reference to the requirement for disclosure of information to the public prescribed by the Third Pillar of Basel 2 - publishes the required information on its website, www.cassacentrale.it.

PART F
INFORMATION ON EQUITY

SECTION 1 THE COMPANY'S CAPITAL

A. INFORMATION OF A QUALITATIVE NATURE

One of the consolidated strategic priorities of the Bank is represented by the amount and movements of its capital assets in respect of the regulatory constraints and in line with the risk profile assumed. Capital constitutes, in fact, the first control in respect of the risks connected with banking business and the main reference parameter for the assessments of the intermediary's solvency by the regulatory authorities and the market. It also contributes positively to the generation of operating income and makes it possible to cover the Bank's technical and financial fixed assets, supports growth in the size of the Bank, forming a decisive element in the phases of development. The equity of the Bank is given by the sum of the share capital and of the share premium reserves, profit reserves, valuation reserves, equities, own shares and the profit for the year, for the portion to be allocated to reserves, as indicated in Part B of this section.

The concept of capital that the Bank uses in its evaluations is essentially the notion of 'regulatory capital' as established by EU Regulation no. 575/2013 (CRR), structured into the following components:

- Tier 1 capital, composed of Common Equity Tier 1 - CET 1 and Additional Tier 1 – AT1 capital;
- Tier 2 capital – T2.

Capital defined in this way, the main safeguard of company risks according to the regulations for prudential supervision, in fact represent the best reference for effective management, from a strategic perspective, and in terms of current operations, given that it is a financial resource which is capable of absorbing potential losses generated by the Bank's exposure to all the risks assumed, thereby assuming a guarantee role with respect to depositing parties and creditors in general.

The supervisory regulation requires the Bank to measure total capital adequacy, both current and forward-looking, using internal methodologies, and under stress conditions, to ensure that the available financial resources are adequate to cover all risks, also under adverse economic conditions; this is with reference not only to so-called'Pillar 1' risks (represented by credit and counterparty risk - measured on the basis of the debtor counterparty category, duration and type of transactions and personal guarantees and collateral securities received - market risks on the trading portfolio and operating risk), but additional risk factors - so-called 'Pillar 2' risks - which impact company business (such as, for example, concentration risk, interest rate risk on the banking book, etc.).

Control of current and forward-looking capital adequacy is therefore developed on the basis of a dual meaning:

- regulatory capital in respect of Pillar 1 risks;
- overall internal capital in respect of Pillar 2 risks, for ICAAP process purposes.

In order to ensure the correct capital performance under ordinary operating conditions, in particular, the Bank makes use of self-financing, i.e. the reinforcement of reserves through the allocation of net profits. In fact, the Bank usually allocates a predominant share of net profits for the year to reserves. Observance of capital adequacy is also pursued through careful management of investments, in particular, loans, based on counterparty risk and the related absorptions, and with strengthening plans based on the issuing of subordinated liabilities or additional equity instruments included in the pertinent regulatory capital aggregates.

In order to maintain its capital position constantly adequate, the Bank employs processes and instruments to determine the level of internal capital which is adequate to cover all types of risk assumed, as part of an assessment of current and forward-looking exposure, and under a stress situation, that takes into account the company strategies, development objectives and evolution of the reference context.
On an annual basis, as part of the process of definition of the budget objectives, a careful check is performed on the compatibility of projections: based on the expected trends in capital and economic aggregates, if necessary, the necessary initiatives for ensuring capital equilibrium and the availability of financial resources consistent with the Bank's strategic and development objectives are identified at this phase and implemented.
Verification of compliance with supervisory requirements and the consequent adequacy of capital are implemented on a quarterly basis. The elements which are audited primarily include ratios pertaining to the financial structure of the Bank (loans, problem loans, fixed assets, total assets) and the degree of hedging of risks. Additional specific analyses for the prior evaluation of capital adequacy are carried out if necessary, in view of extraordinary transactions, such as mergers and acquisitions, disposals of assets.
As regards minimum capital requirements, reference is made to the mandatory parameters established by the applicable regulatory provisions (art. 92 of the CRR), on the basis of which the common equity CET 1 capital of the bank must account for at least 4.5% of total risk-weighted assets ('CET1 capital ratio'), Tier 1 capital must represent at least 6% of the total of the aforementioned weighted assets ('Tier 1 capital ratio') and total Bank regulatory capital must represent at least 8% of total weighted assets ('Total capital ratio').
Following the Supervisory Review and Evaluation Process (SREP) conducted in accordance with art. 97 et seq. of EU Directive no. 36/2013 (CRD IV) and in compliance with the provisions of the EBA (European Banking Authority) in relation to the imposition of additional specific capital requirements in the document 'Guidelines on the common procedures and methodologies for the supervisory review and evaluation process', published on 19 December 2014, the Bank of Italy issues a specific decision annually on the capital requirements that the Bank must respect following the (supervisory review and evaluation process - SREP).
In particular, the aforementioned article 97 of the CRD IV establishes that the Bank of Italy must periodically review the provisions, the strategies, the processes and mechanisms that supervised banks implement to monitor the risks to which they are exposed. Therefore, by means of the SREP, the competent authority re-examines and evaluates the capital adequacy determination process carried out within the Bank, analyses the Bank's risk profiles, both on an individual and aggregate basis, also under stress conditions, evaluates its contribution to systemic risk; it assesses the corporate governance system, the functionality of corporate bodies, the organisational structure and the internal control system; it verifies the observance of the set of supervisory rules.
At the end of this process, the competent Authority, pursuant to art. 104 of the CRD IV, also has the power to request, based on an intermediary's overall risk, for additional capital with respect to the minimum requirements cited above; the capital ratios quantified, taking account of the additional requirements, are binding ('target ratio').
The capital requirements based on the Bank's risk profile, pursuant to the measure on capital of 08/05/2017, therefore, consist of binding capital requirements (based on the sum of minimum requirements pursuant to art. 92 of the CRR and additional binding requirements determined in light of the SREP) and the capital conservation buffer requirement applicable in light of transitional provisions in force to the extent of 1.875% (2.5% according to the ordinary criteria, in 2019), as a whole understood as the overall capital requirement ratio - OCR, as indicated below:

- 7% with reference to the CET 1 ratio (consisting of a binding percentage of 1.25% and for the remainder of the capital conservation buffer component);
- 8.95% with reference to the Tier 1 ratio (consisting of a binding percentage of 7.7% and for the remainder of the capital conservation buffer component);
- 10.3% with reference to the Total Capital Ratio (consisting of a binding percentage of 8% and for the remainder of the capital conservation buffer component).

The capital conservation buffer is entirely covered by CET1.

As regards the capital conservation buffer, note that, pursuant to the transitional rules applicable as of 1 January 2019, the Bank will be required to retain 2.5% of overall risk assets (with an increase of 0.625% compared to the 2018 coefficient).

B. INFORMATION OF A QUANTITATIVE NATURE

This Section illustrates the breakdown of accounts pertaining to the capital assets of the Bank.

B.1 Company's capital: breakdown

Items/Values	Total 2018	Total 2017
1. Share capital	952,032	952,032
2. Share premium	19,029	19,029
3. Reserves	101,324	94,888
- of profit	101,306	94,869
a) legal	25,701	25,030
b) statutory	-	-
c) own shares	-	-
d) other	75,605	69,839
- other	18	18
4. Equity instruments	-	-
5. (Own shares)	-	-
6. Valuation reserves	-16,363	-5,695
- Equities measured at fair value through other comprehensive income	-3,594	
- Hedging of equities measured at fair value through other comprehensive income	-	
- Financial assets (other than equities) measured at fair value through other comprehensive income	-13,358	
- Financial assets available for sale (formerly Item 40 IAS 39)	-	-6,234
- Tangible assets	-	-
- Intangible assets	-	-
- Hedging of foreign investments	-	-
- Cash flow hedging	-	-
- Hedging instruments (non designated elements)	-	-
- Exchange rate differences	-	-
- Non-current assets and groups of assets held for disposal	-	-
- Financial liabilities measured at fair value through profit or loss (changes in credit rating)	-	-
- Actuarial gains (losses) relating to defined benefit plans	-307	-357
- Quotas of valuation reserves relative to shareholdings valuated with the equity method:	-	-
- Special revaluation laws	896	896
7. Profit (loss) for the year	31,017	13,431
TOTAL	1,087,039	1,073,685

The share capital of the Bank is composed of 18,158,304 ordinary shares as well as 150,000 preference shares with a nominal value of EUR 52 each and totalling EUR 952,031,808.

The reserves pursuant to point 3 include already existing profit reserves as well as the positive and negative reserves associated with the effects of transition to IAS/IFRS international accounting standards which were not booked under the other items of Equity. The reserves for valuation of 'Financial assets measured at fair value through other comprehensive income', included in point 6, are detailed in table B.2 below.

B.2 Reserves from valuation of financial assets measured at fair value through other comprehensive income: breakdown

Items/Values	Total 2018	
	Positive reserve	Negative reserve
1. Debt securities	3,425	-16,783
2. Equities	309	-3,903
3. Loans	-	-
TOTAL	3,734	-20,686

The column 'Positive reserve' specifies the cumulative amount of valuation reserves relative to financial instruments which - in relation to the category in question, and on the date of the financial statements - reported a fair value that was greater than their amortised cost (financial assets reporting capital gains).
The column 'Negative reserve', on the other hand, specifies the cumulative amount of valuation reserves relative to financial instruments which - in relation to the category in question, and on the date of the financial statements - reported a fair value that was lower than their amortised cost (financial assets reporting capital losses).

B.3 Reserves from valuation of financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equities	Loans
1. Opening balances	11,891	-1,661	-
2. Positive changes	31,908	1,178	-
2.1 Fair value increases	19,184	332	-
2.2 Value adjustments due to credit risk	3,326	-	-
2.3 Reversals of negative reserves from sale to the income statement	235	-	-
2.4 Transfers to other components of equity (equities)	-	-	-
2.5 Other changes	9,163	846	-
3. Negative changes	57,157	3,111	-
3.1 Fair value decreases	29,346	2,539	-
3.2 Write-backs due to credit risk	1,849	-	-
3.3 Reversals of positive reserves to the income statement: on sale	23,615	-	-
3.4 Transfers to other components of equity (equities)	-	-	-
3.5 Other changes	2,347	572	-
4. Closing balances	-13,358	-3,594	-

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

	Total 2018
1. Opening balances	357
2. Positive changes	-
2.1 Actuarial gains relating to defined benefit plans	-
2.2 Other changes	-
2.3 Business combinations	-
3. Negative changes	50
3.1 Actuarial losses relating to defined benefit plans	50
3.2 Other changes	-
3.3 Business combinations	-
4. Closing balances	307

SECTION 2

REGULATORY CAPITAL AND ADEQUACY RATIOS

As regards the contents of this section, please refer to the disclosure on regulatory capital and capital adequacy in the public disclosure ('Third Pillar'), prepared in accordance with Regulation (EU) no. 575/2013 of 26 June 2013 (CRR).

PART G
BUSINESS COMBINATIONS REGARDING COMPANIES OR BRANCHES

SECTION 1

TRANSACTIONS IMPLEMENTED DURING THE YEAR

In continuation of the process of incorporation of the Cooperative Banking Group, Cassa Centrale Banca acquired control during the year of the companies deemed instrumental for Group activities. In particular, Cassa Centrale Banca acquired control of Servizi Bancari Associati S.p.A., Claris Leasing S.p.A. and Nord Est Asset Management S.A. These transactions determined an increase in the carrying amount of the equity investments, detailed in Part B - Information on the Statement of financial position - section 10, Equity investments, paragraph 10.5 relating to changes in the year.
The effects of the application of IFRS 3 (Business Combinations) on the aforementioned combinations are detailed in Part G of the Consolidated Explanatory Notes of the Cassa Centrale Banca Group.

SECTION 2

TRANSACTIONS IMPLEMENTED AFTER THE CLOSE OF THE YEAR

From the date of closing of the year and up until the date of approval of the draft financial statements on the part of the Board of Directors, the Bank did not implement business combinations with companies or company branches.

SECTION 3

RETROSPECTIVE ADJUSTMENTS

There are no retrospective adjustments to report.

PART H
TRANSACTIONS WITH RELATED PARTIES

1. Information on compensation of executives with strategic responsibilities
2. Information on transactions with related parties

1 - INFORMATION ON COMPENSATION OF EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Executives with strategic responsibilities are those which retain powers and responsibilities pertaining to the planning, management and control of the company's activities.
In compliance with regulatory provisions pertaining to policies and practices relating to compensation and incentives within banks, and in accordance with the shareholders' meeting resolution of 18 May 2016, the reported compensation refers to executives with strategic responsibilities, i.e. directors and executives in charge of strategic functions.
In addition, the compensation assigned to the members of the Board of Statutory Auditors is reported.
With regard to compensation solely disbursed to said executives during the course of 2018, it should be noted that - in addition to a fixed salary stipulated through individual agreements - there is a variable component which is linked to the attainment of the strategic objectives of the Group. With regard to fixed compensation, it should be noted that the latter includes not only the standard monetary disbursement but also a package of benefits such as a complementary pension fund, a healthcare insurance policy, an accident insurance policy and the potential assignment of a company car for mixed use.
In particular, the following benefits should be noted:

a. Short-term benefits
   Short-term benefits include salaries, social security contributions, fringe allowances for past unused holidays, absences due to disease and benefits such as medical assistance.
b. Benefits relative to the post-employment period
   These include social security, retirement and insurance plans as well as severance indemnity.

Compensation overall disbursed to executives with strategic responsibilities	Total 2018
- Salaries and other short-term benefits	2,873
- Benefits relative to the post-employment period (social security, insurance, etc.)	100

Compensation overall disbursed to auditors	Total 2018
- Salaries and other short-term benefits	182
- Benefits relative to the post-employment period (social security, insurance, etc.)	-

The compensation includes attendance fees and the office indemnities that are due.

2 - INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

In accordance with the provisions of currently effective provisions, it should be noted that all operations conducted by the Bank with its related parties were implemented in compliance with the criteria of substantive and procedural fairness and under conditions that are analogous to those applied for operations implemented with independent third parties.
In accordance with IAS 24, information pertaining to financial and economic relations between the related parties of the Bank and Group companies is reported below.
In accordance with the international accounting principle IAS 24, a related party is a person or entity which is related to the entity which drafts the financial statements.

a) A person or close relative of this person is related to the entity which drafts the financial statements if this person:
   I) retains control or joint control over the entity which drafts the financial statements;
   II) retains significant influence over the entity which drafts the financial statements; or
   III) is an executive with strategic responsibilities within the entity which drafts the financial statements or within a parent company of the latter.

b) An entity is related to the entity which drafts the financial statements if any one of the following conditions is applicable:
   I) the entity and the entity which drafts the financial statements are part of the same group (which implies that each parent company, subsidiary and company of the group is related to the others);
   II) an entity is an associate or is part of a joint venture of another entity (or an associate or part of a joint venture which is part of the group to which the other entity belongs);
   III) both entities are joint ventures of the same third party counterparty;
   IV) an entity is part of a joint venture of another entity and the other entity is a related party of the latter entity;
   V) the entity is represented by a plan of benefits relative to the post-employment period and provided to employees of the entity which drafts the financial statements or of an entity related to the latter. If the entity which drafts the financial statements is also a plan of this type, even the employers which sponsor it are related to the entity which drafts the financial statements;
   VI) the entity is controlled or jointly controlled by a person identified under point a);
   VII) a person identified under point a) i) has a significant influence on the entity or is an executive with strategic responsibilities within the entity (or a parent company of the latter).

The statement of financial position and income statement relationships entered into during the year involving related parties are listed below:

	Assets	Liabilities	Guarantees issued	Guarantees received	Revenues	Costs
Subsidiaries	384,341	66,304	4,922	-	14,778	2,983
Associates	15,998	6,786	20	-	80	2
Directors and Executives	219	881	27	-	-	2,974
Other related parties	-	313	-	-	-	-
TOTAL	400,558	74,284	4,969	-	14,858	5,959

A transaction with a related party is a transaction which involves assuming risk assets as well as the transfer of resources, services or obligations between related parties, regardless of whether a compensation has been stipulated.

Relations and transactions implemented with related parties do not include any critical elements given that they are ascribable to ordinary credit and service activities.

During the course of the year, no atypical or unusual transactions were carried out with related parties which - due to their significance or amount - could have generated doubts in relation to the protection of company assets.

The screening process relative to loan requests from related parties follows the same process used to grant credit to other non-related counterparties with the same creditworthiness level. With regard to transactions with entities

that exercise administration, management and control functions within the Bank, Article 136 of Italian Legislative Decree385/1993 is applicable and, with regard to Directors, Article 2391 of the Italian Civil Code is applied. Transactions with related parties are regularly implemented under market conditions and, in any case, on the basis of evaluations of economic convenience and always in compliance with currently effective regulations, providing adequate justification of the reasons and justification to complete them.
In particular:

- executives with strategic responsibilities are subject to all the conditions reserved for personnel in general or pursuant to employment agreements;
- Directors and Statutory Auditors are subject to the conditions of clientele of analogous professional positions and standing.

Transactions with related parties do not have a significant incidence on the financial situation, economic result and cash flows of the Bank.
There were no allocations or losses for doubtful receivables relative to related parties recorded in the financial statements.
Only a collective write-down is applied to them.

PART I
PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

The Bank has not entered into any payment agreements based on own equity instruments.

PART L
SEGMENT REPORTING

The Bank is not required to fill out this section given that it is an unlisted intermediary nor does it issue widely distributed securities.

CASSA CENTRALE BANCA
CREDITO COOPERATIVO DEL NORD EST

Joint stock corporation
Registered office in Via Segantini, 5 – 38122 Trento
Tel. 0461 313111
Resolved share capital Euro 1,263,600,000.00, of which Euro 952,031,808.00 paid in
Register of Companies no. Tax Code and VAT no. 00232480228 - registered in the roll of banks - ABI code 03599
A member of the Cooperative Credit Depositors' Guarantee Fund and the National Guarantee Fund
Parent company of the Cassa Centrale Banca Banking Group

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