Financial Statements 2018

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

REPORT AND FINANCIAL STATEMENTS

FOR FISCAL YEAR 2018

Approved by the Ordinary Shareholders' Meeting on 4 April 2019

Registered Office and General Administration: Viale Antonio Gramsci, 34 – 50132 Florence
Administrative Offices: Piazza Giovanni XXIII, 6 – 50051 Castelfiorentino (Fi)
Registered in the Bank of Italy Banking Register at n. 5667
Corporate Capital € 232,800,000.00 fully paid-in
Registration number in the Register of Companies of Florence,
Fiscal code and VAT code: 02599341209
Member of the Gruppo Bancario Cambiano
Subject to Management and Coordination by Ente Cambiano S.c.p.a.

INDEX

NOTICE OF THE SHAREHOLDERS' MEETING

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

Notice of Shareholders' Meeting published in the Official Gazette of the Republic of Italy – II Section – Announcement sheet – Business Announcements – Notice of shareholders' meeting – n. 31 dated 14 March 2019

14-3-2019 Official Gazette of the Republic of Italy Announcement sheet n. 31

BANCA CAMBIANO 1884 S.p.A
Member of the Gruppo Bancario Cambiano
Subject to management and coordination by Ente Cambiano Scpa
Registered at n. 5667 of the Banking Registrar
Registered offices: viale Antonio Gramsci, 34 – 50132 Florence (FI), Italy
Share capital: € 232,800,000.00 fully paid-in
Register of companies: Firenze 02599341209
Administrative Economic Index (R.E.A.): Florence 648868
Fiscal code: 02599341209
VAT code: 02599341209

Notice of Ordinary Shareholders' Meeting

The Shareholders are hereby given notice of an ordinary shareholders' meeting, to be held at first calling at 5:30 p.m. on Wednesday 3 April 2019 in the meeting room of the registered office located in Florence, in Viale Antonio Gramsci n. 34 and, if necessary, at second calling, at 11:00 a.m. on THURSDAY 3 APRIL, same location, to discuss and vote on the following agenda:
1) Financial Statements at 31 December 2018 complete with the Director's Report on Operations, the Report of the Board of Statutory Auditors and the Report of the Independent Auditor; resolutions pertaining thereto and resulting there from;
2) The Bank's remuneration and incentive policies: (i) Annual report on the remuneration for managers, auditors, employees and collaborators not bound to the company by permanent employment contracts as per articles 10, letter g) and 27 of the Articles of Association; (ii) Remuneration and incentive policies for the 2019 fiscal year.
ATTENDANCE PROCEDURE
Shareholders are reminded that, in accordance with article 11 of the Articles of Association and the Regulations for shareholders' meetings:
a) A shareholder may be represented by another shareholder who is a physical person, unless the latter is a director, statutory auditor or employee of the company, pursuant to a written proxy specifying the name of the representative and if the signature of the delegating shareholder has been authenticated by the chairman, by members of the board or by a company employee authorized to do so by the Board of Directors, by a notary public or by any other public official authorized by law; the Board of Directors has given authorization to authenticate the signatures of delegating shareholders to all of General Management and all Branch Managers; the proxy to vote may also be assigned by means of an IT document undersigned electronically, in accordance with current laws in force and notified to the Company at the email address info@bancacambiano.it; every shareholder may receive no more than 15 proxies;
b) Shareholders whose shares are not deposited at the bank and who wish to attend the shareholders' meeting (also for the purpose of the complying with the provisions of the third sub-section of article 2370 of the Italian Civil Code) are required to file a document that demonstrates eligibility to attend and vote at the meeting, at the company's registered office at least two days prior to the date set for the meeting; shares may not be withdrawn before the end of the shareholder's meeting;
c) Attendance by means of communication from a distance is not provided for, pursuant to article 11 of the Articles of Association.

The Chairman of the Board of Directors
Paolo Regini

TX19AAA2502 (on payment).

CORPORATE AND SUPERVISORY OFFICERS

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

Corporate and Supervisory Officers

Board of Directors	
Chairman	*Paolo Regini*
Vice Chairman	*Enzo Anselmi*
Director	*Mauro Bagni* *
Director	*Giambattista Cataldi* **
Director	*Giovanni Martelli* **
Director	*Paolo Profeti* *
Director	*Giuseppe Salvi* *
Board of Statutory Auditors	
Chairman	*Stefano Sanna*
Acting Member	*Gaetano De Gregorio*
Acting Member	*Rita Ripamonti*
Alternate Member	*Edoardo Catelani*
Alternate Member	*Gianluca Musco*
General Managers	
Managing Director	*Francesco Bosio*
Vice Deputy Managing Director	*Bruno Chiecchio*
Vice Managing Director	*Giuliano Simoncini*
Independent Auditor	
	Baker Tilly Revisa S.p.A.

* Member of the Executive Committee

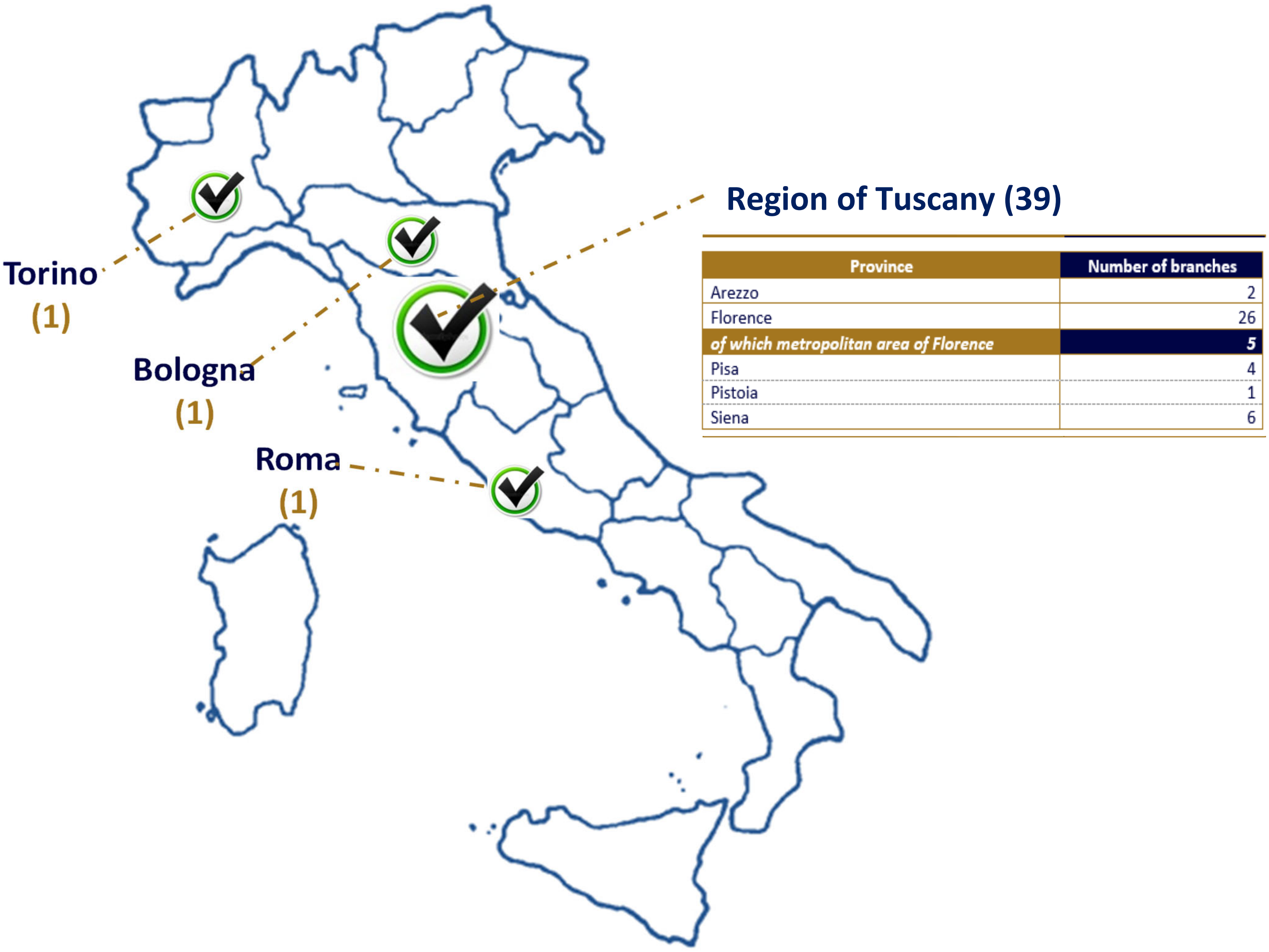
** Independent Member

BRANCH NETWORK

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

The network of branches of Banca Cambiano 1884 Spa comprises n. 42 branches, of which n. 39 in the original home locations in the region of Tuscany, and 3 located in Turin, Bologna and Rome.

Graph n. 1 – Network of branches of Banca Cambiano 1884 S.p.A.



Province	Number of branches
Arezzo	2
Florence	26
of which metropolitan area of Florence	*5*
Pisa	4
Pistoia	1
Siena	6

Territorial Area	% Lending	% Deposits	Tot. direct deposits	Lending / direct deposits
Region of Tuscany	94.52%	98.15%	93.30%	101.30%
Turin	1.04%	0.63%	2.91%	35.92%
Bologna	2.16%	1.03%	2.85%	75.81%
Rome	2.28%	0.20%	0.94%	242.46%
Total	**100.00%**	**100.00%**	**100.00%**	**97.61%**

TRANSITION TO THE NEW IFRS 9 ACCOUNTING PRINCIPLE

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

Introduction

The 2018 fiscal year was characterized by the transition to the new International accounting principles, which have had a not indifferent effect on bank financial statements and on the classification and evaluation of assets.

Specifically, we are referring to the IFRS 9 “Financial Instruments” accounting principle, which as of 1 January 2018, has substituted the provisions of IAS 39 “Financial Instruments: recognition and measurement”. The replacement process of IAS 39 was promoted by IASB, mainly to meet the concerns that emerged during the financial crisis regarding the promptness of recognition of losses in value on financial assets. IASB published the IFRS 9 on 24 July 2014 and the principle was approved by the European Union through publication in the European Union Official Gazette of (EU) Regulation n. 2016/2067 of 22 November 2016.

Further to IFRS 9, the new accounting principle **IFRS 15** [1] “Revenue from contracts with Customers” has also been added, replacing, again starting 1 January 2018, the principles IAS 18 “Revenues” and IAS 11 “Construction Contracts”, as well as the interpretations of IFRIC 13 “Customer Loyalty Program”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfer of Assets from Customers” and SIC 31 “Revenue – Barter transactions involving advertising services”. IASB published IFRS 15 on 28 May 2014 and it was approved by the European Union through the publication in the European Union Official Gazette or (EU) Regulation n. 2016/1905 of 22 September 2016.

As specified in Part A) of the Explanatory Notes, based on the analysis carried out by internal structures, the adoption of the IFRS 15 accounting principle does not seem to have affected current Bank assets and income.

Therefore, herein following, the details and comparisons between data as at 31 December 2017 and data as at 1 January 2018 will regard only the transition to IFRS 9 “Financial Instruments”.

The reconciliation tables provided following and the respective explanatory notes were audited by the Independent Auditor, Baker Tilly Revisa S.p.A.

In particular, considering the significant impact of the accounting principle in question (IFRS) on the Bank’s statement of accounts and on asset classification and measurement criteria, the Bank has already set up a specific project which, during 2017, involved all the Bank’s strategic functions.

Before starting an analysis of the contents and effects of IFRS 9, please note that, on a domestic level, by express provision of Legislative Decree n. 38/2005, in December 2017 Bank of Italy – maintaining the power to define accounting layouts and the information contained in Explanatory Notes - issued the 5th update of Circular n. 262 of 2005, entitled “Bank financial statements: layouts and preparation”.

[1] IFRS 15, born of a joint IASB-FASB project to revise and combine accounting principles regarding revenues, was issued by IASB in May 2014 and should have been applied to the financial statements opened on 1 January 2017; however, it’s approval (ref. EU Regulation 2016/1905), which took place only in September 2016, delayed it application to the 2018 financial statements.

The three pillars of IFRS 9

The IFRS 9 accounting principle rests on the following three main pillars:

1. Classification and Measurement, in which the accounting categories of the preceding IAS 39 principle as transformed into new categories, within the scope of which financial assets are classified and measured based on the Business Model, regarding both the objective characteristics of the assets and how the assets themselves are managed. How the categories are reconciled is illustrated graphically here following.

Category ex IAS 39 (surpassed)
Fair Value Through Profit and Loss (FVTPL – Valore di mercato con impatto a c/e)
Available For Sale (AFS – Disponibili per la Vendita)
Held To Maturity (HTM – Detenuti sino a Scadenza)
Loans & Receivables (L&R – Finanziamenti e Crediti)

Category ex IAS 39 (current)
Fair Value Through Profit and Loss (FVTPL – Valore di mercato con impatto a c/e)
Fair Value Other Comprehensive Income (FVOCI – Valore di mercato con impatto sulla redditività complessiva)
Amortised Cost (AC – Costo ammortizzato)

2. The impairment of asset value, where the "*Incurred loss*" model for estimation – based on the recognition of financial asset impairment losses only when a trigger event occurred – is replaced by the "*Expected Credit Loss*" model, based on the estimation of losses even before they actually occur. It is evident that this change to the reference paradigm is the rational basis for the release of the new accounting principle.
3. Hedge Accounting, the framework of which has been redefined with respect to the previous one, with the aim of better reflecting the risk management policies implemented by management within the scope of financial reporting. It is clear that, considering the vast scope of details provided in reporting by banking institutions, the benefit of this change is considered particularly useful as regards reporting by non financial institutions. Also seen from this perspective, on the matter of hedge accounting, and as specified in Part A of the Explanatory Notes, Banca Cambiano has taken advantage of the possibility, provided for during the transition to IFRS 9, to continue to fully apply the provision of the IAS 39 accounting principle, for all types of hedging.

Summary of effects of the first time adoption at 1st January 2018

The tables that follow illustrate the main accounting effects due to the transition from the IAS 39 accounting principle to the IFRS 9 accounting principle.

The Bank's **book shareholders' equity** dropped from 240.0 million euro to 165.4 million euro due to the aforementioned variations, chromatic evidence:

data in €/000	from IAS 39	Retained earnings					Valuation reserves		to IFRS 9
		Amortized cost			FLINE ITEMS	FVTPL			
	31/12/2017	FTA_impairment on receivables from customers at CA	FTA_impair-ment on HTC Securities	FTA_impair-ment on commitments and issued guarantees	FTA_impair-ment on HTCS Securities with OCI impact	FTA_reclassification Securities reserve from AFS to FVTPL	Reclassification Securities reserve AFS	Impairment HTCS Securities with OCI impact	01/01/2018
Shareholders' equity	240,047.5	- 74,609.4	- 79.7	- 2,405.9	- 797.4	- 253.2	2,651.6	797.4	165,350.9

As illustrated in the table above, the transition from an "Incurred loss" model to an "Expected Credit Loss" model on the main item of a bank statement of accounts (receivables from customers) has had a negative impact on retained earnings equal to 74.6 million euro; the detailed subdivision into *stages* of receivables is provided following, within the scope of the Bank's overall impairment losses, which latter increased from 167.7 million euro to 242.2 million euro.

data in €/000	from IAS 39					IFRS 9
	31/12/2017	Reclassification impairment losses on fin. assets "20 lett. c"	Receivables in bonis		Impaired receivables (NPL + UTP + PD)	01/01/2018
			Stage 1	Stage 2	Stage 3	
Impairment	167,686.6	- 54.4	2,320.5	2,698.7	69,590.2	242,241.7

The above-mentioned reduction of the Bank's shareholder's equity had not had a significant impact on the current volume of CET 1 and Own Funds and, therefore, on the capital adequacy ratios, as the Bank has taken advantage of the faculty provided for by the transitory provisions of EU Regulation 2017/2395 (the so-called "static approach"), which consists in an increasing participation, over a 5 year period, of the FTA amounts of IFRS 9 in the quantification of CET 1 (5% in 2018; 15% in 2019; 30% in 2020; 50% in 2021; 75% in 2022; 100% starting 2023). On this matter, with an eye to maintaining adequate capital surplus for prudential requirements, Cambiano **i)** has executed, during the year, the issue of a subordinate bond loan, for qualified investors only, for 45 million euro, eligible for inclusion in TIER 2, and **ii)** intends to proceed with a further enhancement of Own Funds starting in the second semester of 2019.
Having highlighted the effects on the main components of overall profitability, below are the reconciliation for assets and liabilities:

1. With data as at 31/12/2017, comparing the version of Circular 262 in force up to 31/12/2017 with the version that reflects the IFRS 9 accounting principle (5th update dated 22 December 2017, in force as of 01/01/2018)
2. With the effects of the transition to the International accounting principle in question between the contiguous closing and opening balance dates (31.12.2017 and 01.01.2018).

1.

Circular 262 version - in force up to 31/12/2017			Circular 262 version – 5th update dated 22/12/2017 (reflects the IFRS 9 principle, in force as of 1/01/2018)		
	Asset line items	**31/12/2017**		**Asset line items**	**31/12/2017 vs. IFRS9**
10	Cash and cash equivalents	11,736	10.	Cash and cash equivalents	11,736
20	Financial assets held for trading	25,470	20.	Financial assets measured at fair value with recognition of income effects	25,470
30	Financial assets measured at fair value	-		a) financial assets held for trading	25,470
40	Financial assets available for sale	534,580		b) financial assets measured at fair value	-
50	Financial assets held through maturity	-		c) other financial assets obligatorily measured at fair value	-
60	Receivables from banks	183,366	30.	Financial assets measured at fair value with impact on total profits	534,580
70	Receivables from customers	2,445,470	40.	Financial assets measured at amortized cost	2,628,835
				a) receivables from banks	183,366
				b) receivables from customers	2,445,470
80	Hedges	-	50.	Hedges	-
90	Adjustment of value of generic hedges for financial assets (+/-)	-	60.	Adjustment of value of generic hedges for financial assets (+/-)	-
100	Equity investments	37,855	70.	Equity investments	37,855
110	Property, plants and equipment	58,105	80.	Property, plants and equipment	58,105
120	Intangible assets	7,519	90.	Intangible assets	7,519
	of which:			of which:	-
	- goodwill	*6,975*		- goodwill	*6,975*
130	Tax receivables	27,030	100.	Tax receivables	27,030
	a) current	*5,418*		*a) current*	*5,418*
	b) pre-paid	*21,611*		*b) pre-paid*	*21,611*
	of which by law 214/2011	*19,343*			-
140	Noncurrent assets and groups of assets in the course of divestment	-	110.	Noncurrent assets and groups of assets in the course of divestment	-
150	Other assets	41,973	120.	Other assets	41,973
Total Assets		**3,373,103**	**Total Assets**		**3,373,103**

Circular 262 version – force up to 31/12/2017			Circular 262 Version – 5th update dated 22/12/2017 (reflects the IFRS 9 principle, in force as of 1/01/2018)		
	Liability line items and shareholders' equity	**31/12/2017**		**Liability line items and shareholders' equity**	**31/12/2017 vs. IFRS9**
10	Payables to banks	503,980	10.	Financial liabilities measured at amortized cost	3,061,398
20	Payables to customers	2,305,459		a) payables to banks	503,980
30	Outstanding securities	251,959		b) payables to customers	2,305,459
				c) outstanding securities	251,959
40	Financial liabilities from trading	80	20.	Financial liabilities from trading	80
50	Financial liabilities measured at fair value	-	30.	Financial liabilities measured at fair value	-
60	Hedges	769	40.	Hedges	769
70	Adjustment of value of generic hedges for financial liabilities (+/-)	-	50.	Adjustment of value of generic hedges for financial liabilities (+/-)	-
80	Tax liabilities	2,568	60.	Tax liabilities	2,568
	a) current	*276*		a) current	*276*
	b) deferred	*2,292*		b) deferred	*2,292*
90	Liabilities associated to assets in the course of divestment	-	70.	Liabilities associated to assets in the course of divestment	-
100	Other liabilities	64,482	80.	Other liabilities	64,482
110	Employee severance pay	3,682	90.	Employee severance pay	3,682
120	Risk and expense funds	75	100.	Risk and expense funds:	75
	a) pensions and similar commitments	-		a) commitments and issued guarantees	-
	b) other funds	*75*		b) pensions and similar commitments	-
				c) other risk and expense funds	*75*
130	Valuation reserves	- 1,481	110.	Valuation reserves	- 1,481
140	Redeemable shares	-	120.	Redeemable shares	-
150	Equity instruments	-	130.	Equity instruments	-
160	Reserves	3,425	140.	Reserves	3,425
170	Premiums on issue of new shares	803	150.	Premiums on issue of new shares	803
180	Share capital	232,800	160.	Share capital	232,800
190	Treasury shares (-)	-	170.	Treasury shares (-)	-
200	Fiscal year profit (loss) (+/-)	4,500	180.	Utile	4,500
Total liabilities and Shareholders' equity		**3,373,103**	**Total liabilities and Shareholders' equity**		**3,373,103**

2.

	Asset line items	31/12/2017	Adjustment FTA – Classification and measurement	Adjustment FTA - Impairment	01/01/2018
10.	Cash and cash equivalents	11,736	0	0	11,736
20.	Financial assets measured at fair value with recognition of income effects through profit and loss	25,470	30,263	0	55,732
	a) financial assets held for trading	*25,470*	*0*	*0*	*25,470*
	b) financial assets measured at fair value	*0*	*0*	*0*	*0*
	c) other financial assets obligatorily measured at fair value	*0*	*30,263*	*0*	*30,263*
30.	Financial assets measured at fair value with impact on total profits	534,580	-128,578	0	406,001
40.	Financial assets measured at amortized cost	2,628,835	102,024	-74,689	2,656,171
	a) receivables from banks	*183,366*	*0*	*0*	*183,366*
	b) receivables from customers	*2,445,470*	*102,024*	*-74,689*	*2,472,805*
50.	Hedges	0	0	0	0
60.	Adjustment of value of generic hedges for financial assets (+/-)	0	0	0	0
70.	Equity investments	37,855	0	0	37,855
80.	Property, plants and equipment	58,105	0	0	58,105
90.	Intangible assets	7,519	0	0	7,519
	of which:				
	- goodwill	*6,975*	*0*	*0*	*6,975*
100.	*Tax receivables*	27,030	-1,310	0	25,720
	a) current	*5,418*	*0*	*0*	*5,418*
	b) pre-paid	*21,611*	*-1,310*	*0*	*20,301*
110.	Noncurrent assets and groups of assets in the course of divestment	0	0	0	0
120.	Other assets	41,973	0	0	41,973
Total assets		**3,373,103**	**2,398**	**-74,689**	**3,300,812**

	Liability line items and shareholders' equity	31/12/2017	Adjustment FTA – Classification and measurement	Adjustment FTA - Impairment	01/01/2018
10.	Financial liabilities measured at amortized cost	3,061,398	0	0	3,061,398
	a) payables to banks	*503,980*	*0*	*0*	*503,980*
	b) payables to customers	*2,305,459*	*0*	*0*	*2,305,459*
	c) outstanding Securities	*251,959*	*0*	*0*	*251,959*
20.	Financial liabilities from trading	80	0	0	80
30.	Financial liabilities measured at fair value	0	0	0	0
40.	Hedges	769	0	0	769
50.	Adjustment of value of generic hedges for financial liabilities (+/-)	0	0	0	0
60.	Tax liabilities	2.568	0	0	2,568
	a) current	*276*	*0*	*0*	*276*
	b) deferred	*2.292*	*0*	*0*	*2,292*
70.	Liabilities associated to assets in the course of divestment	0	0	0	0
80.	Other liabilities	64,482	0	0	64,482
90.	Employee severance pay	3,682	0	0	3,682
100.	Risk and expense funds:	75	0	2,406	2,481
	a) commitments and issued guarantees	*0*	*0*	*2,406*	*2,406*
	b) pensions and similar commitments	*0*	*0*	*0*	*0*
	c) other risk and expense funds	*75*	*0*	*0*	*75*
110.	Valuation reserves	-1,481	2,652	797	1,968
120.	Redeemable shares	0	0	0	0
130.	Equity instruments	0	0	0	0
140.	Reserves	3,425	-253	-77,892	-74,720
150.	Premiums on issue of new shares	803	0	0	803
160.	Share capital	232,800	0	0	232,800
170.	Treasury shares (-)	0	0	0	0
180.	Profit	4,500	0	0	4,500
Total liabilities and shareholders' equity		**3,373,103**	**2,398**	**-74,689**	**3,300,812**

For further details regarding the variations that have ensued, subdivided into "Classification and measurement" and "Impairment", please consult the table in Part A of the Explanatory Notes.

REPORT ON MANAGEMENT

Concordia fratrum aedificabitur domus

Dear Shareholders,

the world economic growth continued through 2018, albeit in an erratic manner and with various signs of slowing down throughout the year, particularly manifest in the Euro zone.

In Europe, preoccupations regarding the economic slowdown, the change of government in Spain, tensions in Germany and France, and the complex negotiations between the European Union and the new Italian government regarding the budget law progressively added their weigh to the existing uncertainties tied to Brexit and to issues regarding how to handle immigration. The leading central banks continued to apply accommodative monetary policies, accompanied, however, by many signs of disempowering of fiscal stimuli (extension of the deadline for Quantitative Easing from September to December 2018 and reduction, starting in October, of the monthly purchase amount from 30 billion to 15 billion euro).

Within this context, the past year has marked a positive turning point for Banca Cambiano due to the important results achieved not only in terms of growth of the main aggregates, but also in terms of the perfection of a series of initiatives aimed at accelerating the Bank’s evolutionary process towards the “joint stock company bank” model and strengthening its competitive position and its capacity to attract customers on the capital market, also through a more incisive *de-risking* policy.

During the year in question, measures to increase internal efficiency continued to be implemented, involving the commitment and contribution of every Bank structure, with a positive outcome.

Worthy of note, among all the principle activities, is the transfer of impaired receivables in May 2018 – which lead to a significant reduction in the incidence of NPLs on total lending – and the issue of a subordinate bond loan for 45 million euro, placed entirely with qualified counterparties. The capital strengthening operation, in addition to representing the market’s acknowledgement of the Bank and it’s potentials, also allowed exercising an initial thrust on the process non performing loan reduction. Within this framework, the strategy for management of NPLs entailed an extraordinary intervention on provisions, carried out in 2018, in conjunction with the introduction of the new IFRS 9 accounting principle, and the transfer of a portfolio of impaired receivables, which is expected to be completed in 2019.

In summary, the Bank has laid the foundations to be able to continue its independent growth process, also thanks to an additional and decided improvement of the quality of its assets.

The Banks priorities are to maintain an adequate level of capitalization, consolidate traditional profitability and limit operating costs.

It is our belief that, once again, we are in a position to assert that the resources and energies that have been spend have laid a solid base from which to seize the opportunities for recovery that are, at this point, solid.

Following is the summary of results for the financial year, followed by greater details regarding management trends.

Main summary data

SUMMARY DATA AND INDEXES

data in €/000

	SUMMARY DATA AND ECONOMIC INDEXES	31/12/2018	31/12/2017	% variation / Delta
DATA	Interest income	63,004	47,750	31.95%
	Commission income	27,608	25,211	9.51%
	Operating income	90,359	76,646	17.89%
	Net income from financial assets	64,408	61,440	4.83%
	Total operating costs	59,618	55,213	7.98%
	of which personnel costs	26,210	24,728	5.99%
	of which other administrative costs	34,198	31,280	9.33%
	Net result for the fiscal year	3,500	4,500	-22.22%
INDEXES	Cost / Income (Operating costs / Operating income)	65.98%	72.04%	-6.06%
	Interest income / employees (average value)	169	135	24.87%
	Commission income / employees (average value)	74	71	3.64%
	Operating income / employees (average value)	242	217	11.57%

	SUMMARY DATA AND CAPITAL RATIOS	31/12/2018	31/12/2017	% variation / Delta
DATA	Total assets	3,765,459	3,373,103	11.63%
	Total risk-weighted assets (RWA)	2,117,497	1,923,548	10.08%
	Receivables from customers	2,488,318	2,445,470	1.75%
	of which non-performing loans	90,203	137,798	-34.54%
	Total financial assets	1,044,882	743,415	40.55%
	Overall deposits	3,807,443	3,283,299	15.96%
	of which overall direct deposits	2,840,547	2,557,418	11.07%
	of which overall indirect deposits	966,896	725,881	33.20%
	Shareholders' statutory equity	165,316	240,048	-31.13%
	Tier 1 capital (CET1)	230,882	232,247	-0.59%
	Total own funds	275,281	232,247	18.53%
INDICI	Lending / Overall direct deposits	99.11%	97.61%	1.50%
	CET1 ratio	10.90%	12.07%	-1.17%
	Tier 1 capital ratio	10.90%	12.07%	-1.17%
	Total capital ratio	13.00%	12.07%	0.93%
	Net non performing loans / Receivables from customers	3.63%	5.63%	-2.00%
	Receivables from customers / employees (average value)	6,671	6,928	-3.70%

	STRUCTURAL DATA	31/12/2018	31/12/2017	% variation
DATA	Employees (precise number)	388	365	6.30%
	Employees (average number)	373	353	5.67%
	Number of tellers	42	42	0.00%

The results illustrated above follow management actions centered on the quality of customer relations, on priority begin given to progressive growth in new territories and on enriching the range of products and offers for the market.

The combination "use of innovative technologies / quality of interpersonal contact structures" continues to be of primary importance in the Bank's investment decisions. The significant industrial investments made with Cabel Industry Spa are framed in this context: localization of the Oracle Flex Cube platform will mark a radical innovation in the Bank's information technology set up, with significant returns in terms of the optimization of production and sales processes.

Hence, the summary data account for the firm determination of Cambiano to pursue the objectives set forth in the Industrial Plan, in qualitative and quantitative terms, upholding a policy of unerring attention in the application of economic conditions to customers and consolidating the image of the Bank in its new role as joint stock company: that is, an institution capable of increasing the brokered volumes, the number of relations opened, strengthening its market position and rethinking the future in new terms.

Reference scenario

International scenario

The global economy has continued to grow, despite emerging signs of deterioration, of a cyclical nature, over the last months of 2018 in many advanced and emerging economies, in a context of negative global trading perspectives, especially due to tense geo-political issues, among which: the uncertain outcome of negotiations between USA and China, the worsening of financial strain in emerging countries and the process for orderly exit of Great Britain from the European Union, reduced following the rejection by a part of the British parliament of Premier May's proposed agreement.

Due to the change in forecasts, the GDP of main world economies was revised downward, as detailed in the table below.

Table n. 1– Comparison of GDP in world economies

ITEMS	Outlook 2017	Outlook 2018	Outlook 2019	Revised (1) 2018	Revised (1) 2019
GDP (2)					
World	**3.6**	**3.7**	**3.5**	**0.0**	**-0.2**
Advanced countries					
of which: Euro zone	2.5	1.9	1.8	-0.1	-0.1
Japan	1.7	0.9	1.0	-0.3	-0.2
United Kingdom	1.7	1.3	1.4	0.0	0.2
United States	2.2	2.9	2.7	0.0	0.0
Emerging countries					
of which: Brazil	1.0	1.2	2.1	0.0	-0.4
China	6.9	6.6	6.3	-0.1	-0.1
India (3)	6.7	7.5	7.3	-0.1	-0.1
Russia	1.5	1.6	1.5	-0.2	0.0
World trade (4)	**5.6**	**4.4**	**3.5**	**0.0**	-

Source: Bank of Italy calculation based on OCSE data and OECD Outlook of November 2018

The aforementioned uncertainties regarding the economic outlook affected international markets, which registered reductions in long-term yields and a depreciation of equity prices.

In the Euro Zone, industrial production registered significant drops, even in Germany and France, two countries known for being less exposed to such variations. On this point, the German economy was particularly affected by this complicated moment for the automobile industry, in the transition from diesel to hybrid/electric automobiles motors, while the French economy was affected by the drop in production caused by the long wave of strikes and demonstrations, some even violent, against the reforms decided by the parliament. The European economy that at the moment seems the most vibrant is the Spanish one which, despite a small slowdown, is held up by strong internal demand.

Inflation has dropped – although still in the positive value range – due to lower energy prices. The growth in the GDP of the leading European economies is summarized in the table below.

Table n. 2 – Comparison of GDP of European economies

Countries	Growth of GDP 2017	2nd quarter 2017 (1)	2nd quarter 2017 (1)	Inflation December 2018 (2)
France	2.2	0.2	0.3	1.9
Germany	2.2	0.5	-0.2	1.7
Italy	1.6	0.2	-0.1	1.2
Spain	3.0	0.6	0.6	1.2
Euro Zone Average(3)	2.4	0.4	0.2	1.6

Source: Bank of Italy Economic bulletin n. 1/2019

The perceived decreased solidity of the principle European economies had an impact on the exchange rates, and the euro registered a 2% decrease, confirmed by the net positions Euros/dollars of non commercial operators.

In this scenario, in order to sustain the fragile economic context described above, the board of directors of the ECB underlined its intention to continue keeping monetary stimulus high for a prolonged period of time. In particular, this will be achieved by:

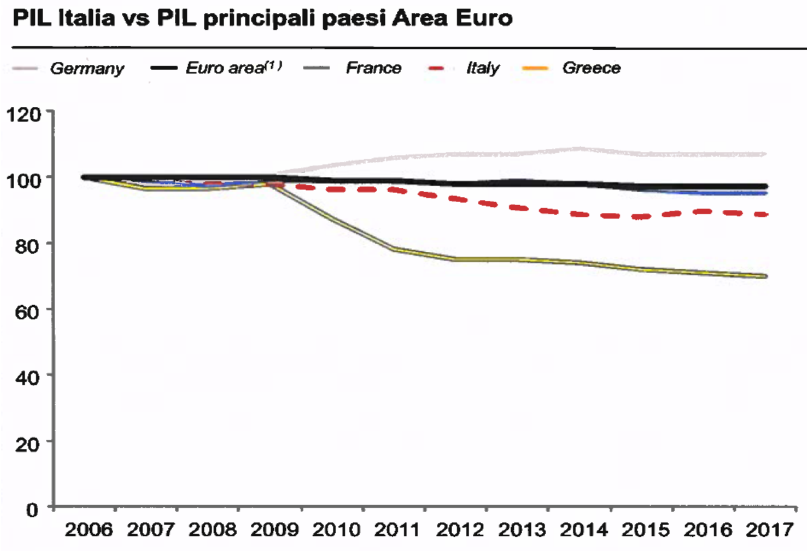
- Continued ECB reference rates;
- Fully reinvesting reimbursed capital on maturing securities;
- Carrying out Eurosystem funding transactions with fixed rate tenders with full allotment of the requested amount;
- Introducing a series of new longer term financing operations, also with incentives aimed at safeguarding favorable lending conditions.

Italian scenario

The Italian economic situation continues to be defined characterized by elements of fragility. Indeed, as compared to the principle European Union countries, Italy is the country, second only to Greece, that has suffered the most from the exceptional length of the recession that started in 2008, as also illustrated in the graph here below.

Graph n. 1 – Comparison of GDP among Euro Zone countries

Italian GDP vs GDP of leading Euro Zone countries



Source: Eurostat and Bank of Italy 2017 Annual Report.

In particular, Italy's economic recovery has continued almost uninterruptedly starting from the second quarter of 2013, although it was slower than that of leading European countries and of the Euro Zone average; instead, from the second half of 2018, it weakened further, due to a decrease in internal demand, investments and household spending.

The labor market is characterized by a decrease of the unemployment rate in the 10.2%-10.5% range of the work force, but employment levels continue to be lower than those in the Euro Zone.

To the contrary, Italian export trends were positive, showing favorable results despite the slowdown in global trade, which has, for now, negatively affected only the forecasts regarding the volume of foreign orders. These factors were followed by a still strongly positive balance on bank accounts, and an improvement in the domestic net foreign debt position, reduced to about 3% of the GDP.

Furthermore, starting mid-2018, the country was exposed to the additional unknown factor connected to the trend and volatility of the Italy Risk. The spread between bonds issued by the Italian government and German bonds actually increased, even significantly at some points, with direct repercussions on the national budget and indirect repercussions on that of credit institutions that invested, over time, a significant quota of their financial portfolios in multiannual treasury bonds, with a medium/long term residual duration. That being said, the increase in the differentials required on the risk of Italian bonds was in part mitigated by the agreement reached between the Italian government and the European Commission regarding budgetary plans.

As a result of the above observations, forecasts regarding growth in GDP were revised downward. For 2019, the estimated GDP is around 0.6%, instead of the previously estimated 1%. The table below illustrates the forecast for the 2019-2021 period.

Table n. 3 – Italy GDP forecasts

2019 GDP forecast	2020 GDP forecast	2021 GDP forecast
0.6%	0.9%	1.0%

Source: Bank of Italy Economic Bulletin n. 1/2019

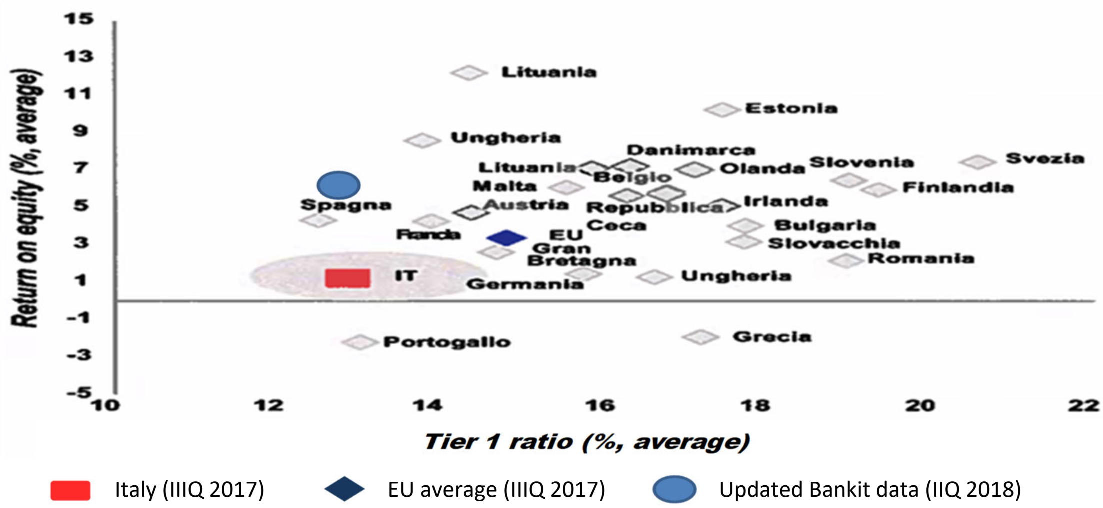
The Italian banking system

The Italian banking system is characterized by profound qualitative and quantitative changes in terms of down-sizing of operators, due to both the average management inefficiency of small-business institution and the heavy regulatory reforms at both a general system level and, particularly as regards cooperative credit institutions and so-called people's banks. In addition to the well-known crises undergone by banks subjected to resolution pursuant to the BRRD directive (Cassa di Risparmio di Ferrara, Cassa di Risparmio della Provincia di Chieti, Banca Popolare dell'Etruria e del Lazio and Banca Marche), or administrative compulsory liquidation (Veneto Banca and Popolare di Vicenza), the bank system was finally shaken by the so-called Banca Carige dossier of 8/01/2019, a significantly sized institution, with over 500 years of history, that "burned" recent capital increased for hundreds of millions.

That said, the areas in which the Italian banking system shows evident delays with respect to the averages of European counterparts, putting aside any considerations regarding the significant differences between productive systems and the social context of each country, regard (i) revenue; (ii) capital adequacy; (iii) the burden of impaired receivables.

As regards these areas of concern, the graphs below illustrate the levels of ROE revenue indicators, TIER1 ratio, cost/ income and NPL ratio, which show the positioning of Italian institutions with respect to European ones.

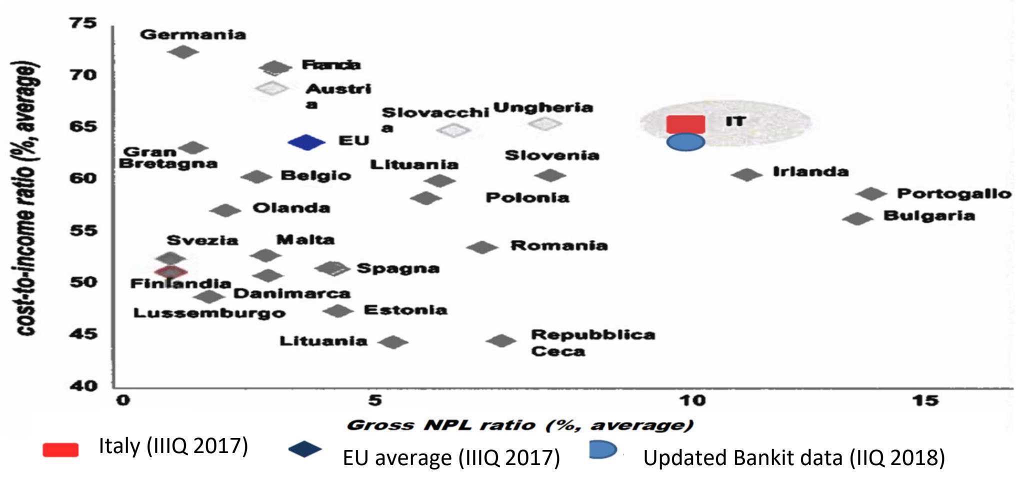
Graph n. 2 – Comparison of ROE and TIER1 ratio European institutions



Source: European Semester Country Report: Italy; Bank of Italy Bulletins

Hence, Italian credit institution are positioned in the lower section of the graph, showing lower revenue on invested capital than European competitors, despite a increase shown in quarterly 2018 data, an a modest Tier 1 ratio (Tier 1 / RWA).

Graph n. 3 – European institutes cost / income and NPL ratio comparison



Source: European Semester Country Report: Italy; Bank of Italy Bulletins

With reference to the second graph, the Italian average is in the high section of the graph, where *Cost/income*, also improved in the 2018 quarterly data, shows limited margins between operating income (so-called MINTER) and operating costs, as well as high levels of impaired receivables over total lending.

In particular, revenue (ROE and Cost/income) is devalued principally by limited commission income (services and overall indirect deposits) with respect to operating income, which continues to suffer of the anomalous trend of reference rates. As regards the cost component, Italian banks still have an excessive territorial presence and a high number of resources, which lead to decreased productivity indicators, especially with respect to European banks which, in terms of size and investments, are better integrated in services to customers through advanced IT technologies (so-called *fintech area*).

As regards the incidence of impaired receivables, the average level for Italian banks is greater than the current European averages and also of the benchmark levels defined by the ECB.

Indeed, as regards this aspect, the ECB first of all focused its general policies in requiring minimum levels, automatic on passing of time, to cover NPL, and then later identified strict NPL ratio targets to be met within 2021.

Due to the latter provision, during 2018 the banking system has had to revise its management strategies for impaired receivables, shifting towards market sale, with derecognition of the receivable in its book, instead of factoring a "patient valorization" of assets. This change in strategic direction has broadened the range of receivables subject to FTA in the IFRS 9 accounting principle, to fill in the hedges deriving from the decrease in expected recovery, squashed by the overriding need to transfer NPLs in order to meet the ceilings dictated by the European Supervisory Authority.

Despite such critical elements, not without significant weight on bank operations due to the main lending component, the Italian banking system is much less exposed than other EU countries to derivative risk; a risk to which little attention has been paid as yet, at a European Community level.

Lastly, as regards "micro-economic" information, also based on data provided by the industry Association (ABI), it is noted that in terms of banking system, for Italian banks:

- The trend of dynamics regarding overall direct deposits was slightly negative, with specific divergences between the trend of deposits (on the rise) and that of overall bond deposits, the latter characterized by redemptions not adequately replaced by new issues;
- The growth in lending was supported by an increase in loans to businesses and families and, in particular, as regards the latter, by consumer loans and home mortgage loans.

Strategic development of the financial year

During the financial year in question, our Bank continued to be engaged in an intense technical and organizational repositioning stage, aimed at creating internal conditions favorable for growth that is both sustainable and coherent with the new role as joint stock company (SpA), also in view of greater attractiveness for capital markets.

Hence, 2018 was characterized by actions focused on commercial development and realignment of the operational machine, also as referred to the integration of management and business processes with the directly controlled product and instrumental companies.

With the entry into force of the IFRS 9 accounting principle, the projects started during the previous financial years were followed-up on, involving all the Bank's strategic functions, considering the pervasive effects of the new accounting system on the bank financial statements and on the criteria for asset classification and measurement.

As regards NPLs, the Bank enacted a series of interventions that move in the direction indicated by both Italian and European vigilance authorities, in the new guidelines for the management of impaired receivables, including the NPS transfer transactions perfected in May 2018 and the definition of a more incisive derisking policy, to significantly reduce the incidence of impaired receivables, also seizing the opportunities offered to the system by the application of the First Time Adoption (FTA) permitted by the new IFRS 9 accounting principle.

Moreover, the financial year saw the finalizing of a first operation aimed at strengthening the capital structure, through the issue of a subordinate bond loan for a total of 45 million euro, which represented an important milestone for the Bank also in terms of market recognition.

Within the context set forth above, the principle significant events that took place during the last financial year that, as already mentioned, represents a "turning point" due to the numerous new initiatives, are detailed following.

<u>Industrial Plan and rationale for the revision of the 2017-2019 economic-financial forecasts</u>

The Industrial Plan of Gruppo Cambiano for the 2017-2019 three year period (hereinafter also referred to as the "Way out Plan") was drafted in June 2016 and transmitted to the Vigilance Authority with the request for authorization for the "way out" operation, in accordance with article 2, sub-section 3-bis of Italian Legislative Decree n. 18 of 14 February 2016, based on which the bank business of former BCC Cambiano was transferred to former Banca AGCI, and a new Bank Group was configured in accordance with article 60 and subsequent of the Italian Consolidated Banking Act.

In this Plan, the decisions made by the Bank were centered on pursuing the medium-to-long term objectives set forth below:

- *adjustment of the management technical balance to the operational logic of a joint stock company bank*, by means of actions aimed at increasing margins through the adoption of pricing policies in line with the model of a joint stock company bank and the enrichment of the product catalogue, especially in terms of financial and investment services, the payment system, and system for placement of pension/insurance products etc.;
- *strengthening the brand and market positioning*, by revamping the managerial approach and the business model, as made necessary by the evolution of management paradigms entailed in the passage from a cooperative credit institution to a joint stock company bank, interested in attracting new investors to its equity financing; in this respect, particular value is attributed to corporate communications to the market, in order to transfer the innovative contents of the mission pursued by Banca Cambiano 1884, and also to promote, especially in urban markets, the corporate style and rules of transparency;
- *access to the capital market,* by reaching sound levels of revenue and capital strength, such as to allow planning market transactions for share capital increases and attracting new investors.

The combination of multiple factors both exogenous and endogenous to the Bank and the Group lead to the need to rethink the timing and implementation methods for the measures defined in the 2017-2019 Industrial Plan; consequently, the Board of Directors – while confirming the validity of the objectives and strategic levers contained in the original program – approved the updated economic and financial forecasts for the 2018-2020 three year period, which have taken into account the finalization of the NPL transfer transaction that took place in May 2018 (cfr *infra*), and the structuring of a capital strengthening operation by means of financial instruments that may be allotted to Tier 2, for 45 million euro (cfr *infra*).

The new forecasts, that cover the 2018-2020 three year period, confirm the decision to continue to create a development process aimed at autonomy and growth as the strategic objective, coherently with the previous Plan, with the perspective of favoring condition for sustainable development, in line with the expectations of capital markets.

The process that has been mapped out entails a program for development that is based on repositioning the business model according to operational logic that is closer to that of a joint stock company bank, on an infrastructural platform that is both functional and continuously evolving, on human capital that is motivated and suited to the new requirements, on a Group structure that is simplified and centered on the Bank for core processes, and on a solid capital base with adequate liquidity.

The final figures for 2018 show that the main objectives set for 2018 were reached, in terms of capital strengthening and increasing the Total Capital Ratio (that went from 12.07% to 13.00%), of asset quality (with a reduction in the gross NPL Ratio from 16.80% to 13.61% and of the net NPL Ration from 11.27% to 7.67%). Revenue from typical operations, net of cost of credit, increased (+4.83%), contributing to a reduction of the cost/income ratio (-6.06%) which, coherently with the pursued objective, is progressively closer to the average of the principle competitors.

The decisions made in December 2018 regarding the de-risking policy and the perimeter of receivables to be transferred with the scope of IFRS 9, lead to the need, at the beginning of 2019, to revise the risk objectives defined in the RAF and to define a multiyear capital management plan.

Tier 2 Subordinate Loan

In the second semester of 2018, the Bank perfected the placement of a un subordinate bond loan for 45 million euro (Banca Cambiano 1884 S.p.A. 28/06/2018 - 28/06/2025 4.00% fixed rate, Subordinate *Tier II* Load Code n. 480), with a 7 year maturity and call option for the Issuer regarding advance redemption at 5 years. The subordinate bonds – with a unit value of 100 thousand euro – have a 4% fixed rate of return. The issue, entirely placed on the market of qualified investors, in accordance with Consob Regulation n. 20307/2018, includes the Tier 2 subordination clause.

The transaction, which was completed in December 2018, is part of the capital strengthening plan decided by the Board of Directors at the beginning of the financial year, with the aim of bringing prudential coefficients progressively closer to the levels registered before payment to the Revenue Office of the “amount” required for the way-out, and considering the developments under way as regards accounting and prudential regulations (IFRS 9, "prudential filters ", capital conservation buffer, *etc*.).

The NPL Operational Plan and transfer of impaired receivables

At the beginning of 2018, a project named “*Strategy for Management of NPLs and process guidelines in view of results*” (so-called “NPL Project”) was launched and lead to the definition of the NPL Operational Plan, transmitted to Bank of Italy in September 2018.

The document – in compliance with the “*Guidelines to banks on non-performing loans*”, published by the ECB in March 2017, and with the “*Guidelines to Less Significant Italian banks on management of impaired receivables*”, published by Bank of Italy in January 2018 – defines the target for NPL reduction and optimization, as well as the procedures through which the Bank aims to reach said targets, identifying the scope of the process for management of impaired receivables on which the Bank intends to intervene within end of 2019.

The Plan confirms the priority of the internal management of credit collection, however providing for a significant transfer of impaired receivables, in order to accelerate the thrust towards the objectives outlined in the Industrial Plan.

During the financial year, the Bank finalized the transfer without recourse of a portfolio of impaired receivables equal to 93.5 million euro, to an investor specialized in the sector, against net payment of 28.6 million euro (approximately 30.6%). The transfer transaction was coherent with the hypothesized transfer scenarios in terms of the estimated expected losses on first application of the new IFRS 9 accounting principle (First Time Adoption). The percent amount of the payment received, which is among the highest on the market of this type of transaction for the period, is an additional confirmation of the quality of impaired receivables included in the NPLs.

Overall, the scope of the residual portfolio of impaired receivables to be transferred is approximately 107 million euro, with a benefit of about 4 percentage points on the gross NPL ratio as at 31/12/2018 which, upon completion of such transactions, would, already in 2019, meet the levels expected by the Vigilance Authority.

Coherently with the breadth of the scope of impaired receivables to be transferred, during the first months of 2019 the review of the 2019-2000 strategic and risk objectives was begun and the capital management measures that the Bank intends to take during the transitory phase-in period were outlined; the correlated economic-financial forecasts were developed only for 2019 within the budgeting process.

Relations with Authorities

With notice dated 4 December 2018, Bank of Italy started the inspection visits pursuant to article 68 of Italian Legislative Decree n. 385/1993, within the scope of ordinary scheduling of inspections.

The inspection was still underway as at the date the statement of accounts was drawn up and we expect an outcome that substantially confirms the company’s technical situation.

Furthermore, between 05/12/2018 and 07/12/2018 the Bank underwent an assessment of the adequacy of management procedures for loans assigned as guarantee of Eurosystem credit transactions, in accordance with article 32, sub-section 2 of the Framework Agreement on guarantees for Eurosystem financing operations on the part of Bank of Italy. The result of the inspections was notified on 21 February 2019, attesting to the adequacy of the process and indicating specific margins for improvement. The required response regarding the measures taken or that will be taken is currently being prepared.

Shareholdings

During the year, the Bank did not modify the structure and investment in own shares, which are represented by the controlled companies Cabel Leasing Spa and Immobiliare 1884 Srl – which are both, therefore, a part of the Cambiano Banking Group – and by two companies of the Cabel Network (Cabel Holding Spa and Cabel Industry Spa). The share positions are summarized in the table below:

Table n. 4 – Shares

SHARES						
data in €/000						
Name	31/12/2018		31/12/2017		Variations	% variation
	% share capital held	Book value	% share capital held	Book value		
1. Cabel Leasing s.p.a.	52.00%	10,117	52.00%	9,781	336	3.43%
2. Cabel Holding s.p.a.	49.60%	21,518	49.60%	21,088	430	2.04%
3. Cabel Industry s.p.a.	18.00%	1,927	18.00%	1,986	-59	-2.99%
4. Immobiliare 1884 s.r.l.	100.00%	10,000	100.00%	5,000	5,000	99.99%
Total		43,561		37,855	5,706	15.07%

Please note that the increase in share capital in Immobiliare 1884 S.r.l. – founded, as known, in November 2017 as a strategic lever to speed up/maximize recovery of impaired receivables and increase efficiency in the management of the Group's real estate holdings – is connected to the 5 million euro capital increase executed on 27 September 2018 with the aim of providing the company with the necessary financial means to carry out programmed activities.

The variations registered in the other share holdings regard the changes in their shareholders' equity for capitalization of the 2017 financial year results approved in the respective Shareholders' Meetings and, therefore, of the respective shares held by the Bank.

As regards the controlled company Cabel Leasing S.p.A., also due to its strategic importance as a product vehicle, please note that the net profit for the 2017 financial year was equal to 766 thousand euro, with 4.1% ROE, while for the 2018 financial year the net profit estimated in the Draft Budget (see annexed schedules) is equal to 241 thousand euro, with a 1.24% ROE.

As regards the share holdings in the Cabel Network – Cabel Holding S.p.A. and Cabel Industry S.p.A – the partnership with Oracle, and the project for Cabel Industry SpA to localize the Oracle Flexcube Universal Banking platform (the most widely used banking software in the world) and provide interface services for the Italian market have proceeded as scheduled. In particular, in June 2018 the new platform became operational for the first Italian bank.

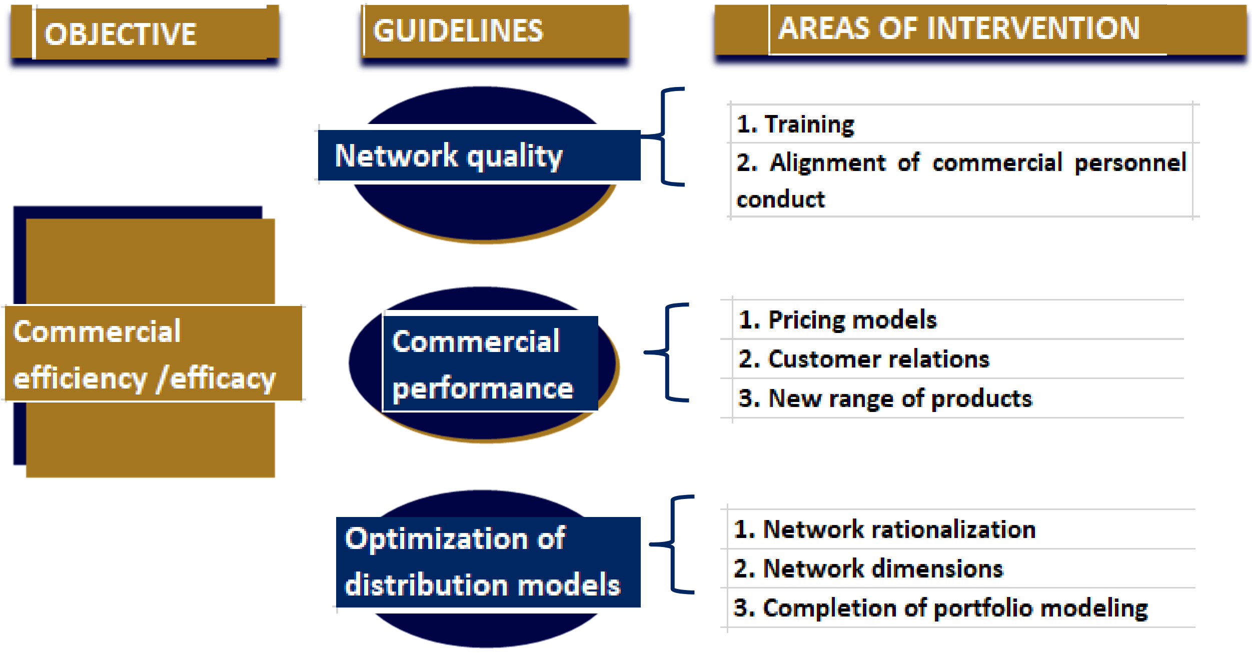
Commercial policies

Commercial strategy

In 2018, in line with the objectives set forth in the 2018-2020 Industrial Plan, the Bank continued to develop its product offering along the strategic lines outlined in the "way out" plan, continuing the revision of distribution policies based on the new business model, as well as strengthening its presence in core territories and confirming support to families and businesses.

Hence, in 2018, coherently with the drivers to rationalize the commercial process (shown in figure n. 1), the Bank focused its utmost attention on interventions aimed at: i) improving the quality of the network through numerous training interventions; ii) increasing performance by specializing products and services aimed at bringing the Banks offering closer to the various needs of target customers, as well as continuously monitoring the progress towards meeting the objectives assigned to the various Branches; iii) optimizing the distribution models by maximizing the efficiency and efficacy of the network, supported and reinforced by new channels and innovative sales methods.

Figure n. 1 – Criteria for rationalization of the commercial process



In accordance with the strategic guidelines, the development and innovation of the Bank's multi-channel model continued, through a series of interventions aimed at further increasing integration between the physical network and the electronic channel used as an instrument to carry out transactions and provide information and offers to customers that is both innovative and with great added value. In particular, attention continued to be focused on electronic channels, considered an indispensable instrument to provide customers with the information they need, in a timely and precise manner, especially as regards new operational aspects deriving from new the provisions resulting from the introduction of the PSD2 regulation relating to the complete revision of previous directives for payment services.

From an organizational point of view, the Bank's commercial presence is ensured across five territorial areas with 42 branches/agencies. The network is supported by a *Development Team*, organized by type of customer, retail and corporate, with the aim of increasing customer satisfaction and incentivizing the creation of new relations.

Main interventions in 2018

The activities and projects currently underway and those begun and completed during the year, have allowed registering positive results across all the customer segments.

Below are the most important observations regarding the various Bank business areas:

In terms of organization: in the Sales Department, the staff in the Marketing and Product Development Office was increased by hiring a resource to support development in the overall managed deposits area; also, scheduled meetings with the network of branches were intensified, to constantly monitor the progress being made towards meeting assigned objectives and to give value to suggestions made by the network, which tend to ensure that results reflect the local scenario.

As regards commercial development: the objectives for the commercial plan were set, as always based on an analysis of the positioning of each branch and a complete examination of the respective clientele; orientation factors were subdivided by customer macro-categories:

- Businesses/Corporate sector: the lending structure was examined in order to establish the product offer that best corresponds to the development logic of businesses, along with the aim of repositioning the duration of economic lending and focus on the technical forms of lending that result in a more limited capital absorption. In terms of sector composition, the main Ateco lending sectors were analyzed and evaluated with respect to the system trend, analysis of the credit risk, yield and deterioration indexes.
- Private/Retail sector: the product and services offer was increased in order to better meet the needs of every customer segment. Greater attention was given to the customer segment that is most sensitive to the use of new technologies, developing the implementation of specific services for that segment.

Branch profit and loss account and internal transfer rates

During 2018, the Bank kept the criteria adopted the previous year as regards the definition of internal transfer rates, while however carrying out a more detailed data analysis aimed at determining the profit and loss account per branch.

Product catalogue

In line with the objective set forth in the Industrial Plan, the range of products and services was increased, creating a greater distinction by channel and continuing to move farther away from a "product-centered" business logic and closer to a "customer-centered" logic to consolidate our presence on the markets and improve customer relations, aiming at high standards in terms of services offered, also by partnering with third party companies that are sector leaders.

Therefore, in 2018, the range of our offering (lending products and overall deposits) was enriched by the addition of:

- The "Sale of physical investment gold" product: aimed at all customers, both retail and corporate, in various volumes in order to be accessible to all customer segments. Also, a product formula for overall indirect deposits was provided, through the undersigning of accumulation plans in gold;
- *Personal loans:* (1) an agreement was undersigned with a qualified operator for the distribution of the product inherent to the product "*loans against one fifth of salary",* in

order to meet diverse customer needs in terms of financeable amounts and flexible amortization plans; (2) an three-year agreement was signed with an operator who is a leader in the consumer loans market, in order to offer Bank customers the numerous products offered by the broker, including installment payments and the innovative "PagoDIL" solution that allows deferring loan payments;

- *The Card with "CPago" Iban code*: an easy-to-use and convenient pre-paid, rechargeable debit card with an IBAN code. This is the ideal card to withdraw cash and make purchases anywhere in the world, including online, with a fixed fee, no surprises. A unique tool with the flexibility of a current account, always ready on hand for use. This product was launched in December 2018, and was an immediate success;
- *Asset management products for overall indirect deposits*: new products were developed in collaboration with partner insurance companies, some of which placed in combination with the Bank's overall indirect deposit products, in order to promote diversified investment solutions.

In line with the objectives of improving branch productivity ratios and economic contribution, while enriching the product catalogue, attention was also given to developing fee-based revenue sources, to supplement those tied to asset management, in order to increase the positive effect of the commercial measures on operating income with respect to interest income.

As regards overall indirect deposits, the ongoing interaction between Sales Management and the main "product houses" continued, in order to create products best suited to customer profiles, as is done for "internal" products.

Among the activities related to overall direct deposits, the increase, although contained, in volumes is worth of note, despite the measures implemented during the year to reduce the cost of overall deposits and realign with market rates.

The savings accounts and certificates of deposit continue to be the leading products in terms of acquiring new overall deposits and maintaining existing positions, in line with market strategies characterized by an increase in competitive pressure within the banking system.

As regards lending, in 2018 the financing activity aimed mainly at families continued; despite external data regarding the difficult economic situation, there was a significant increase in home purchase mortgage loans and, as regards the entire sector, the average rate of return did not vary.

The table below illustrates the positive results achieved in 2018 terms of commercial development and market positioning in the territories of reference.

Table n. 5 – Market shares on deposits

MARKET SHARES ON DEPOSITS			
Territorial area	**31/12/2018**	**31/12/2017**	**Delta %**
Region of Tuscany	**3.10%**	**3.14%**	**-1.00%**
Total Province of Florence	**7.45%**	**7.49%**	**-0.47%**
BARBERINO VAL D'ELSA (*)	24.36%	26.92%	-9.53%
GAMBASSI TERME (*)	12.18%	12.57%	-3.09%
FIGLINE E INCISA VALDARNO	2.99%	3.26%	-8.35%

MARKET SHARES ON DEPOSITS			
Territorial area	**31/12/2018**	**31/12/2017**	**Delta %**
CASTELFIORENTINO	66.81%	80.96%	-17.48%
CERRETO GUIDI	26.72%	24.11%	10.83%
CERTALDO	52.42%	52.18%	0.47%
EMPOLI	29.72%	30.07%	-1.17%
FIRENZE	3.22%	3.16%	2.03%
FUCECCHIO	19.60%	18.94%	3.48%
GREVE IN CHIANTI	6.54%	4.04%	62.03%
MONTAIONE	43.91%	42.49%	3.35%
MONTELUPO FIORENTINO	26.60%	31.70%	-16.08%
MONTESPERTOLI	36.88%	38.26%	-3.61%
SCANDICCI	10.11%	8.55%	18.34%
SESTO FIORENTINO	1.27%	1.06%	20.25%
TAVARNELLE VAL DI PESA	6.78%	7.93%	-14.57%
VINCI	24.06%	24.86%	-3.23%
Total Province of Arezzo	**0.52%**	**0.28%**	**84.16%**
AREZZO	0.50%	0.23%	116.02%
SAN GIOVANNI VALDARNO	5.07%	3.01%	68.56%
Total Province of Pisa	**1.32%**	**1.64%**	**-19.51%**
CASTELFRANCO DI SOTTO	33.72%	50.57%	-33.32%
SAN MINIATO	3.58%	3.66%	-2.13%
Total Province of Pistoia	**0.80%**	**1.29%**	**-37.95%**
PISTOIA	1.96%	3.20%	-38.75%
Total Province of Siena	**3.20%**	**3.33%**	**-3.88%**
CASTELLINA IN CHIANTI	35.84%	34.38%	4.23%
COLLE DI VAL D'ELSA	16.53%	18.45%	-10.43%
POGGIBONSI	25.58%	28.16%	-9.14%
SAN GIMIGNANO	30.62%	31.41%	-2.50%
Metropolitan city of Turin	**0.18%**	**0.15%**	**16.67%**
Metropolitan city of Bologna	**0.18%**	**0.27%**	**-32.21%**
Metropolitan city of Rome	**0.01%**	**0.01%**	**71.43%**
Total Italian banking system	**0.15%**	**0.15%**	**-1.33%**

The data trend must be correlated to the significant increase registered in overall indirect deposits / managed assets / insurance shown below.

Table n. 6 – Market shares on lending

MARKET SHARES ON LENDING			
Territorial area	**31/12/2018**	**31/12/2017**	**Delta %**
Region of Tuscany	**2.17%**	**2.10%**	**0.07%**
Total Province of Florence	**3.69%**	**3.61%**	**0.08%**
BARBERINO VAL D'ELSA (*)	26.10%	25.91%	0.19%
GAMBASSI TERME (*)	10.42%	11.94%	-1.52%
FIGLINE E INCISA VALDARNO	7.02%	6.15%	0.87%
CASTELFIORENTINO	58.06%	63.21%	-5.14%
CERRETO GUIDI	20.09%	19.15%	0.95%
CERTALDO	32.80%	35.22%	-2.42%
EMPOLI	22.61%	19.21%	3.41%
FIRENZE	1.02%	0.90%	0.12%
FUCECCHIO	14.62%	16.04%	-1.42%
GREVE IN CHIANTI	11.99%	7.49%	4.50%
MONTAIONE	39.45%	43.52%	-4.07%

MONTELUPO FIORENTINO	22.86%	23.18%	-0.33%
MONTESPERTOLI	37.29%	40.66%	-3.37%
SCANDICCI	8.78%	9.75%	-0.98%
SESTO FIORENTINO	1.70%	1.25%	0.45%
TAVARNELLE VAL DI PESA	13.71%	15.99%	-2.28%
VINCI	18.84%	17.23%	1.62%
Total Province of Arezzo	**1.42%**	**0.81%**	**0.60%**
AREZZO	1.16%	0.36%	0.81%
SAN GIOVANNI VALDARNO	12.43%	9.65%	2.78%
Total Province of Pisa	**1.37%**	**1.30%**	**0.07%**
CASTELFRANCO DI SOTTO	38.58%	35.14%	3.44%
SAN MINIATO	5.97%	5.15%	0.82%
Total Province of Pistoia	**1.90%**	**1.85%**	**0.06%**
PISTOIA	4.20%	4.11%	0.10%
Total Province of Siena	**2.14%**	**2.54%**	**-0.39%**
CASTELLINA IN CHIANTI	26.75%	25.35%	1.41%
COLLE DI VAL D'ELSA	17.20%	18.57%	-1.37%
POGGIBONSI	18.33%	18.25%	0.08%
SAN GIMIGNANO	23.65%	24.08%	-0.43%
Metropolitan city of Turin	**0.10%**	**0.04%**	**0.06%**
Metropolitan city of Bologna	**0.39%**	**0.22%**	**0.17%**
Metropolitan city of Rome	**0.02%**	**0.02%**	**0.00%**
Total Italian banking system	**0.15%**	**0.14%**	**0.01%**

The overall value showing market shares substantially unvaried is to be taken as balance value net of returns on installment transactions that took place during the financial year for over 175 million euro.

Credit and financial brokerage

In 2018, the Bank continued its historic vocation of supporting local industry in the territories of reference. This decision was pursued by offering products, services and conditions suited to market needs and coherently with controlling the risk levels associated to lending activities.

The development of the Bank's credit and financial brokerage activities is shown following, illustrated and commented through the principle aggregates and trends, comparing data at 31 December 2018 and 2017.

Overall deposits, direct deposit and indirect funding

Table n. 7 – Overall deposits

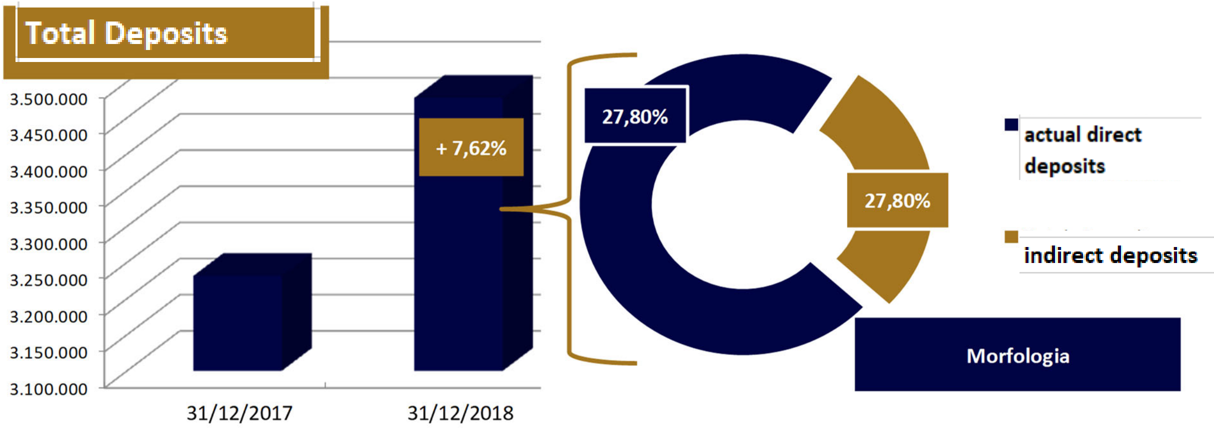
OVERALL DEPOSITS				
data in €/000				
Description	**31/12/2018**	**31/12/2017**	**Variation**	**% variation**
Payables to customers	2,649,018	2,305,459	343,559	14.90%
Outstanding securities	191,529	251,959	-60,430	-23.98%
Total overall direct deposits	2,840,547	2,557,418	283,129	11.07%
of which overall direct deposits with counterparties (e.g. CC&G)	329,887	51,943	277,944	535.09%
Total overall ordinary direct deposits	**2,510,660**	**2,505,474**	**5,186**	**0.21%**
Indirect - Administered[2]	506,486	388,483	118,003	30.38%
Indirect – Funds	47,730	38,883	8,847	22.75%
Indirect - GPM	13,601	16,351	-2,750	-16.82%
Indirect – Insurance sector	399,078	282,164	116,914	41.43%
Total overall indirect deposits	**966,896**	**725,881**	**241,014**	**33.20%**
Total overall deposits	**3,477,556**	**3,231,356**	**246,200**	**7,62%**

Types of transactions/values	**31/12/2018**	**31/12/2017**	**Variation**	**% variation**
1. Current accounts	1,933,796	1,899,970	33,826	1.78%
2. Deposits	55,417	60,149	-4,731	-7.87%
3. Time deposits	315,452	293,397	22,055	7.52%
4. Liabilities referred to transferred assets	-	-	-	-
5. Repo with ordinary customers	14,466	-	14,466	-
6. Deposit certificates	763	2,396	-1,633	-68.16%
7. Securities	190,766	249,563	-58,797	-23.56%
Total overall ordinary deposits	**2,510,660**	**2,505,474**	**5,186**	**0.21%**
8. Repo with Clearinghouse and Guaranty Fund	322,850	39,936	282,914	708.43%
9. Funding from Deposits and Loan Fund	7,038	12,008	-4,970	-41.39%
Total other overall direct deposits	**329,887**	**51,943**	**277,944**	**535.09%**
Total (book value)	**2,840,547**	**2,557,418**	**283,129**	**11.07%**

Total overall deposits (direct, administered and insurance) at December 2018 was 3,477 million euro, as compared to December 2017 (Euro 3.2 billion) with an increase of 246 million euro (+ 7.62%).

[2] The indirect administered overall deposits for the two periods also includes dossier n. 042892 relative to the parent company Ente Cambiano scpa, containing the Bank's share holdings for 215.5 million euro.

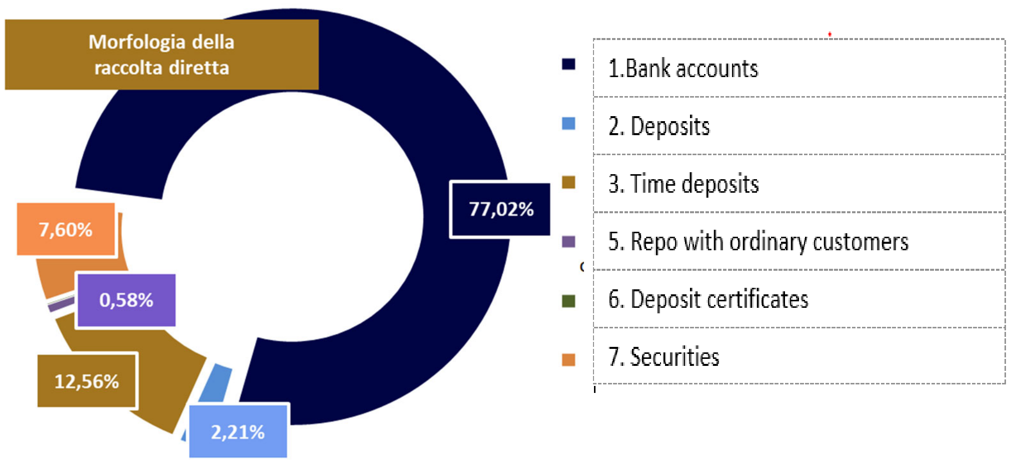
Graph n. 4 – Overall deposits



In detail, overall direct deposits increased across all components, although at different rates due to the management decisions made by the Bank. In fact, with respect to so-called ordinary overall direct deposits, which increased by 0.21% (+5.2 million euro), greater increases were registered by overall deposits with institutional counterparties (+277.9 million euro), the latter reinforced in order to provide adequate support to lending policies (liquidity profile) and to increase the so-called "economic fork" between lending and overall deposits and thereby reduce the average cost of borrowing tied to the specific parties involved (e.g. Deposits and Loans Fund).

The graph illustrating the breakdown of overall direct deposits, showing the preponderance of current accounts (77.02% of the total, with a 1.78% increase) is provided below.

Graph n. 5 – The breakdown of overall direct deposits

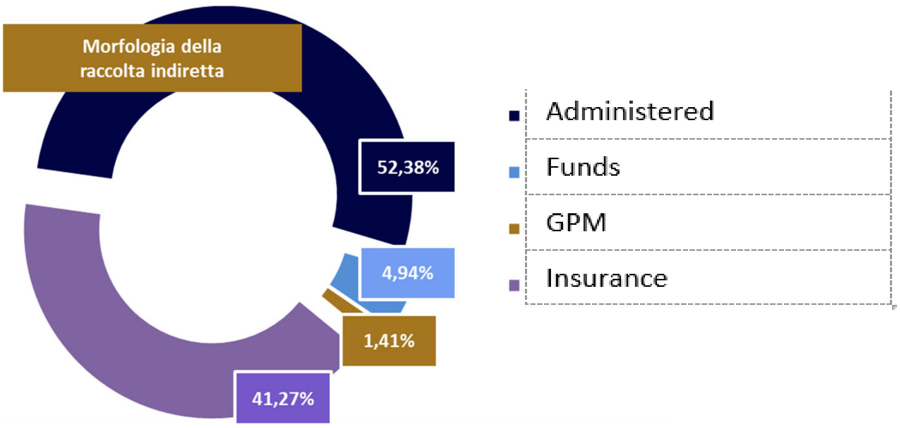


The total of overall indirect deposits was 966.9 million euro, marking an increase of 241.0 million euro (+ 33.20% with respect to 2017), more than in line with the strategies set forth in the current Industrial Plan for 2018-2020.

The above important result was reached by further enriching the range of products offered for the sector which, as always, were offered to customers in line with risk profiles, as the Bank continues to favor sound customer relations based on trust and, as such, long-standing. Within this corporate perspective of risk aversion, the product selection and structure has favored products that have among their main features that of not being sensitive to rate dynamics, of having a guaranteed capital and yield assumptions at the best market levels. In particular, as regards dynamic asset management, the Bank consolidated its partnering with leading market operators, adding to the roster our Gp Plus: a range of asset management solutions structured in cooperation with the subsidiary Invest Banca and BlackRock IShares.

The current breakdown of overall indirect deposits is illustrated below.

Graph n. 6 – Breakdown of overall indirect deposits



Lending

At the end of December 2018, receivables from customers, net of doubtful loans, amounted to 2,488.3 million euro, an increase of 42.8 million with respect to the 2017 data (+1.75%). The most significant variation – filtered of the lending component constituted by Poste Italiane S.p.a. (post accounts), the C.C.&G. fund and the special purpose vehicle society for the securitization transaction (Pontormo RMBS) – was registered by lending to ordinary customers, and was equal to 2,473.5 million euro, an increase with respect to the previous year's data (2,420.2 million euro), of 2.20%.

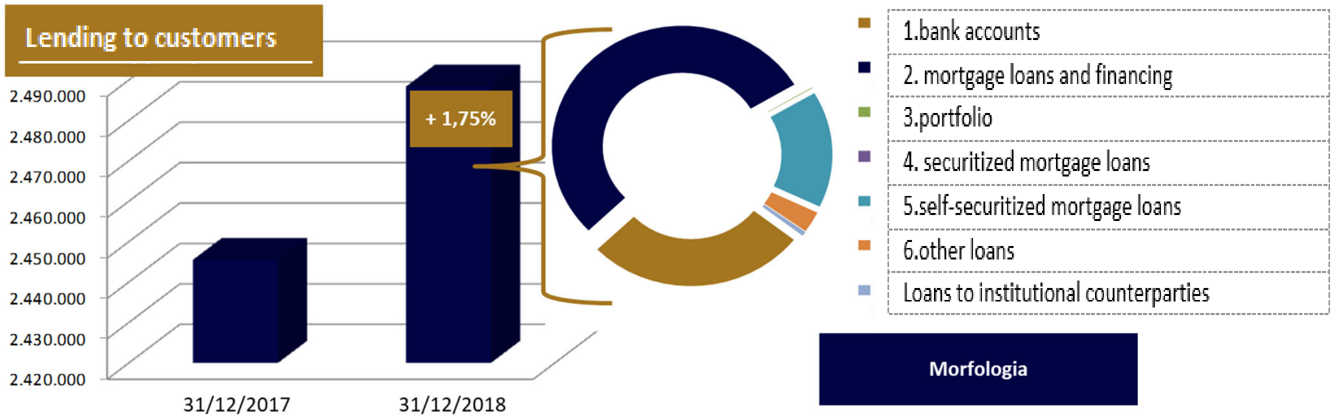
Table n. 8 – Economic lending to customers

LENDING				
data in €/000				
Type of transaction/values	**31/12/2018**	**31/12/2017**	**Absolute var.**	**% Var.**
1. Bank accounts	671,481	546,123	125,358	22.95%
2. Mortgage loans and financing	1,325,187	1,223,921	101,266	8.27%
3. Portfolio	2,477	5,808	- 3,331	-57.36%
4. Securitized mortgage loans	-	-	-	
5. Self-securitized mortgage loans	385,021	447,355	- 62,333	-13.93%
6. Other financing	70,179	101,198	- 31,019	-30.65%
7. Gross non-performing loans	199,927	263,482	- 63,555	-24.12%
8. Write-downs on non-performing loans	- 109,679	- 125,684	16,005	-12.73%
9. Overall write-downs	- 71,095	- 42,003	- 29,092	69.26%
Total net effective economic lending to customers	**2,473,498**	**2,420,200**	**53,298**	**2.20%**
10. Receivables from Pontormo RMBS	9,953	23,827	- 13,874	-58.23%
11. Receivables from Poste Italiane S.p.A.	196	284	- 88	-30.92%
12. Receivables from C.C. & G. Fund	4,671	1,159	3,512	303.02%

LENDING				
data in €/000				
Type of transaction/values	**31/12/2018**	**31/12/2017**	**Absolute var.**	**% Var.**
13. Receivables from Deposits and Loan Fund	-	-	-	
Total other net economic lending	**14,820**	**25,270**	**- 10,450**	**-41.35%**
Total economic lending	**2,488,318**	**2,445,470**	**42,848**	**1.75%**
Receivables from customers – HTC Securities	**227,742**	**-**	**227,742**	
Total balance sheet item 40.b Receivables from customers	**2,716,060**	**2,445,470**	**270,590**	**11.06%**

Detailed data from the table above are illustrated in graph form below.

Graph n. 7 – Net economic lending



At 31 December 2018, the indicator for lending on overall direct deposits was equal to 99.11%, an increase with respect to the value as at end of 2017 (97.61%).

The analysis of the breakdown by residual life on Bank lending illustrated below shows that, in line with previous years, the Bank prudentially prefers granting shorter terms loans to businesses, while for the private sector (families) – also due to the weight of home mortgage loans – the amortization plans are broader.

Table n. 9 – Medium and long-term lending by residual life

Type of customer	Residual life					
	0-5 years	5-10 years	10-15 years	15-20 years	20-25 years	Over 25 years
Businesses / Other	**37.7%**	**27.1%**	**23.2%**	**7.3%**	**3.8%**	**0.9%**
Private	**7.3%**	**14.2%**	**19.8%**	**28.5%**	**19.0%**	**11.2%**
Total	**23.3%**	**21.0%**	**21.6%**	**17.3%**	**11.0%**	**5.8%**

During 2018, the Bank continued its policy of ensuring loans to businesses and families in the territory of reference, in order to both contribute to supporting development and to keep the savings generated in the area. The Bank also continued credit al location activities, reinforcing agreements with the main Credit Consortia in the areas of reference, and further developing collaborations with local associations.

On this point, the breakdown of economic lending by economic sector of reference is illustrated in the table below.

Table n. 10 – Lending by economic sector

LENDING BY ECONOMIC SECTOR			
Sector of reference	31/12/2018	31/12/2017	Delta %
A AGRICULTURE, FORESTRY AND FISHING	**4.10%**	**4.20%**	**-0.10%**
B MINING AND QUARRYING PRODUCTS	**0.70%**	**0.80%**	**-0.10%**
C MANUFACTURING PRODUCTS	**28.60%**	**26.30%**	**2.30%**
10 FOOD INDUSTRY	3.30%	3.50%	-0.20%
11 BEVERAGES INDUSTRY	0.30%	0.30%	0.00%
12 TOBACCO INDUSTRY	0		0
13 TEXTILE INDUSTRY	1.40%	1.40%	0.00%
14 WEARING APPAREL INCLUDING LEATHER AND FUR	1.00%	1.30%	-0.30%
15 LEATHER AND RELATED ITEMS	3.00%	3.00%	0.00%
16 WOOD AND WOOD AND CORK PRODUCTS (EXCLUDING FURNITURE); ARTICLES MADE OF STRAW AND PLAITING MATERIALS	1.10%	1.10%	0.00%
17 PAPER AND PAPER PRODUCTS	2.10%	1.90%	0.20%
18 PRINTING AND REPRODUCTION OF RECORDED MEDIA	0.40%	0.40%	0.00%
19 COKE AND REFINED PETROLEUM PRODUCTS	0		0
20 CHEMICAL PRODUCTS	0.50%	0.50%	0.00%
21 BASIC PHARMACEUTICAL PRODUCTS AND PHARMACEUTICAL PREPARATIONS	0.10%	0.10%	0.00%
22 RUBBER AND PLASTIC PRODUCTS	1.50%	1.30%	0.20%
23 OTHER NON-METALLIC PRODUCTS	1.10%	1.00%	0.10%
24 METAL PRODUCTS	2.20%	0.90%	1.30%
25 METAL PRODUCTS (EXCLUSING MACHINERY AND EQUIPMENT)	3.10%	2.70%	0.40%
26 COMPUTER, ELECTRONIC AND OPTICAL PRODUCTS; ELECTRO-MEDICAL AND MEASURING EQUIPMENT, WATCHES AND CLOCKS	0.50%	0.60%	-0.10%
27 ELECTRICAL EQUIPMENT AND NON-ELECTRIC DOMESTIC APPLIANCES	0.50%	0.60%	-0.10%
28 MACHINERY AND EQUIPMENT N.E,C,	1.80%	2.00%	-0.20%
29 MOTOR VEHICLES, TRAILERS, SEMI-TRAILERS	0.10%	0.10%	0.00%
30 OTHER TRANSPORT VEHICLES	0.00%	0.00%	0.00%
31 FURNITURE MANUFACTURING	0.70%	0.80%	-0.10%
32 OTHER MANUFACTURING INDUSTRIES	3.40%	2.30%	1.10%
33 REPAIR, MAINTENANCE AND INSTALLATION OF MACHINERY AND EQUIPMENT	0.80%	0.70%	0.10%
D ELECTRICITY, GAS, STEAM AND AIR-CONDITIONING SUPPLY	**1.30%**	**1.10%**	**0.20%**
E WATER SUPPLY; SEWAGE SYSTEMS, WASTE MANAGEMENT AND REMEDIATION PRODUCTS	**1.20%**	**0.90%**	**0.30%**
F BUILDING INDUSTRY	**11.50%**	**12.50%**	**-1.00%**
G WHOLESALE AND RETAIL SALES AND MOTOR VEHICLE AND MOTORCYCLE REPAIRS	**19.40%**	**19.90%**	**-0.50%**
H TRANSPORT AND STORAGE	**2.00%**	**1.90%**	**0.10%**
I ACCOMODATION AND RESTAURANT SERVICES	**6.70%**	**6.40%**	**0.30%**
J INFORMATION AND COMMUNICATION SERVICES	**1.10%**	**1.10%**	**0.00%**

LENDING BY ECONOMIC SECTOR			
Sector of reference	31/12/2018	31/12/2017	Delta %
K FINANCIAL AND INSURANCE ACTIVITIES	0.00%	0.00%	0.00%
L REAL ESTATE ACTIVITIES	13.60%	16.20%	-2.60%
M PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	4.30%	3.90%	0.40%
N RENTAL SERVICES, TRAVEL AGENCIES, BUSINESS SUPPORT SERVICES	2.10%	1.70%	0.40%
O PUBLIC ADMINISTRATION AND DEFENSE, OBLIGATORY SOCIAL INSURANCE	0.00%	0.00%	0.00%
P SCHOOLING	0.30%	0.20%	0.10%
Q HEALTHCARE AND SOCIAL SERVICES	1.60%	1.30%	0.30%
R ARTS, SPORTS, ENTERTAINEMENT AND RECREATION	0.60%	0.70%	-0.10%
S OTHER SERVICES	0.90%	1.00%	-0.10%
T FAMILY AND HOUSEHOLD ACTIVITIES, SUCH AS EMPLOYERS OF DOMESTIC HELP; PRODUCTION OF UNDIVERSIFIED GOODS AND SERVICES FOR PERSONAL USE ON BEHALF OF FAMILIES AND HOUSEHOLDS	0.00%	0.00%	0.00%
U ORGANIZATIONS AND ORGANISMS OUTSIDE THE TERRITORY	0.00%	0.00%	0.00%
TOTAL	100.00%	100.00%	

The Bank continued to reap the positive effects correlated to the agreement stipulated with the E.I.F. (European Investment Fund), which provides for the issue of guaranty coverage for loans destined to innovation initiatives. These are operations assisted by the "InnovFin" European Community guarantee facility issued by the European Investment Fund, with financial support from the European Union as per the terms defined within the scope of the Horizon 2020 program and the European Fund for Strategic Investments (EFSI).

These funds are to be deployed by eligible banks that meet specific size requirements and have organizational intents and set-up coherent with an orientation to research, development and innovation. The operational opportunities that derive from this convention are significant; in 2018 loans covered by InnovFin guaranty were issued for a total of €14 million, with additional transactions in the preliminary stages for €3.3 million, which allowed reaching a total of €58.6 million, basically equal to the originally set overall ceiling.

The potential for development in this sector is important and also supported by the fact that our Bank is among the few at a national level admitted into the agreement, after close assessment on the part of the EIF. This is, for us, a further acknowledgement of our recognized professional quality.

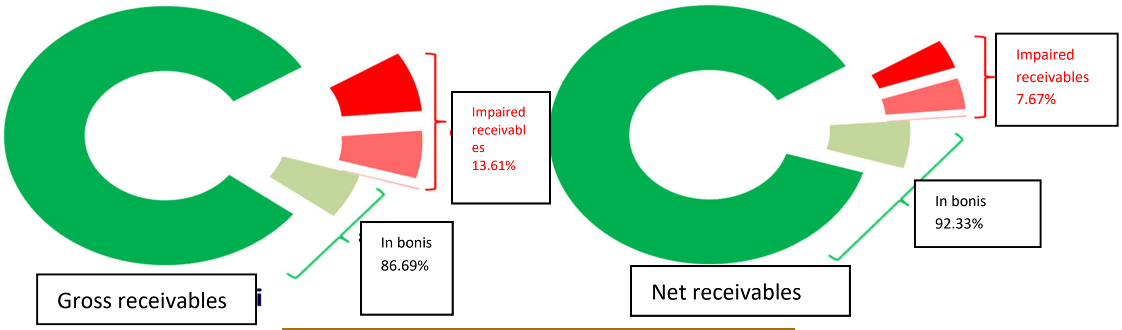
Banca Cambiano was also selected to underwrite the AGRI FEI product for enterprises in the agricultural primary sectors, again with a convention with the European Investment Fund. Based on activities currently under way, both on the basis of further micro-analyses carried out territorially and as a result of ordinary EIF Innovfin operations and the new AGRI FEI line, there appear to be ample margins for growth in customer volumes (in terms of number of relations and of value) in the metropolitan areas of reference (Florence, Turin, Bologna and Rome).

Credit quality

Before entering into a detailed analysis of the quality of the Bank's credit, it is necessary to illustrate the breakdown of receivables from customers measured at amortized cost according to the staging provided for in the impairment test of the International IFRS 9 accounting principle, effective as of 1 January 2018, as already mentioned.

Specifically, the previous accounting principle (IAS 39) was based on the so-called *incurred losses* model, which means that impairment losses on financial assets were recognized only when a *trigger event* occurred. Instead, with IFRS 9 the applied model is the so-called *expected losses* model, based on which losses are estimated before they actually take place. Receivables in bonis are those included in stages 1 and *2*, while impaired receivables are classified in stage 3.

Graph n. 8 – Staging of receivables from customers



STAGING OF RECEIVABLES FROM CUSTOMERS					
Description		Graph color	Gross exposure	Overall adjustments and Provisioning	Net exposure
Impaired	Stage 3: NPL		199.881.351	109.678.699	90.202.652
	Stage 3: UTP		158.277.690	62.004.517	96.273.173
	Stage 3: Outstanding		5.190.601	728.188	4.462.413
Bonis	Stage 2		150.472.637	2.629.104	147.843.532
	Stage 1		2.155.269.136	5.733.226	2.149.535.911
Totale			2.669.091.415	180.773.733	2.488.317.681

Given the above, and even more so in view of the economic context that is still very fragile, the Bank focus particularly on monitoring credit risk, both during credit granting and during management and control activities.

Starting in the previous financial year, the "*NPL area*" was created, reporting directly back to General Management, with the specific function of monitoring and managing sector assets, in order to better safeguard Bank values.

In line with ECB Guidelines regarding NPLs for so-called less significant banks, as well as with the forecasts set down by Vigilance in terms of the target Gross NPL ratio (gross incidence of NPLs), the Bank raised its asset quality objectives even higher.

Based on this strategic input, during 2018, the NPL area supported:

- The definition of the perimeter of impaired receivables to be transferred which, within the scope of the IFRS 9 accounting principle, allows allocating losses deriving from the first application (FTA) of the aforementioned accounting principle directly to equity, based on the regulations of the transitory stage (so-called *phase in*), provided that said losses are not closely connected to "ordinary" recovery forecasts;

- Preliminary activities related to rafting the NPL self-assessment document, which contains an analysis of the inflows and outflows in the non-performing loans categories, the dynamics of irregular performing positions, duration of default or overdraft, the success rates and re-default rates of the measures granted, as well as various views of recovery rates vis-à-vis non-performing loans;
- The issue of an Operational Plan regarding NPLs for the period 2018-2021, containing, among other things, the strategic options and organizational interventions implemented to reach the target results;
- The structuring and execution of the transfer with derecognition of receivables from an NPL portfolio with a GBV of about 93.5 million euro (with an average hedge of 57.6% and 69.4%, respectively pre and post FTA of IFRS9), at a price of 28.6 million Euro. The percent price of 30.5% of the GBV is at the top of the market benchmarks, with an approximation of achievable only by structuring costly securitizations within the GACS scheme (government guaranty on senior notes).

The careful governance implement by Bank management on credit quality find their pay-back in the levels reached by principal segment indicators and by their trends, even as compared to the averages for the banking system.

The table below contains the summarized data.

Table n. 11 –Credit quality indexes

CREDIT QUALITY INDEXES			
	31/12/2018	31/12/2017	Delta
% OF NET RECEIVABLES			
% Net non-performing loans on total net receivables	3.63%	5.63%	-2.01%
% Net watchlist on total net receivables	3.87%	5.06%	-1.19%
% Gross overdue/overdrawn accounts on total net receivables	0.18%	0.58%	-0.40%
% Total net impaired receivables on total net receivables	7.67%	11.27%	-3.60%
% OF GROSS RECEIVABLES			
% Gross non-performing loans on total gross receivables	7.49%	10.08%	-2.59%
% Gross watchlist on total gross receivables	5.93%	6.12%	-0.19%
% Gross overdue/overdrawn accounts on total gross receivables	0.19%	0.60%	-0.40%
% Total impaired receivables on total gross receivables	13.61%	16.80%	-3.19%
% OF HEDGES			
% Hedges on non-performing loans	54.87%	47.70%	7.17%
% Hedges on other impaired receivables	38.38%	21.49%	16.89%
% Hedges on total impaired receivables	47.45%	37.22%	10.23%
% Hedges on receivables in bonis	0.36%	0.20%	0.17%

As may be deduced from the table above the Bank's asset quality is characterized by:

- An incidence of gross impaired receivables of 13.6%, lower than the 13.9% calculated in June 2018 for the whole of so-called less significant banks (cfr. Report on financial stability n. 2 of November 2018 issued by Bank of Italy)
- Increasing credit hedges, + 717 bp on non-performing loans and + 1.023 bp on overall impaired receivables.

Property, plants and equipment and intangible assets

Property, plants and equipment intangible assets show a slight decrease in 2018 and, therefore, their incidence on total assets must also be reduced.

The most significant variation refers to the goodwill item, which dropped to 2.1 million Euro due to the results of the impairment test. For details regarding this aspect, please consult the respective section in the Explanatory Notes.

Table n. 12 – Property, plants and equipment and intangible assets

PROPERTY, PLANTS AND EQUIPMENT AND INTANGIBLE ASSETs			
data in €/000	**31/12/2018**	**31/12/2017**	**% variation**
Properties used in operations	42,896	43,057	-0.38%
Properties held for investment	-	-	-
Other property, plants and equipment	14,644	15,048	-2.69%
Total property, plants and equipment	**57,539**	**58,105**	**-0.97%**
Goodwill	4,825	6,975	-30.83%
Other intangible assets	580	545	6.47%
Total intangible assets	**5,404**	**7,519**	**-28.13%**

Incidence of property, plants and equipment total assets	1.53%	1.72%	-0.19%
Incidence of intangible assets on total assets	0.14%	0.22%	-0.08%

Book shareholders' equity

At the end of 2018, book shareholders' equity was equal to 165.3 million Euro, compared to 240 million Euro as at 31/12/2017 (see the table below), reduced by the substantial reserve from FTA for the IFRS 9 accounting principle (77.9 million Euro), the calculation of which is connected to strategic decisions to contain the weight of NPLs by transferring them to third parties.

Table n. 13 – Breakdown of statutory equity

BREAKDOWN OF STATUTORY EQUITY			
data in €/000	**31/12/2018**	**31/12/2017**	**% variation**
Capital	232,800	232,800	0.00%
Premiums on issue of new shares	803	803	0.00%
Reserves	-70,220	3,425	-2.149.93%
(Treasury shares)	-	-	-
Valuation reserves	-1,567	-1,481	5.81%
Fiscal year profit (loss)	3,500	4,500	-22.22%

BREAKDOWN OF STATUTORY EQUITY			
data in €/000	31/12/2018	31/12/2017	% variation
Total shareholders' statutory equity	165.316	240.048	-31.13%

	31/12/2018	31/12/2017	% variation
Shareholders' equity / Overall direct deposits ordinary customers	6.58%	9.58%	-3.00%
Shareholders' equity / Receivables from ordinary customers	6.68%	9.92%	-3.24%
Shareholders' equity / Total assets	4.39%	7.12%	-2.73%

Income trend

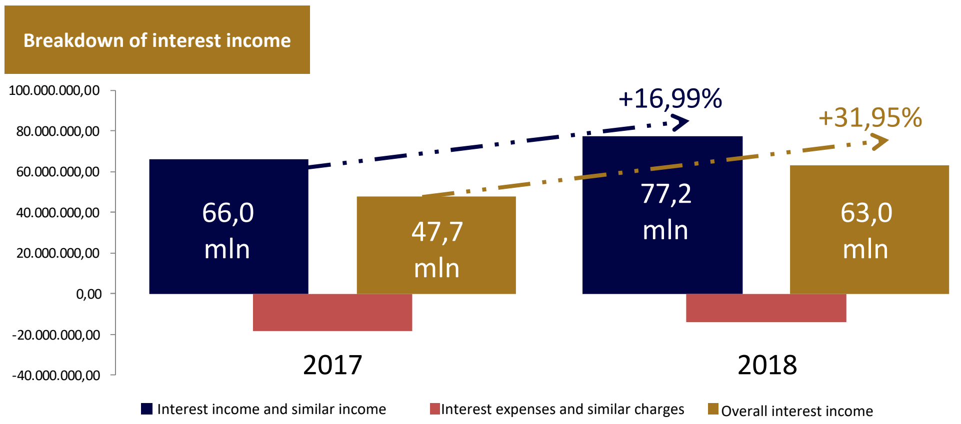
The 2018 fiscal year closed with a net profit of 3.5 million Euro.

The principle economic aggregates as at 31 December 2018 are provided here following, compared to 2017 data.

Interest income

Interest income, for a total of 63 million Euro, showed an increase of 31.95%, albeit in a market context of negative short-term interest rates and compression of the spreads applied by the Bank. Within this economic context, the increase in interest income is mainly a result of the increased volumes of loans.

Graph n. 9 – Breakdown of interest income



As regards interest expenses, the Bank continued to contain the average cost of overall deposits. Furthermore, the 2018 fiscal year reaps the entire bonus related to TLTRO with the ECB (479 million Euro) and deriving from having reached the growth objective for eligible lending (PMI), with a resulting overall impact on interest income equal to approximately 4.9 million Euro (0.40% of said lending over a period of about two and a half years). Had it been possible to "spread" the bonus in question by year of competence – not possible for revenue that is uncertain until the aforementioned growth objectives were reached – the interest income would have been equal to approximately 60 million Euro, with a still significant increase as compared to 2017 of approximately +20.72% .

As may be seen in the table below, the data expressed in general terms become even more evident in the breakdown of interest income where the "with customers" line items clearly show the impact of the maneuvers to increase lending and contain the cost of overall deposits.

Table n. 14 – Interest income

	INTEREST INCOME			
	data in €/000	31/12/2018	31/12/2017	% variation
TOTAL	Earned interest and similar income	77,240	66,026	16.98%
	Interest expenses and similar expenses	14,236	18,276	-22.11%
	Overall interest income	**63,004**	**47,750**	**31.95%**
With CUSTOMERS	Earned interest and similar income	67,461	62,602	7.76%
	Interest expenses and similar expenses	7,177	9,563	-24.95%
	Interest income with customers	**60,284**	**53,039**	**13.66%**
With BANKS	Earned interest and similar income	685	347	97.66%
	Interest expenses and similar expenses	382	188	103.58%
	Interest income with the banking system	**303**	**159**	**90.67%**
On SECURITIES	Earned interest and similar income	3,632	2,781	30.61%
	Interest expenses and similar expenses	6,127	7,916	-22.61%
	Interest income on securities	**-2,495**	**-5,136**	**-51.42%**
OTHER	Earned interest and similar income	5,462	297	1741.26%
	Interest expenses and similar expenses	550	609	-9.67%
	Residual interest income	**4,912**	**-312**	**-1672.38%**

Commission income

Commission income as at 31 December 2018 was equal to 27.6 million Euro, with an increase of 9.51% as compared to the previous fiscal year.

Table n. 15 – Commission income

	COMMISSION INCOME			
	data in €/000	31/12/2018	31/12/2017	% variation
TOTAL	Commission income	30,109	27,281	10.37%
	Commission expenses	-2,501	-2,070	20.83%
	Overall commission income	**27,608**	**25,211**	**9.51%**
From management, brokerage and consulting services	Commission income	1,751	1,325	32.13%
	Commission expenses	-331	-193	70.95%
	Commission income	**1,421**	**1,132**	**25.50%**
From distribution of third party services	Commission income	3,840	1,689	127.37%
	Commission income	**3,840**	**1,689**	**127.37%**
From collection and payment services	Commission income	7,018	6,787	3.40%
	Commission expenses	-1,540	-1,518	1.43%

	COMMISSION INCOME			
	data in €/000	31/12/2018	31/12/2017	% variation
	Commission income	**5,478**	**5,269**	**3.97%**

From other services	Commission income	17,499	17,479	0.11%
	Commission expenses	-630	-358	75.99%
	Commission income	**16,869**	**17,121**	**-1.47%**

The increase of commission income is driven by the considerable growth of overall indirect funding, already described in the preceding pages of this document, and identified in the +127.37% on commission income from the distribution of third party services, as well as the +25.50% on commission income from management, brokerage and consulting services.

Operating income

Operating income at 31 December 2018 was 90.4 million Euro, with an increase of 17.89% as compared to the data at end of 2017.

As illustrated in the table below, the positive performance is mainly related to the structural components of the profit and loss account: interest income and commission income. The contribution of the other items is, instead, minimal and equal to less than 0.2 million Euro overall on the sum of the two aforementioned items.

Table n. 16 – Operating income

OPERATING INCOME			
data in €/000	31/12/2018	31/12/2017	% variation
Overall interest income	**63,004**	**47,750**	**31.95%**
Overall commission income	**27,608**	**25,211**	**9.51%**
Dividends and similar income	318	2	
Net trading result	-336	296	-213.66%
Net hedging result	-10	47	-122.16%
Gains (losses) from the disposal or repurchase of:	-224	3,341	-106.71%
a) financial assets measured at amortized cost	-365	-	
b) financial assets measured at fair value with impact on total profits	106	3,276	-96.76%
c) financial liabilities	35	65	-46.59%
Net income of other financial assets and financial liabilities measured at fair value with recognition of income effects through profit and loss	-	-	-
a) financial assets and liabilities measured at fair value	-	-	-
b) other financial assets obligatorily measured at fair value	-	-	-
Operating income	**90,359**	**76,646**	**17.89%**

Net income from financial assets

Net income from financial assets increased as compared to December 2017, and was 64.4 million Euro (4.83%). The increase in question, however, was reduced with respect to the growth of the operating income due to the significant increase (70.79%) of value adjustments on receivables, due to the full integration of the indications provided by the Bank of Italy inspection team.

Table n. 17 – Net income from financial assets

NET INCOME FROM FINANCIAL ASSETS			
data in €/000	31/12/2018	31/12/2017	% variation
Operating income	**90,359**	**76,646**	**17.89%**
Net adjustments/write-backs due to risk related to:	-25,931	-15,206	70.53%
a) financial assets measured at amortized cost	-25,971	-15,206	70.79%
b) financial assets measured at fair value with impact on total profits	41	-	-
Profits/losses due to contract modifications without derecognition	-21	-	-
Net income from financial assets	**64,408**	**61,440**	**4.83%**

Operating costs

Operating costs rose by 7.98%, due to the corporate restructuring required by the Bank's development in its new form as joint stock company (SpA), and due to the increase in some cost items, such as: i) consulting services, notably from experts for estimations, both new and updated, as per current regulations, on property assets guarantying Bank receivables, both for ordinary and extraordinary transactions regarding NPL transfers, ii) costs for data processing by third parties, and iii) expenses for services centralized with the parent company (direction and coordination / Internal Auditing).

Contributions to the national resolution fund and the FITD (interbank fund for the protection of deposits), which have by now become customary, are to be added to the above costs, for a total of 1.4 million Euro in 2018.

Table n. 18 – Operating costs

OPERATING COSTS			
data in €/000	31/12/2018	31/12/2017	% variation
Administrative costs:	60,408	56,008	7.86%
a) personnel costs	26,210	24,728	5.99%
b) other administrative costs	34,198	31,280	9.33%
Net allocations to risk and expense funds	-160	-18	-
Net adjustments/write-backs to property, plants and equipment	3,009	3,010	-0.04%
Net adjustments/write-backs to intangible assets	164	127	29.37%
Other operating costs/income	-3,802	-3,913	-2.85%
Operating costs	**59,618**	**55,213**	**7.98%**

In this context, it is clear that, taking into account the significant increase in operating income, the *cost / income* financial indicator continued to decrease in 2018 and, in December, registered a value of 65.98% (606 bp lower than the 72.04% registered in December 2017 and 800 bp lower than the 2016 value).

Other income components

Among the other income components for the 2018 fiscal year, please note:

- gains on shareholdings, for a total of 706 thousand Euro
- gains from the sale of investments for Euro 6 thousand Euro
- value adjustments on goodwill for 2,150 thousand Euro.

For all the details, please consult the respective section in the Explanatory Notes.

Fiscal year results

Gross results for the 2018 fiscal year amount to 3.4 million Euro (-50.29% compared to 2017). Results net of tax – which is negative due to the provisions regarding losses on receivables – was 3.5 million Euro, with a 22.22% decrease essentially due to – albeit in a context of considerable rise in structural income components (interest income and commission income) - the volume of value adjustments which, as already mentioned, fully integrate the indications of the Bank of Italy inspection team pursuant to the inspection carried out during closing of these financial statements.

Table n. 19 – Fiscal year results

GROSS AND NET FISCAL YEAR RESULTS			
data in €/000	**31/12/2018**	**31/12/2017**	**% variation**
Profit (loss) on current operations before taxes	**3,352**	**6,742**	**-50.29%**
Fiscal year income tax on current operations	-148	2,242	-106.62%
Profit (loss) on current operations net of taxes	**3,500**	**4,500**	**-22.22%**

Capital adequacy and regulatory ratios

At December 2018, the capital position shows the following values, always greater than the prudential requirements set forth by sector regulations.

Table n. 20 – Own funds and capital adequacy

OWN FUNDS AND CAPITAL ADEQUACY			
data in €/000	**31/12/2018**	**31/12/2017**	**% variation**
Total primary Tier 1 capital (Common Equity Tier 1 - CET1)	230,882	232,247	-0.59%
Total additional Tier 1 capital (Additional Tier 1 - AT1)	-	-	-
Total Tier 1 capital (Tier 1 - T1)	**230,882**	**232,247**	**-0.59%**

Total Tier 2 capital 2 (Tier 2 - T2)	**44,399**	**-**	**-**
Total own funds (T1 + T2)	**275,281**	**232,247**	**18.53%**
Total Prudential requirements	**169,400**	**153,884**	**10.08%**
Gains (Losses)	**105,881**	**78,364**	**35.12%**

RISK ACTIVITIES AND VIGILANCE COEFFICIENTS			
Risk-weighted activities (RWA)	2,117,497	1,923,548	10.08%
Primary Tier 1 capital/ Risk-weighted activities (CET1 ratio)	10.90%	12.07%	-1.17%
Tier 1 capital / Risk-weighted activities (Tier1 ratio)	10.90%	12.07%	-1.17%
Own funds / Risk-weighted activities (Total capital ratio)	**13.00%**	**12.07%**	**0.93%**

Own funds at 31 December 2018 were 275.3 million Euro, registering an increase (+18.53%) due to the issue during the year of a subordinate loan for 45 million Euro, allocated in TIER 2 for 44.4 million Euro.

The amount of own funds increases capital gains (105.9 million Euro, +35.12% vs. 31 December 2017) with respect to base requirements (169.4 million Euro). CET1 capital coefficients and Total capital ratio were respectively 10.90% and 13.00%.

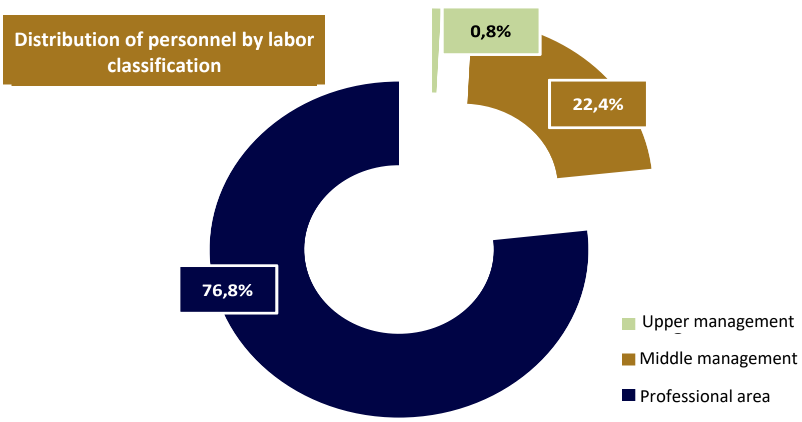
The above being said, during the next fiscal years, Cambiano intends to strengthen Own funds so as to stabilize capital adequacy ratios, over a five year-period.

Operating structure

As at 31 December 2018, the number of Bank employees was 6.30% greater than at the end of the 2017 fiscal year, due to the consolidation of the change to joint-stock company (SpA).

As at 31 December 2018, personnel is composed by 0.8 % upper management, 22.4% middle management and 76.8 % employees in the professional areas, as is illustrated in the table below.

Graph n. 10 – Structure of personnel



Data regarding personnel show:

- a significant presence of female employees (with an incidence of 33.8% of total employees, greater than 33.7% of the previous fiscal year and of the 33% registered at 31.12.2016);
- a significant quota of university graduates (42.3%), which confirms the employment of increasingly qualified personnel (at 31 December 2017, this datum was 41.6%);
- an average age between 35-45 years and an average length of employment service of about 12 years.

Table n. 21 – Breakdown of personnel

BREAKDOWN OF PERSONNEL				31/12/2018 Personnel in the Parent Company
BREAKDOWN BY QUALIFICATION	**31/12/2018**	**31/12/2017**	**Variation**	**31/12/2018 Personnel in the Parent Company**
Upper management	3	3	-	1
Middle management	87	80	7	3
Professional areas	298	282	16	1
Total	**388**	**365**	**23**	**5**
BREAKDOWN BY GENDER	**31/12/2018**	**31/12/2017**	**Variation**	**31/12/2018 Personnel in the Parent Company**
Females	131	123	8	2
Males	257	242	15	3
Total	**388**	**365**	**23**	**5**
BREAKDOWN BY LEVEL OF EDUCATION	**31/12/2018**	**31/12/2017**	**Variation**	**31/12/2018 Personnel in the Parent Company**
University degree	164	152	12	1
High school diploma	213	203	10	4
Other	11	10	1	-
Total	**388**	**365**	**23**	**5**
BREAKDOWN BY AGE BRACKET	**31/12/2018**	**31/12/2017**	**Variation**	**31/12/2018 Personnel in the Parent Company**
Up to 25 years	20	9	11	-
26 - 35 years	110	107	3	1
36 - 45 years	112	112	-	1
46 - 55 years	100	95	5	-
56 - 60 years	27	25	2	-
Over 60 years	19	17	2	3
Total	**388**	**365**	**23**	**5**
BREAKDOWN BY LENGTH OF SERVICE	**31/12/2018**	**31/12/2017**	**Variation**	**31/12/2018 Personnel in the Parent Company**
Up to 3 years	99	85	14	2
4 - 8 years	64	55	9	-
9 - 15 years	112	108	4	-
16 - 25 years	72	72	-	1
26 - 30 years	24	25	-1	-
Over 30 years	17	20	-3	2
Total	**388**	**365**	**23**	**5**
FUNCTIONAL DISTRIBUTION	**31/12/2018**	**31/12/2017**	**Variation**	**31/12/2018 Personnel in the Parent Company**
Central offices	124	113	11	5
Network	264	252	12	-
Total	**388**	**365**	**23**	**5**

The training programs conducted during 2017, ongoing with respect to the previous years, reached the objective of favoring the growth of personnel competencies and professional skills, in line with the new corporate structure and the relative professional figures, as well as with new operational and management requirements, and regulatory and law requirements. Particular care continues to be dedicated to increasing specialized commercial and managerial competencies, through diversified training programs, in accordance with the provisions of personnel development plans.

The training programs focused on regulatory issues, in order to draw personnel attention to the correct application of operative regulations and scrupulous compliance with provisions regarding safeguarding customer interests.

Specifically, personnel employed in the branch network and in the head office, in the various sectors of competence, were involved in training courses on specific aspects, such as the MiFID II regulations, insurance distribution, anti-money laundering, privacy, etc., as well as in broader courses regarding updating of organization processes, organizational improvement and development of human resources.

As in the past, continuing to focus on qualified customer relations, training activities were conducted with the aim of developing greater personnel awareness and qualification, by reinforcing professional skills and increasing knowledge of Banks products, as well as of legal, technical, economic and relational issues regarding consulting services.

Personnel employed in the central offices also actively participated in training sessions organized by both the Cabel Network and other qualified external training agencies and other associated structures, regarding various aspects of banking activities (taxation, accounting, finance, legal, anti-money laundering, and privacy issues, etc.)

In compliance with the provisions contained in current regulations regarding on-the-job health and safety, various training sessions specifically for personnel designated to fire prevention and workplace evacuation and first aid activities were also organized and carried out.

The Bank’s philosophy is centered on creating relations based on solid trust, which is essential to long-lasting employment relationships, therefore human resources constitute a distinctive and qualifying feature that has always characterized Bank operations.

The care that the Bank dedicates to its collaborators is correlated to the commitment that they themselves show in carrying on their work and to their sense of belonging. Human resource management and development activities therefore continue to be a priority in strategic and operational planning, with the aim of enhancing the Bank’s unique relational qualities.

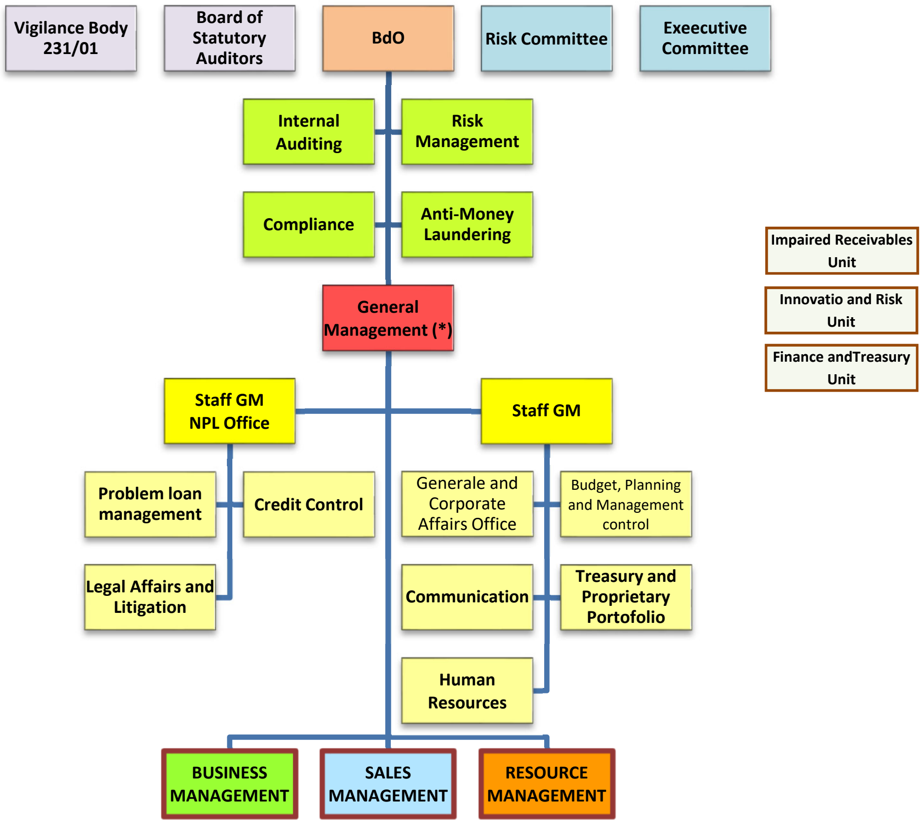
These human resource management conditions have engendered a positive company environment, also demonstrated by the practically “zero” voluntary dismissals in favor of other bank institutions.

In prospect, this value will continue to bring competitive advantages, as yet not fully assessed by quantitative analysts, lead astray towards large management numbers, often short-lived, “*o tempora, o mores!*”.

Organizational model

During 2018, the organizational model was perfected, as modified by the Way Out Project and in line with the strategic decision to become a joint-stock company (SpA).

Figure n. 3 – Staff structure



(*) General Management is composed of a Managing Director and two Vice Managing Directors.

In order to reinforce control and support for branches regarding the product offering, the following operational interfaces were identified within the Sales Department, in the Marketing and Product Development office:

- Interface for Insurance Brokerage, and Manager in charge of Distribution of Insurance Products
- Interface for Managed Savings
- Interface for E-money
- Interface for Leasing and Loans against one-fifth of salary
- Interface for Agricultural loans

In order to continue ensuring direct and constant exchanges between key positions in the Bank, the *Executive Committee* continued to play an important role in supporting top management in the critical analysis of issues and programs that involve the Bank as a whole, or regarding highly technical and specialized matters, through the so-called *Technical Units*, which actually already existed in the former BCC di Cambiano, called: (i) Innovations and Risks; (ii) Impaired Receivables; (iii) Finance and Treasury.

Processes

During 2018 improvement of Bank processes continued focusing prevalently on business processes, represented by: (i) *the credit process*, to streamline and improve the efficiency of so-called routine activities; (ii) *the finance process*, to enrich the product catalogue, especially as regards administered funds and asset management services; (iii) *the commercial process*, to reinforce commercial intervention and action instruments in line with the changes introduced by the repositioning of the business model.

As regards the new regulations introduced into the national and European regulatory framework, again during 2018, the corporate regulatory system was affected by numerous updating and review interventions.

The most significant issues that inevitably had an effect on corporate process review activities mainly regarded provisions aimed at safeguarding customers and investors, also as regards safeguarding of personal data, in the majority of cases stemming from European Directives. The main areas of interventions are described here following.

- *MiFID II*

During 2018, the Bank continued to implement measures aimed at compliance with the new regulations regarding investment services (so-called MiFID II), the aim of which is to develop a single financial services market on a European level that guarantees transparency and investor safeguarding. These measures were implemented in close collaboration with Cabel, the supplier of the banking application.

Indeed, during 2018 the Bank, with its IT services supplier, and assisted by qualified external consultants and the instrumental commitment of its own internal resources, continued to implement the organizational and IT measures required to complete compliance with the above-mentioned regulations.

Also during 2018 an assessment was made regarding personnel prerequisites and training. Personnel possessing know-how and experience prerequisites followed a training course for personal qualification, which ended with a final test on acquired knowledge; the Bank also identified a list of personnel lacking know-how and experience prerequisites who need work with a supervisor.

- *IDD*

The Insurance Distribution Directive ("IDD", Directive EU 2016/97) was adopted on 20 January 2016, and became effective starting 1 October 2018.

The Italian law implemented the above Directive by modifying the Private Insurance Code and through the issue of the implementing regulations set forth below by the IVASS (Italian institute for insurance vigilance):

- IVASS Regulation n. 40 dated 2 August 2018 containing provisions regarding insurance and re-insurance distribution (“Regulation n. 40”), effective as of 1 October 2018;
- IVASS Regulation n. 41 dated 2 August 2018 containing provisions regarding information, advertising and creation of insurance products (“Regulation n. 41”), effective as of 1 January 2019.

During the last months of 2018, the Bank also took all the actions required to meet the obligations listed below, also with the support of the IT outsourcer and of the insurance companies:

- overall deposits of responses on insurance needs, meaning by “insurance needs” customer insurance requests such as investments, savings, coverage, etc.;
- product governance and Target Market verification;
- adequacy or compliance assessment (meaning by “compliance” the compatibility with customer insurance needs for Non IBIPs products) and assessment of customer insurance needs;
- *ex ante* information;
- *ex post* cost information.

Moreover, the personal in charge of insurance distribution was identified and the name notified to IVASS, as required by the regulations.

- *Privacy*

On 25 May 2018, the new European Regulation n. 679/2016 on protection of personal data came into effect (“GDPR” - General Data Protection Regulation).

The GDPR has amended Directive 95/46/EC of 24 October 1995, “regarding the protection of individuals regarding the processing of personal data, as well as the free circulation of such data”.

The most significant aspects of the Regulation are:

1. Processing register
2. Assessment of impact on data protection (DPIA – Data Protection Impact Assessment)
3. Rights of involved persons
4. Risk analysis
5. Privacy by default and by design
6. Data portability
7. Data breach

In compliance with the GDPR and in line with the principle of transparency, during 2018, the Bank:

- Updated privacy information sheets;
- Nominated the Data Safety Manager (RPD);
- Nominated the internal interface functions for data processing;
- Prepared the Process Register and the relative regulations and policy.

- *PSD2*

Directive 2015/2366/(EU) (PSD2) regarding payment services provided on the internal market came into force on 13 January 2016, amending the previous directive 2007/64/EC (PSD) and introducing significant novelties regarding payments in terms of roles and responsibilities, principle actors and support technologies.

The PSD2 was incorporated into Italian law with Legislative Decree n. 218/2017, which became effective on 13 January 2018. This decree basically amends the Consolidated Banking Act (Legislative Decree n. 385 of 1 September 1993– the so-called "TUB") and Legislative Decree n. 11 of 27 January 2010 (the decree that incorporated the PSD1).

The new body of regulations may be grouped by intervention macro category:

- Modification of PSD Scope (positive/negative);
- New payment services and control of availability of funds;
- Increased safety standards;
- User protection.

The Bank made all the amendments to customer contracts required to ensure compliance of the contracts with the regulatory and operational changes.

The project is still underway in 2019 as far as regards the definition and application of the new Strong Customer Authentication methods and the choice of new business opportunities for AISP and PISP.

- *Digital checks*

Legislative Decree n. 70 of 13/05/2011 introduced some important changes to Royal Decree n. 1736 of 21 December 1933 (so-called "Check Law"). In fact, the new decree recognizes full legal validity to IT copies of paper checks, introducing the possibility of both presenting the electronic form for payment, and of electronic presentation of proof of missed payment (claim and equivalent report).

Pursuant to this regulation, some time ago the ABI began a project (so-called "Check Project") that has revised interbanking rules for check collection services and has lead to the development of a new interbank procedure, called the Check Image Truncation (CIT), developed within the scope of the System for Electronic Data Transfer (SITRAD).

Full implementation of the new interbank procedure was completed during 2018 (both as Drawer Bank and as Negotiator Bank), which allows truncating all bank and cashier's checks on collection and transmission, by the negotiator bank to the drawer bank, of the check accounting data and relative image (with consequent presentation for payment only in electronic form) and will lead to the dismissal of the Check Truncation (CKT) and Electronic Check Outcome (EEA) procedures.

The information system

As known, the information system is fundamental to the Bank's organizational programming, in that it *(i)* influences strategic choices in terms of the products / services to be offered to customers and the efficiency of operating processes, *(ii)* favors sound and prudent management, to the extent in which it can provide accurate information, in real time, regarding technical management coordinates and risk management, *(iii)* contributes to limiting operational and compliance risks. The reliability of the Banca Cambiano 1884 IT system is ensured by the over thirty years of experience brought to the field by Cabel Industry; the formula of full outsourcing entails complete management of the CABEL information system in the software and hardware components, that is to say the externalization of facility management, application management and BPO; on this front, it bears noting that the Bank, in light of its shareholdings, is in a condition to provide a significant contribution to the outsourcer's strategic development decisions.

It also bears noting that during 2018 Cabel Industry consolidated its share in the Banking Outsourcer market, recording the highest turnover of the last years.

New relations with customers have been started and, to date, there are already many contacts in an advanced negotiation stage with multiple "Prospects".

The dynamics that are involving this market are positive for the Cabel network.

Activities related to the upgrading of the information system continue, with the ongoing progress of the localization process for the Oracle FLEXCUBE platform, used by over 600 financial institutions the world over.

Innovation, integration and stability are the three essential elements that characterize the strategy for the evolution and management of our IT network.

The Oracle FLEXCUBE platform, the main features of which are speed, security and measurability of operations and transactions, was modified to adapt it perfection to the regulations that govern the Italian banking market, and is already operational, as of June 2018, in its first location in Italy, with Invest Banca.

The Oracle FLEXCUBE solution facilitates interaction with technological innovations such as Robo-Advisor, Artificial Intelligence, Data science, Social Trading, blockchain, etc.

Risk management and control

In line with it business and operational model, the Bank is exposed to various types of risks that principally regard traditional loan and financial brokerage operations.

The overall risk management system, in compliance with prudential vigilance regulatory principles, aims at ensuring that all the risks incurred in the various business segments are in line with corporate strategies and policies, as well as based on principles of solid and prudential management.

The primary responsibility for the risk management system, within a broader reference framework that regards the entire Internal Controls Systems, lies with Corporate Functions, each based on its respective competencies.

The Internal Controls System comprises the rules, functions, resources and processes that are aimed at ensuring: *i)* that the following objectives are met: verification that company strategies are implemented; *ii)* that risks are contained and mitigated within the scope of overall risk propensity approved by corporate functions (Risk Appetite Framework– RAF); *iii)* the efficacy and efficiency of company processes and information reliability and safety; *iv)* conformity of operations with current laws in force.

From an organizational point of view, the Bank's Internal Controls System is composed of: a) all the II level control functions, *Risk Management, Compliance and Anti-Money Laundering*, responsible for monitoring and management of the Bank's risk profile; b) the Risk Committee, to which all the activities and responsibilities pursuant to Circular 285/2013 are assigned; c) the company Meta srl, which, based on a co-sourcing agreement, integrates the competencies of the Compliance functions and carries out the audits for the parent company. The Internal Interface is responsible for so-called intelligent interface for the outsourcer and, specifically, identifies the audit plan, monitors activities and evacuate the reports, in relation to the responsibility profiles of the internal audit functions, for supporting the parent company in the exercise of its control activities, verifying compliance with expected services levels, monitoring and managing the risks associated to outsourcing; d) the company Meta srl also integrates the competencies of the Compliance functions and carries out the audits on behalf of the parent company, based on a co-sourcing agreement.

During 2018, the Bank's Risk Management Function was assigned the Babel Leasing Spa risk management activities, in compliance with the contents of the vigilance regulations set forth in Circular 285/2013 on the matter of outsourcing company control functions in a Bank Group.
The primary aim of centralizing the risk management activities within the Bank was to promote the adoption of shared risk detection, measurement and control methods and to favor information exchanges for integrated risk monitoring.
The main strategic areas that represent the fulcrum of the Risk Appetite Statement are: correct profitability for the risk; internal capital and own funds; liquidity and funding; asset credit quality; other strategic risk areas.

Corporate bodies, governance committees, upper management and the entire staff are all involved in control activities, in order to fully implement an integrated risk management system that is consistent with the business model of reference and with the risk propensity and tolerance objectives defined in the strategic plan and in the yearly budget.

The risk profile is periodically monitored and reported to the corporate bodies by the competent functions, for timely identification of possible critical points and implementation of appropriate corrective actions.

In addition, to support Corporate Bodies in the autonomous assessment of capital adequacy and current and prospective liquidity (ICAAP and ILAAP), the Risk Management function, that is organizationally separate and independent with respect to operational units designated to risk assumption, ensures the correct implementation of processes regarding:

- Risk management, intended as the process for risk identification, monitoring, measurement, reporting, control and mitigation;
- Monitoring of the evolution of corporate risks and compliance with operational limits.

Internal Capital Adequacy Assessment Process (ICAAP)

In compliance with prudential vigilance provisions for banks (Bank of Italy Circular n. 285, CRR, CRD), the Bank performs an annual prudential internal audit (Internal Capital Adequacy Assessment Process – ICAAP) to determine and self-assess capital adequacy, both current and prospective, in relation to current risks and all corporate strategies.

The ICAAP/ILAAP report for the fiscal year closed on 31 December 2017 was prepared and sent to the Vigilance body in April 2018.

Credit risk

In order to guaranty efficient credit risk management, the Bank has equipped itself with a control system structured on three levels, which defines the responsibilities assigned to the functions responsible for providing the information required for the assessment of the Bank's exposure to credit risk. Line controls represent first level and preliminary monitoring and are assigned to the risk taker units that report back to the business structures. A first level, but second instance control, in compliance with the Bank's "General Regulations", is assigned to the Credit Structures that monitor credit concession processes and portfolios relative to lending assets.

Second and third level controls are carried out, respectively, by the Risk Management Functions and the Internal Auditing Function, which perform the relative control activities based on their respective methods and instruments.

Organizational controls for credit risk are constituted by:

- The procedures that govern credit assessment, concession and management, contained in the Credit Risk Regulations;
- The definition of specific roles and responsibilities within the single business units regarding credit concession, inspired by the principle of the separation between departments;
- The separation of commercial customer management and specific credit management, which is substantially the decision-making power and loan performance monitoring;
- The creation of a system to define risk oriented operational responsibilities relating to credit concession;
- A functional control system and the effective constant management and monitoring of risk positions.

Credit risk management, measurement and controls systems are developed in an organizational framework that involves the entire credit process cycle, from the initial preliminary stage, to the periodical reviews, up to revocation and recovery.

The main levers to mitigate credit risk are the system of guarantees that accompany loan exposure, a limited degree of concentration on specific borrowers, and an adequate level of diversification of loans by type and by industry. In order to mitigate credit risk, the Bank uses collateral security and personal guarantees. In particular, the main types of real guarantees used are mortgages on property and financial pledges.

As regards credit classification, the Bank applies criteria that are conformant to International accounting standards and Vigilance Provisions.

To classify exposures, with specific reference to impaired loans, the Bank refers to regulations issued by the Vigilance Authority, integrated by internal provisions that set forth criteria and regulations for the classification of credits within the scope of the various risk categories.

Market risk

The control system implemented by the Bank, in compliance with the provisions of current prudential regulations, is aimed at sound and prudent management of market risks, ensuring that these risks are correctly identified and measured using formalized methods and procedures.

The Bank has identified a series of risk indicators capable of identifying the main aspects that characterize market risks.

The primary activity of the bank is trading financial instruments exposed to interest rate risk. Trading regards prevalently operations involving bonds.

As regards interest rate risk and price risk management procedures and measurement methods, the Bank has developed the Finance Area Regulations that establish both operating limits (both in terms of portfolio value as well as in terms of the breakdown by type of security) and limits for exposure to interest rate risk (in terms of financial duration).

Interest rate risk mitigation is pursued by means of integrated management of bank assets and liabilities and is aimed at stabilizing interest income and safeguarding the economic value of the bank portfolio.

Operational risk

The main sources of operational risk derive from internal fraud, external fraud, employment relationships and on the job safety, professional obligations towards customers, damage from external events, malfunctioning of information technology systems and the execution, delivery and management of processes.

In order to monitor the possible occurrence of operational risks, the Bank has defined and constantly updated:

- the “Operational Continuity Plan”, aimed at protecting the Bank from critical events that may compromise operations;

- mapping of the main operating processes (credit, finance and teller) with the aim of leveling operator behavior, thereby facilitating the integration of controls.

Particular attention was focused on information technology risks, which are, by definition, included among operational risks, by setting forth regulations and processes for the identification, assessment and limitation of events originating from, or that could originate from, malfunctioning information technology procedures and/or electronic equipment, such as, for example, network crashes, unavailability of internet banking, and imprecise applications for branch operations.

Finally, within the scope of actions implemented in order to ensure full compliance with the new Bank of Italy regulations provided for in Circular 285, the Bank has undertaken important initiatives connected to completing transposition within organizational profiles and internal regulations of the references contained in Chapter IV – Corporate government, internal controls, management risks, Chapter 4 (information system) and 5 (business continuity) of the aforementioned new regulations.

Within this scope, the Bank, acknowledging the importance of managing information technology risks as a tool to guaranty the efficacy and efficiency of measures aimed at safeguarding the Bank's own information technology systems, has defined, in accordance with the results of the project elaborated within the Cable network and in compliance regulatory principles and provisions currently in force, a method for the analysis of information technology risks and the relative management process that hinges on the Bank's broader risk management system.

Liquidity risk

In compliance with regulations currently in force (Bank of Italy Circular 285/2013), the Bank has set up an adequate liquidity risk governance and management system, with specific processes to measure, control and mitigate this type of risk.

The overall model implemented by the Bank to manage and monitor liquidity risk is divided into three separate sectors, according to the perimeter of reference, the time span and the frequency analysis: (i) management of intraday liquidity; (ii) management of operating funds; (iii) management of structural liquidity.

The Bank has drawn up a liquidity policy that defines, in accordance with the tolerance threshold decided by the Board of Directors, a series of alerts to manage both operating liquidity and structural liquidity.

The Bank also has a "Liquidity Risk Management and Governance Manual", the Recovery Plan provided for by Bank of Italy Order N. 0213179/17 dated 17 February 2017 and a "Contingency Liquidity Plan", as instruments to mitigate liquidity risks. The document details the persons and structures responsible for implementing extraordinary funding policies, as well as any actions to be taken to remedy an extraordinary event situation, in compliance with the regulatory requirements provided for by vigilance regulations.

In the Contingency Liquidity Plan, the Bank has defined a series of risk indicators that are constantly monitored in order to anticipate possible stress or liquidity crisis situations.

The "Liquidity Coverage Ratio" (LCR) is calculated based on the provisions of the EU Delegated Regulation 2015/61 issued to supplement EU Regulation n. 575 dated 26 June 2013 of the European Parliament (CRR Regulations), as well as the additional indications and recommendations of the European Banking Authority on this subject.

In order to improve liquidity management, the Bank adheres to the New Collateralized Interbank market (New MIC).

The Bank set up a self-securitization transaction in order to increase its financing capacity within the system. For detailed information, please refer to Section E of the Explanatory Notes.

Transactions with related parties

For information regarding transactions with related parties, as defined in IAS 24, please refer to "Part H – Transactions with related parties" of the Explanatory Notes. By resolution of the Bank's Board of Directors on 29 November 2018, the update to the document entitled "Resolution procedures for transactions with related parties", issued by the parent company Ente Cambiano ScpA and regarding the management of transactions with parties related to the Cambiano Banking Group, was approved.

In accordance with prudential regulations regarding risk activities and conflict of interest vis-à-vis connected subjects, please note that no noteworthy transactions were carried out with related parties, pursuant to pertinent regulations and criteria adopted within the scope of implemented policies, regarding which the Independent Director and/or the Board of Statutory Auditors formulated a negative judgment or made observations.

Significant events after the close of the fiscal year

In compliance with regulatory provisions, adequate information regarding significant events subsequent to the close of the fiscal year is provided below.

In brief, the most significant events were:

- On 8 January 2019, the outsourcing of the important operational function regarding services connected to credit recovery, in compliance with the vigilance provisions contained in Bank of Italy circular 285/2013. Specifically, the scope of outsourcing regards the extra-judicial recovery of a portfolio of receivables defined, time by time, at the Bank's absolute discretion. This decision is part of the strategy for management of NPLs laid out based on the segmentation of impaired receivables, in order to favor appropriate management for the various NPL sub-portfolios. The Bank supervises and monitors outsourced activities through special information procedures.
- The redefinition of the guidelines for the Strategic Plan, aimed at further speeding up the Bank's technical and organizational repositioning stage, in terms of timelines and procedures to finalize multi-year objectives and consequently revise the scope of the same strategic objectives. To move in this direction, it became necessary to also redefine the strategic lines with respect to the new industrial plan that will be defined in 2020 following the shareholders' meeting to renew the nominations of corporate and supervisory officers.

Please note that as of 1 January 2019, the IFRS 16 "Leasing" accounting principle, issued on 31 October 2017 with European Commission regulation n. 1986/2017, has become directly applicable in every member country; this accounting principle replaces previous IAS 17 principle that bore the same title. The principle regards the recognition, measurement and booking the financial statements of information on leasing transactions, to make sure that lessors and lessees provide appropriate information in a manner that represents the transactions truthfully. The IFRS 16 principle, which introduces important changes to the way in which businesses book leasing transactions, provides that all leasing transactions be recognized in the lessor's overall profitability as assets or liabilities, eliminating, for all intents and purposes, the different accounting models for operating leases and financial leases provided for by the accounting principles previously in force, with a considerable impact on the RWA of banks. The new principle provides a new definition of "lease" and introduces a criterion based on the right of use of an asset, to distinguish leasing agreements from service agreements. The principle introduces a single accounting model for the recognition and measurement of leasing agreements by the lessee, which requires booking the lease asset, including operating leases, in the assets against a financial liability. The new standard also provides for the possibility of an exemption, for leases where the underlying asset is considered a "low-value asset" and for leases with a term of 12 months or less. To the contrary, the principle does not provide any significant changes for lessors.

As at the closing date of the Financial Statements, the inspection by Bank of Italy, which began on 5 December 2018 in accordance with article 68 of Legislative Decree 385/1993 was still underway, and resulted in a positive outcome.

Foreseeable management trend

With reference to the information to be provided in financial reports on corporate prospects regarding corporate continuity, financial risks, impairment tests on assets and uncertainties in the use of estimates, the Board of Directors is reasonably certain that the bank may continue its operations in the foreseeable future and, therefore, declares that the Financial Statements for the fiscal year in review were prepared with an outlook of corporate continuity. The Bank's equity and financial structure do not contain any elements or signs that may give rise to any doubts whatsoever as to corporate continuity.

The cornerstone on which our business has always rested is true, sound and prudent management.

This principle, constantly applied, has allowed us to maintain positive profits even throughout this ten year crisis period, albeit reduced with respect to pre-crisis number due to exogenous variables, such as interest rate trends and the already repeatedly mentioned extraordinary contributions in support of banks in difficulty.

In 2019, the Bank will continue to successfully pursue its objectives, aiming to strengthen the Institute's profitability profile, broadening the product catalogue and commercially driving the services components, without losing focus on a credit policy centered on supporting the production sector in the territories where the Bank operates: the Region of Tuscany, its historical area of settlement, and the city branches in Rome, Turin and Bologna, integrated following the *way-out* operation.

It goes without saying that the 2019 financial year will play itself out in a macro-economic scenario with negative market rates, with a forecasted GDP growth rate near 0%, with higher credit spreads, and with uncertainties on both domestic and International markets.

Within this context, the Bank will continue to face important challenges regarding a development program based on guidelines that are dictated by the Industrial Plan and its periodical updates.

For 2019, the Bank's primary objectives are:

a) To further reinforce capitalization levels, using the available levers also in terms of management of risk-weighted assets;
b) To consolidate the business profitability through positive dynamics of brokered volumes, an efficacious management of interest rates, albeit in a very difficult period, the development of interest flows on new business lines, appropriate cost containment with respect to the development and repositioning of the organizational model into a joint-stock Bank (Spa).

Research and development activities

The Bank's research and development activities are aimed at consolidating its market presence through appropriate business initiatives with a strong focus on innovative components and technological support, without neglecting an ongoing improvement of corporate risk management components and the creation of activities aimed at compliance with the regulatory framework.

The development plans defined and implemented both through internal actions and interaction with the Cabel network have proven significant. Activities carried out with the participation, also within the offices of the Italian Banking Association, in seminars and conferences to study specific technical and organizational issues have also been intense.

It is our firm belief, supported by facts, that only through interaction and exchange with other business may we consolidate our own experience and increase our professional skills, as a solid base for conscientious corporate growth.

Proposal for allocation of the fiscal year profit

Within the scope of the declared objectives of reinforcing the Bank's capital profile, naturally shared within the parent company, the Board of Directors proposes to allocate the fiscal year profit as follows:

- 5% of profits, equal to 175 thousand Euro, to Legal Reserves,
- The remaining amount, equal to 3,325 thousand Euro, to Extraordinary Reserves.

Proposal for the allocation of the 2018 fiscal year profit

PROPOSAL FOR ALLOCATION OF 2018 FISCAL YEAR PROFIT	
	Amount
NET PROFIT TO BE DISTRIBUTED	**3,500,000**
BoD Proposal	
to Legal Reserves (5.00% of profit)	175,000

To Extraordinary Reserve	3,325,000
To shareholders as dividends	-
Total	**3,500,000**

Esteemed Shareholders,

we wish to conclude with our sincere thanks to both you and our customers, who have favored us with their trust, loyalty and devotion, thus allowing us to create a banking reality that is increasingly appreciated in its market of reference.

A particular thank you to the members of "Ente Cambiano", who are and remain the fundamental base of our Bank and in respect of whom we will continue to finalize initiatives in accordance with the mutual-aid purposes of the parent company.

In closing, a particular thank you to all those who, with their dedication and professional aptitude, have contributed to this positive closing of Banca Cambiano S.p.A's financial year, in view of an important continuity with the century-long business of BCC di Cambiano and of the younger Banca AGCI. Our thanks essentially go out to:

- Central Management of the Supervisory Authority and to Management of the Florence offices of Bank of Italy, for the ongoing assistance and collaboration provided;
- To the Bank of Italy Inspection Team who, with great professional skill and competence, is carrying out inspection audits, allowing the Bank to share and own margins for improvement in the various areas that have come to light during the inspection;
- The Cabel network, for the collaboration afforded and for the commitment dedicated to the Oracle project, which will provide an extremely significant competitive edge;
- To the Board of Statutory Auditors, for the commendable work carried out;
- To the entire structure of the Ente Cambiano parent company, the Bank's General Management and all employees for their dedication and competence in meeting corporate objectives and completing the planned corporate reorganization.

Florence, 4 March 2019

The Board of Directors

REPORT OF THE STATUTORY AUDITORS

BANCA CAMBIANO 1884

SOCIETÀ PER AZIONI

To the Shareholders,

This report acknowledges the results of the activity performed by the Board of Statutory Auditors during the fiscal year ended on 31 December 2018, also with reference to the functions attributed to it by Article 19 of Italian Legislative Decree n. 39/2010.

During the fiscal year in review, the Board of Statutory Auditors performer its supervisory activity as required by the Italian Civil Code, Legislative Decrees n. 385/1993 (consolidated law on banking - "TUB"), n. 58/1998 (unified financial services act - "TUF") and n. 39/2010 (consolidated act on statutory auditing), in statutory regulations, as well as special laws on the subject and pursuant to the provisions set forth by public Authorities in charge of vigilance and control (specifically, Bank of Italy and CONSOB), as well as considering the rules of conduct for the Board of Statutory Auditors recommended by the National Council of Accountants and Accounting Experts.

The financial statements were audited by the company Baker Tilly Revisa S.p.A. in accordance with articles 2112 and 2558 of the Italian Civil Code and Consob Circular n. 10121 dated 30/06/1988. As regards the statutory audit, pursuant to article 14 of Legislative Decree n. 39 of 27 January 2010, please refer to their report.

*****

In accordance with article 2429, sub-section 2 of the Italian Civil Code, specific reference is made to the following issues

1. Supervisory activity performed in compliance with obligations

During the 2018 fiscal year, the Board of Statutory Auditors supervised compliance with law and the Articles of Association, as well as compliance with principles of proper administration and sound and prudent management.

The Board, also acting as the "Internal control and auditing committee" in accordance with Article 19 of Legislative Decree no. 39 of 27/01/2010, controlled the adequacy of the financial information process, finding it to be adequate to the business activity and regulatory requirements.

As will be set forth in detail below, we also supervised the effectiveness of the internal control system and internal audit system, capable of addressing the risks that arise in the Bank's activity.

The supervisory and control activity was performed in the different areas noted above, as follows:

1) participation at meetings of the Board of Directors (n. 18), of the Executive committee (n. 35) and of only one member of the Board, usually the Chairman of the Risk Committee (n. 11) and the Shareholders' Meeting;

2) meetings with the company entrusted with the statutory audit;

3) controls with the managers of the various corporate departments, in particular with Risk Management, Compliance, Anti-Money Laundering, and Internal Audit. Please bear in mind that internal auditing activities are carried out in outsourcing by the Parent Company working in co-sourcing with the company META Srl with offices Empoli and Compliance activities are carried out in co-sourcing with another division of the same company, META Srl;

4) meetings with the “Supervisory Authority” in accordance with Legislative Decree 231/2001.

By participating at the meetings of the Board of Directors and the Executive Committee, the necessary information was acquired, both to evaluate the Bank’s trend with regard to its overall capital and economic development, as well as to evaluate its most significant operations. The Board of Statutory Auditors can confirm that, to the extent it is aware, management operations were performed in conformity with law and the Articles of Association, were in the Bank’s interests, and did not appear to be manifestly imprudent, irrational or reckless in such a way that would compromise the integrity of the Bank’s capital, create a conflict of interest, or conflict with the resolutions approved by the Shareholders’ Meeting.

Participation at the meetings of the Board of Directors also allowed us to verify that delegated individuals reported on the operations they performed in accordance with the powers attributed to them, the general management trend, and its foreseeable development. The directors also reported any cases of conflict of interest, in accordance with outstanding provisions of the Italian Civil Code in order to allow proper decision-making procedures to be implemented pursuant to Article 136 of the Consolidated Law on Banking, article 2391 of the Italian Civil Code “Interests of the administrators” and the Regulations for Operations with Connected Subjects, adopted to implement the provisions of Supervisory Regulations.

It is noted that the auditors of the Independent Auditor company, with whom the Board of Statutory Auditors exchanged information related to audits of the financial statements and other controls that they performed, did not advise of any circumstances, irregularities or censurable facts that had to be reported to the Supervisory Authority or to the same Board of Statutory Auditors.

With respect to the adequacy of the internal control system, the Board of Statutory Auditors interacted with the Internal Audit function, externalized to the parent company, an autonomous and independent structure, as the recipient of the inspection reports containing the results of the controls that this service carried out during the course of the year, as mentioned, in co-sourcing with the company META Srl in Empoli. The Board of Statutory Auditors also reviewed and approved the 2017-2019 three year plan and the annual auditing plan scheduled by the Internal Audit Department.

With respect to second level controls, the interaction, which has always been productive, regarded:

- the Risk Management Department, that supplied adequate information regarding risks, the object of periodic reports concerning the controls carried out directly, as well as the effectiveness of the departments entrusted with examining and measuring the different types of risks, and the co-ordination of such departments aimed at an overall vision of risks;

- the Compliance Department (compliance to regulations), for the review and assessment of issues regarding the legal framework with which the Bank must comply and for reports regarding the state of company compliance with respect to areas of the Department’s competence;

- the Anti-Money Laundering Department, for reports regarding this delicate sector, documents whose level of clarification fully represent, among other things, organization and electronic controls in terms of an adequate control of customers and the supply of information to the Centralized Computer Archive;

- The Budget, Planning and Management Control Office and the Credit Control Office whose reports, shared with Risk Management, provide this Board with adequate information regarding monitored risks pertaining to the specific competence of this function.

On the basis of the above premises, we consider the internal control system – in its entirety - suitable for guaranteeing the control of risks and compliance with applicable regulations and procedures.

During the fiscal year in review, still as regards internal audits, the Board of Statutory Auditors was also able to evaluate the compliance to the provisions of Bank of Italy Circular n. 285 dated 17 December 2013 “Vigilance provisions for Banks” and the continuing conformity of internal regulations.

The Board of Statutory Auditors also assessed and supervised the adequacy of the administrative and accounting system, as well as the latter’s reliability in accurately representing management activity, by means of numerous meetings with the Budget, Planning and Management Control Office, the review of company documents and, primarily, the ongoing analysis of the results of the work carried out by the Independent Auditor, which was entrusted, as noted, with the specific task of the statutory audit of the accounts.

During the course of the audits and controls conducted, considering the information acquired, including by means of ad hoc reports prepared by the offices entrusted with control functions, no indications appeared of any irregularities in corporate management that would indicate any particular organizational deficiencies.

In conclusion, in consideration of the information obtained during the course of the supervisory activity performed, the Board of Statutory Auditors can confirm that the organizational structure, internal control system and accounting-administrative structure are consistent with the Bank’s size, are adequate for its operating needs and have been timely adjusted/refined based on the evolution of such needs and, specifically, the laws and regulations that regulate the Bank’s activity.

During the fiscal year, based on the information obtained by the Board of Statutory Auditors, no atypical and/or unusual operations were performed.

On 29 November 2018, pursuant to the favorable opinions expressed by the Compliance and Risk Management office and the Board of Statutory Auditors, the Board of Directors approved an updated version of the document entitled “Resolution procedures for transactions with related parties” in compliance with the policy adopted by the parent company, Ente Cambiano ScpA, to manage transactions with related parties of the Cambiano Banking Group.

Relationships with related parties took place on the basis of the Regulations approved during the year as implementation of the provisions set forth in the Bank of Italy’s Measure «Risks and conflict of interest with respect to related parties». The Board of Statutory Auditors, in its supervisory function, has always found compliance with the regulations on this topic. Indeed, transactions were always in line with market conditions or, where appropriate reference parameters were missing, according to cost and, in any event, on the basis of evaluations of objective reciprocal convenience and correctness. No large transactions were carried out with related parties, pursuant to the regulatory provisions of reference and criteria adopted within the scope of corporate policies, regarding which the Independent Directors and/or the undersigned members of the Board of Statutory Auditors expressed a negative opinion or formulated reports.

The document *"Remuneration policies for directors, employees and collaborators who are independent contractors"* was found to be adequate, consistent with supervisory regulations and in conformity with what was indicated by the Internal Audit department, and the Board found that it was properly applied during the course of the fiscal year. In addition to the financial statements, the Shareholders' Meeting is being provided with the information, duly formulated, and required with respect to the effective manner in which remuneration policies are applied.

Since 5 December 2018, Banca Cambiano 1884 S.p.A. has been undergoing an assessment inspection, still under way at the date of preparation of this report, in compliance with Bank of Italy regulations regarding banking and financial institutions.

From 5 December 2018 to 7 December 2018, Banca Cambiano 1884 S.p.A. underwent an assessment inspection regarding management procedures for loans used as collateral for Eurosystem credit operations, in accordance with article 32, sub-section 2, of the Framework Agreement regarding collateral for Eurosystem financing operations issued by Bank of Italy. The findings of the assessment inspection, presented to the Board of Directors during a meeting held on 25 February 2019, were of process adequacy, with some margins for improvement, to which the Board of Directors immediately responded, specifying the measures taken or that will be taken.

With respect to the activity performed, the Board of Statutory Auditors wishes to specifically note the following business and corporate circumstances:

- The Board of Statutory Auditors met 14 times during the course of the fiscal year;
- No significant facts emerged from the inspection and control activities, requiring notification to the Bank of Italy and no complaints or allegations were made pursuant to article 2408 of the Italian Civil Code;
- the Board of Statutory Auditors did not have to issue any opinions required by law as there was no need due to the lack of pre-requisites;
- during the course of the fiscal year, up to 30 June 2017, the Board carried out the activity of Supervisory Body in accordance with Legislative Decree 231/2001. This activity consisted in examining the organizational and management model and the training program for personnel, as well as advising the Bank's managers of the need for ongoing collaboration, useful for allowing full and effective activity to prevent the crimes provided by the above law;
- the Board of Statutory Auditors has fully endorsed the objectives and risk profiles contained in the "RAF Regulations" document approved by the Board of Directors, which provides the framework to calculate the Bank's Risk Appetite Framework (RAF), adopted in compliance with Supervisory regulations and with the guidelines approved by the Board of Directors of the parent company in the Group RAF Policy;
- the Board of Statutory Auditors has fully endorsed the activities carried out during 2018 regarding the credit management process, and specifically as regards the beginning of the project called *"NPL Management Strategy and process guidelines for success"*, and the definition of the operational plan for management of impaired receivables *"NPLs: strategic options, operational plan and organizational interventions 2018-2021"*;

- The Board of Statutory Auditors has fully endorsed the credit assessment process and considers the updates made to the internal policy “Rules for classification and assessment of the credit portfolio”, approved with resolution of the Board of Directors on 25 May 2018, fully compliant with reference regulations;

- The Board of Statutory Auditors has fully endorsed the process for compliance with the new IFRS 9 international accounting principle, the process for definition of the business models adopted by the Bank, the impairment process and the accounting entries made in the *First Time Adoption* phase of the aforementioned principle;

- the Board of Statutory Auditors has fully endorsed the updating process for the Group Industrial Plan for the 2018-2020 period prepared by the parent company Ente Cambiano S.c.p.a. and approved by the Bank’s Board of Directors;

- Within the scope of its own annual planning, the Board of Statutory Auditors verified the Anti-Money Laundering process, and no significant critical profiles emerged, thus confirming that the controls adopted are substantially adequate to the task;

- the procedure for the autonomous assessment of capital adequacy (ICAAP) was further implemented, as was the liquidity risk governance and management system (ILAAP), in accordance with regulatory guidelines; as illustrated by the Bank, both the capital and the liquidity governance and management system are fully adequate for the risks assumed;

- laws regarding the transparency of banking and financial services and transactions were applied;

- in terms of usury, the Bank’s operations were conducted in compliance with Law no. 108/1996 and the Implementing Provisions of the Bank of Italy;

- with reference to the law on privacy, compliance measures required by the entry into force of the new European Regulations regarding data security were implemented, including the nomination of a Data Security Manager;

- during 2018, the Bank continued activities aimed at compliance with the new regulations regarding investment services (so-called MiFID II), which aims to create a single European market for financial services that guarantees transparency and protection for investors, in tight collaboration with the supplier of the banking application, Cabel;

- with the support of the IT outsourcer and of the insurance companies, the Bank has started the activities required for compliance with the Directive on insurance distribution (“IDD”, Directive EU 2016/97), including the nomination of the person in charge of the insurance distribution business;

- as required by Article 136 of the Consolidated Law on Banking, the Board unanimously confirmed the transactions conducted, directly or indirectly, by the Bank’s representatives, all approved in accordance with law, including Article 2391 of the Italian Civil Code;

- with reference to the 30 complaints received by the Bank in 2018, compare to the 42 received in 2017, the enquiry procedure and management of such cases was found to be proper; further, it was determined that the parties involved were given a timely and reasoned response and that such complaints were properly represented to the Bank's bodies according to regulatory requirements;

- it is certified that, with the participation required of employees, the necessary training was conducted regarding anti-money laundering, financial consulting, the placement of insurance and financial products, occupational safety, credit, usury, etc.

2. Fiscal year results

The Board of Statutory Auditors has examined the draft financial statements for the fiscal year closed on 31/12/2018 and the management reports, submitted to the same Board by the Board of Directors, within the term required by law.

As the Board of Statutory Auditors is not required to perform the statutory audit of the Financial Statements, the Board has verified the overall layout of the statements, its composition, its structure, the evaluation made of company assets and the management report, in conformity with current laws, provisions of the Supervisory authority and the International IAS/IFRS accounting principles.

The draft financial statements were submitted to review by the company Baker Tilly Revisa Spa, in charge of the statutory audit of accounts. On 18 March 2019, in accordance with articles 14 and 16 of Legislative Decree n. 39/2010, the audit company has issued its professional opinion as to the reliability of the financial statements in question, without notes or objections.

The financial statements for the 2018 fiscal year, submitted for your approval, are shown below, compared to those of the 2017 fiscal year.

	Asset line items	31/12/2018	31/12/2017	Amount variations	Variations %
10.	Cash and cash equivalents	13,580,860	11,736,361	1,844,500	15.72%
20.	Financial assets measured at fair value with recognition of income effects through profit and loss	177,963,877	25,469,718	152,494,159	598.73%
	a) financial assets held for trading	121,419,582	25,469,718	95,949,863	376.72%
	b) financial assets measured at fair value	0	0	0	
	c) other financial assets obligatorily measured at fair value	56,544,295	0	56,544,295	
30.	Financial assets measured at fair value with impact on total profits	389,393,708	534,579,568	-145,185,860	-27.16%
40.	Financial assets measured at amortized cost	2,965,841,641	2,628,835,343	337,006,298	12.82%
	a) receivables from banks	249,782,058	183,365,545	66,416,513	36.22%
	b) receivables from customers	2,716,059,583	2,445,469,798	270,589,785	11.06%
50.	Hedges	0	0	0	
60.	Adjustment of value of generic hedges for financial assets (+/-)	0	0	0	
70.	Equity investments	43,560,798	37,854,650	5,706,148	15.07%
80.	Property, plants and equipment	57,539,225	58,105,430	-566,205	-0.97%
90.	Intangible assets	5,404,454	7,519,409	-2,114,956	-28.13%
	of which:				
	- goodwill	4,824,577	6,974,772	-2,150,195	-30.83%
100.	*Tax receivables*	28,770,716	27,029,642	1,741,073	6.44%
	a) current	6,207,367	5,418,324	789,043	14.56%
	b) pre-paid	22,563,349	21,611,318	952,031	4.41%
110.	Noncurrent assets and groups of assets in the course of divestment	0	0	0	
120.	Other assets	83,403,469	41,972,572	41,430,898	98.71%
	Total assets	**3,765,458,748**	**3,373,102,694**	**392,356,054**	**5.91%**

	Liability line items and shareholders' equity	31/12/2018	31/12/2017	Amount variations	Variations %
10.	Financial liabilities measured at amortized cost	3,449,602,767	3,061,397,832	388,204,935	12.68%
	a) payables to banks	609,055,464	503,979,961	105,075,503	20.85%
	b) payables to customers	2,649,018,264	2,305,458,960	343,559,304	14.90%
	c) outstanding Securities	191,529,039	251,958,911	-60,429,872	-23.98%
20.	Financial liabilities from trading	46,458	80,079	-33,620	-41.98%
30.	Financial liabilities measured at fair value	0	0	0	
40.	Hedges	734,746	769,210	-34,464	-4.48%
50.	Adjustment of value of generic hedges for financial liabilities (+/-)	0	0	0	
60.	Tax liabilities	2,243,611	2,568,255	-324,643	-12.64%
	a) current	47,524	276,234	-228,710	-82.80%
	b) deferred	2,196,087	2,292,021	-95,933	-4.19%
70.	Liabilities associated to assets in the course of divestment	0	0	0	
80.	Other liabilities	141,423,478	64,482,313	76,941,165	119.32%
90.	Employee severance pay	3,771,236	3,682,338	88,897	2.41%
100.	Risk and expense funds:	2,320,590	75,164	2,245,426	2987.36%
	a) commitments and issued guarantees	2,247,542	0	2,247,542	
	b) pensions and similar commitments	0	0	0	
	c) other risks and expenses funds	73,048	75,164	-2,116	-2.82%
110.	Valuation reserves	-1,567,282	-1,481,232	-86,050	5.81%
120.	Redeemable shares	0	0	0	
130.	Equity instruments	0	0	0	
140.	Reserves	-70,220,097	3,425,493	-73,645,591	-2149.93%
150.	Premiums on issue of new shares	803,240	803,240	0	0.00%
160.	Share capital	232,800,000	232,800,000	0	0.00%
170.	Treasury shares (-)	0	0	0	
180.	Fiscal year profit/loss	3,500,000	4,500,000	-1,000,000	-22.22%
	Total liabilities and shareholders' equity	**3,765,458,748**	**3,373,102,694**	**392,356,054**	**11.63%**

	Income Statement - Items	31/12/2018	31/12/2017	Amount variations	Variations %
10.	Earned interest and similar income	77,240,003	66,025,702	11,214,302	16.98%
	of which: earned interest calculated using the actual interest method	74,975,992	62,911,674	12,064,318	19.18%
20.	Interest expenses and similar expenses	14,235,808	18,276,036	-4,040,228	-22.11%
30.	**Interest income**	**63,004,196**	**47,749,665**	**15,254,530**	**31.95%**
40.	Commission income	30,108,528	27,280,656	2,827,872	10.37%
50.	Commission expenses	2,500,689	2,069,633	431,056	20.83%
60.	**Commission income**	**27,607,839**	**25,211,023**	**2,396,817**	**9.51%**
70.	Dividends and similar income	318,115	2,293	315,823	13776.35%
80.	Net trading result	-335,994	295,605	-631,599	-213.66%
90.	Net hedging result	-10,456	47,176	-57,632	-122.16%
100.	Gains (losses) from the disposal or repurchase of:	-224,280	3,340,666	-3,564,946	-106.71%
	a) financial assets measured at amortized cost	-364,904	0	-364,904	
	b) financial assets measured at fair value with impact on total profits	106,042	3,275,921	-3,169,879	-96.76%
	c) financial liabilities	34,582	64,745	-30,163	-46.59%
110.	Net income of financial assets and liabilities measured at fair value with recognition of income effects through profit and loss	0	0	0	
	a) financial assets and liabilities measured at fair value	0	0	0	
	b) other financial assets obligatorily measured at fair value	0	0	0	
120.	**Operating income**	**90,359,420**	**76,646,428**	**13,712,992**	**17.89%**
130.	Net adjustments/write-backs of value due to impairment of:	-25,930,661	-15,206,190	-10,724,471	70.53%
	a) financial assets measured at amortized cost	-25,971,379	-15,206,190	-10,765,189	70.79%
	b) financial assets measured at fair value with impact on total profits	40,718	0	40,718	
140.	Profit /loss due to contractual modifications without derecognition	-21,040	0	-21,040	

	Income Statement - Items	31/12/2018	31/12/2017	Amount variations	Variations %
150.	**Net income from financial assets**	**64,407,719**	**61,440,238**	**2,967,481**	**4.83%**
160.	Administrative costs:	60,407,918	56,007,946	4,399,972	7.86%
	a) personnel costs	26,209,957	24,728,206	1,481,750	5.99%
	b) other administrative costs	34,197,962	31,279,740	2,918,221	9.33%
170.	Net allocations to risks and expenses funds	-160,431	-17,630	-142,801	809.97%
	a) commitments and issued guarantees	-158,315	0	-158,315	
	b) other net allocations	-2,116	-17,630	15,514	-88.00%
180.	Net adjustments/write-backs of value on property, plants and equipment	3,008,502	3,009,806	-1,304	-0.04%
190.	Net adjustments/write-backs of value on intangible assets	163,706	126,542	37,164	29.37%
200.	Other operating costs/income	-3,801,875	-3,913,496	111,621	-2.85%
210.	**Operating costs**	**59,617,821**	**55,213,168**	**4,404,653**	**7.98%**
220.	Profit (loss) from equity investments	706,147	512,824	193,323	37.70%
230.	Net result of fair value measurement of property, plants and equipment and intangible assets	0	0	0	
240.	Adjustments to value of goodwill	-2,150,195	0	-2,150,195	
250.	Gains (losses) from the disposal of investments	5,738	2,401	3,337	138.99%
260.	**Gains (losses) from current operations before tax**	**3,351,588**	**6,742,295**	**-3,390,706**	**-50.29%**
270.	Fiscal year income tax on current operations	-148,412	2,242,295	-2,390,706	-106.62%
280.	**Gains (losses) from current operations before tax**	**3,500,000**	**4,500,000**	**-1,000,000**	**-22.22%**
290.	Gains (losses) from disposed assets after tax	0	0	0	
300.	**Fiscal year profit (loss)**	**3,500,000**	**4,500,000**	**-1,000,000**	**-22.22%**

The IFRS 9 accounting principle, which came into effect starting 01/01/2018, has introduced significant changes with respect to IAS39, regarding the rules for the classification and measurement of financial instruments; on 22 December 2017, Bank of Italy issued the 5th update of Circular n. 262 of 22 December 2005, introducing the changes provided for by the aforementioned accounting principle. Therefore, as in the Report on Management, for the purpose of providing a clear comparison between the 2018 data and the data from the previous fiscal year, the reclassifications executed on overall profitability assets and liabilities, in compliance with the entry into force of the IFRS 9 accounting principle and the 5th update of Bank of Italy Circular n. 262, are summarized in the schedules here following.

	Asset line items	31/12/2017	FTA Adjustment-classification and measurement	FTA Adjustment-Impairment	01/01/2018
10.	Cash and cash equivalents	11,736	0	0	11,736
20.	Financial assets measured at fair value with recognition of income effects through profit and loss	25,470	30,263	0	55,732
	a) financial assets held for trading	25,470	0	0	25,470
	b) financial assets measured at fair value	0	0	0	0
	c) other financial assets obligatorily measured at fair value	0	30,263	0	30,263
30.	Financial assets measured at fair value with impact on total profits	534,580	-128,578	0	406,001
40.	Financial assets measured at amortized cost	2,628,835	102,024	-74,689	2,656,171
	a) receivables from banks	183,366	0	0	183,366
	b) receivables from customers	2,445,470	102,024	-74,689	2,472,805
50.	Hedges	0	0	0	0
60.	Adjustment of value of generic hedges for financial assets (+/-)	0	0	0	0
70.	Equity investments	37,855	0	0	37,855
80.	Property, plants and equipment	58,105	0	0	58,105
90.	Intangible assets	7,519	0	0	7,519
	of which:				
	- goodwill	6,975	0	0	6,975
100.	*Tax receivables*	27,030	-1,310	0	25,720

	Asset line items	31/12/2017	FTA Adjustment-classification and measurement	FTA Adjustment-Impairment	01/01/2018
	a) current	5,418	0	0	5,418
	b) pre-paid	21,611	-1,310	0	20,301
110.	Noncurrent assets and groups of assets in the course of divestment	0	0	0	0
120.	Other assets	41,973	0	0	41,973
	Total assets	**3,373,103**	**2,398**	**-74,689**	**3,300,812**

	Liability line items and shareholders' equity	31/12/2017	FTA Adjustment – Classification and measurement	FTA Adjustment - Impairment	01/01/2018
10.	Financial liabilities measured at amortized cost	3,061,398	0	0	3,061,398
	a) payables to banks	503,980	0	0	503,980
	b) payables to customers	2,305,459	0	0	2,305,459
	c) outstanding securities	251,959	0	0	251,959
20.	Financial liabilities from trading	80	0	0	80
30.	Financial liabilities measured at fair value	0	0	0	0
40.	Hedges	769	0	0	769
50.	Adjustment of value of generic hedges for financial liabilities (+/-)	0	0	0	0
60.	Tax liabilities	2,568	0	0	2,568
	a) current	276	0	0	276
	b) deferred	2,292	0	0	2,292
70.	Liabilities associated to assets in the course of divestment	0	0	0	0
80.	Other liabilities	64,482	0	0	64,482
90.	Employee severance pay	3,682	0	0	3,682
100.	Risk and expense funds:	75	0	2,406	2,481
	a) commitments and issued guarantees	0	0	2,406	2,406
	b) pensions and similar commitments	0	0	0	0
	c) other risk and expense funds	75	0	0	75
110.	Valuation reserves	-1,481	2,652	797	1,968
120.	Redeemable shares	0	0	0	0
130.	Equity instruments	0	0	0	0
140.	Reserves	3,425	-253	-77,892	-74,720
150.	Premiums on issue of new shares	803	0	0	803
160.	Share capital	232,800	0	0	232,800
170.	Treasury shares (-)	0	0	0	0
180.	Fiscal year profit (loss)	4,500	0	0	4,500
	Total liabilities and shareholders' equity	**3,373,103**	**2,398**	**-74,689**	**3,300,812**

The details regarding the variations, subdivided into "classification and measurement" and "Impairment" are provided in the schedule below:

Item	Description	Reclassification amounts	Impairment amounts
20.A	**Financial assets measured at fair value with recognition of income effects through profit and loss**	**30,263**	**0**
	a) financial assets held for trading	0	0
	b) financial assets measured at fair value	0	0
	c) other financial assets obligatorily measured at fair value	30,263	0
	- Reclassification from AFS Securities	3,755	0
	- Reclassification from insurance policies	13,143	0
	- Reclassification from loans in gold	13,419	0
	- Reclassification from insurance policies (valuation reserve)	-27	0
	- Reclassification from loans in gold (Valuation reserve)	-28	0
30.A	**Financial assets measured at fair value with impact on total profits**	**-128,578**	**0**

Item	Description	Reclassification amounts	Impairment amounts
	- Reclassification from AFS securities (charge)	405,986	0
	- Reclassification from AFS securities - CR Cesena (discharge)	15	0
	- Reclassification from AFS securities (charge)	-534,565	0
	- Reclassification from AFS securities - CR Cesena (discharge)	-15	0
40.A	**Financial assets measured at amortized cost**	**102,024**	**-74,689**
	a) receivables from banks	0	0
	- Impairment on banks	0	0
	b) receivables from customers	102,024	-74689
	- Reclassification from AFS securities	124,823	0
	- Reclassification from AFS securities- (from valuation reserves)	3,709	0
	- FTA Impairment on HTC securities	0	-80
	- Reclassification from insurance policies	-13,143	0
	- Reclassification from loans in gold	-13,419	0
	- Reclassification from insurance policies (valuation reserve)	27	0
	- Reclassification from loans in gold (valuation reserve)	28	0
	- FTA Impairment UTP FTA receivables	0	-40561
	- FTA Impairment FTA overdue FTA receivables	0	-543
	- FTA Impairment on stage 1 in bonis receivables	0	-2321
	- FTA Impairment on stage 2 in bonis receivables	0	-2699
	- FTA Impairment on FTA non-performing loan receivables	0	-28486
100.A	**Tax receivables - b) pre-paid**	**-1,310**	**0**
	- Asset discharge due to pre-paid tax on AFS securities	-1,770	0
	- Asset charge due to pre-paid tax on HTCS (FOS) securities	169	0
	- Asset charge pre-paid tax on HTCS (FOE) securities	291	0
100.P	**Risk and expense funds: a) commitments and issued guarantees**	**0**	**2,406**
	- Provision for issued guarantees	0	2406
110.P	**Valuation reserves**	**2,652**	**797**
	- Discharge AFS securities reserve fund	5,353	0
	- Charge (FOS) securities reserve fund	-511	0
	- Charge HTCS (FOE) securities reserve fund	-880	0
	- Discharge tax on AFS securities reserve fund	-1,770	0
	- Charge tax on HTCS (FOS) securities reserve fund	169	0
	- Charge tax on HTCS (FOE) securities reserve fund	291	0
	- Valuation fund on HTCS OCI (FOS) Securities	0	797
140.P	**Reserves**	**-253**	**-77,892**
	- Reserve on former AFS Securities passed to FVTPL	-253	0
	- Reserve fund for impairment on receivables from banks - Stage 1 - 1a FTA	0	0
	- Reserve fund for on receivables from customers - Stage 1 - 1a FTA	0	-2,321
	- Reserve fund for on receivables from customers - Stage 2 - 1a FTA	0	-2,699
	- Reserve fund for impairment on receivables from customers - Stage 3 – Overdue/overdrawn - FTA	0	-543
	- Reserve fund for impairment on receivables from customers - Stage 3 - Non-performing loans - FTA	0	-28,486
	- Reserve fund for impairment on receivables from customers - Stage 3 - UTP - FTA	0	-40,561
	- Valuation fund on HTC securities	0	-80
	- Valuation fund on HTCS OCI (FOS) securities	0	-797
	- Provision fund on issued guarantees	0	-2,406

The Explanatory Notes contain further information either deemed useful or required by law for a more exhaustive representation of corporate events and a better comprehension of balance sheet data.

The Board of Statutory Auditors also met with the company in charge of the statutory audit of the accounts, thus taking note of the work carried out by the latter and exchanging reciprocal information, as per article 2409-septies of the Italian Civil Code. As regards the items in the draft financial statements submitted to the Shareholders' assembly, the Board of Statutory Auditors has carried out the controls required to be able to provide the following comments.

3. Comments on the financial statements

It is noted as follows:

- The draft financial statements were prepared, as implementation of Legislative Decree n. 38/2005, from a substantive standpoint, in accordance with the Supervisory Regulations contained in Circular n. 262 of 22 December 2005 of the Bank of Italy and in application of the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB), approved by the European Union, and in effect as of the date the financial statements were closed, as well as the related interpretations (SIC/IFRIC). Such accounting standards are reported analytically in part A.1, section 2 of the Explanatory Notes. The above documentation duly considers what is provided in the Joint Document of the Bank of Italy, Consob and Isvap n. 4 of 3 March 2010, on the information to be provided in financial reports on controls of the reduction of value of assets (impairment test), on the contractual clauses of financial liabilities, on debt restructuring and on the "hierarchy of fair value";

- the draft financial statements, as prepared, correspond to the facts and information the Administrative Body was aware of as of the date of their approval;

- The Report on Operations contains the information required by outstanding law and completes, in a clear manner, the content of the fiscal year financial statements; specifically, in the Report on Operations and in the Explanatory Notes, the directors have provided the information required by Document no. 2 of Consob, the Bank of Italy and Isvap of 6 February 2009 on "business continuity" (going concern), and they prepared the financial statements based on an expectation of business continuity. The Board agrees with the judgment expressed and confirms the reasonable expectation that the company will continue operating in the foreseeable future.

As noted, with respect to the supervisory activity regarding the financial statements for which it is responsible, in addition to the provisions of the Italian Civil Code and provisions of the Supervisory Authority, the Board of Statutory Auditors complied with the rules of conduct established by the National Council of Accountants and Auditors.

In conclusion, the Board of Statutory Auditors approves the 2018 fiscal year financial statements, which were duly made available within the prescribed term.

Specifically, in accordance with article 2426, point 5 of the Italian Civil code, the Board consents to booking multi-year software costs and expenses, amounting to a total of € 198,945.4 in asset line item 90 "Intangible assets". The entry is at cost, net of constant rates of amortization over five years. Again, with the Board's consent, the costs for leasehold improvements, corresponding to € 33,510 were allocated to asset line item 120 "Other assets" and were amortized directly on the basis of the duration of the leases.

Goodwill, recorded in the balance sheet for a total of € 4,824,577.00, deriving from the "Way-Out" operation, which was originally recorded in the previous year's financial statements for € 4,87,.772.00.

In accordance with the specific policy on Goodwill, in the current fiscal year, the goodwill inherent to the purchase of the business branch from Banca Interregionale Spa, which took place on 20 November 2014 and became effective on 1 January 2015, for a total of € 2,100,000.00, was subjected to the impairment test and the value of goodwill attributable to the Turin branch was reduced by € 50,195.00, deriving from the "Way-Out" operation.

As regards the residual goodwill recorded as at 31 December 2018, relative to the "Way-Out" operation, we have verified that the calculated "value of use" is greater than the "booking value", and therefore the Board consent to recording goodwill amounting to € 4,824,577.00 in the previous fiscal years.

Moreover, during the course of the fiscal year, the Board of Statutory Auditors met with the auditing company Baker Tilly Revisa and exchanged information, as provided for by Italian Legislative Decree n. 39 of 27 January 2010, implementing European Community directives regarding statutory auditing of accounts. In accordance with article 11 of (EU) Regulation 537/2014, the aforementioned auditing company also provided the required supplementary report for the internal audit committee and for the purpose of the accounting audit, in which the company confirmed finding no significant deficiencies in the internal control system with respect to the financial information process, the accounting system and the statement, in accordance with article 6, sub-section 2, lett. a) of (UE) Regulation n. 537/2014, and that no situations were found that might have compromised independence, as per articles 10 and 17 of Italian Legislative Decree n. 39/2010 and articles 4 and 5 of (EU) Regulation 537/2014.

We confirm that the Directors provided all the indications required by article 10 of Law n. 72 of 19 March 1983 in a specific annex to the financial statements.

4. Proposals regarding the financial statements and the approval thereof

Upon the conclusion of the specific controls carried out, the Board can certify that the Report on Operations is consistent with the Bank's financial statements as of 31 December 2017 and indicates business performance, its current trend and outlook. This is true with reference both to the financial information, as an analysis of the income, asset and financial situation and indictors of capital adequacy, as well as with respect to other information, such as risks and uncertainties concerning the Bank's activity, its management, human resources, cultural and promotional activities, security, mutual aid activities, and business performance. The significance of credit risk, liquidity risk and market risk was adequately indicated, also in consideration of the strong market tensions. The Explanatory Notes indicate the measurement criteria used and provide all of the information required by laws currently in force, including information on credit risk, market risk, liquidity risk and operational risks.

As conclusion of our report, in repeating that on the basis of the supervisory activity carried out no critical events appeared and no omissions or irregularities were found, the Board of Statutory Auditors expresses its favorable opinion, to the extent of our responsibility, for the approval of the financial statements for fiscal year 2018 and related proposal for the allocation of the fiscal year net profit, which it certifies conforms to law and the Articles of Association and is suitable in view of the Bank's economic and financial situation.

*****

The Board sincerely thanks all of the Bank's departments for the collaboration provided to the control body during the course of the fiscal year while carrying out its institutional functions.

Florence, 19 March2019

THE BOARD OF STATUTORY AUDITORS

Prof. Stefano Sanna	CHAIRMAN
Dr. Gaetano De Gregorio	ACTING AUDITOR
Prof. Rita Ripamonti	ACTING AUDITOR

REPORT OF THE INDEPENDENT AUDITOR

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

REPORT OF THE INDEPENDENT AUDITOR
IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE NO. 39 OF 27.1.2010
AND ARTICLE 10 OF EU REGULATIONS N. 537/2014.

To the Shareholders of Banca Cambiano 1884 S.p.A.

REPORT ON THE ACCOUNTING AUDIT OF THE FINANCIAL STATEMENTS

Opinion
We have audited the fiscal year financial statements of Banca Cambiano 1884 S.p.A. (the Company), consisting of the equity and financial situation as at 31 December 2018, the income statement, the overall income statement, the schedule of variations to shareholders' equity, statement of cash flows for the fiscal year ending on the aforementioned date and by the explanatory notes thereto that also include the summary of the most significant accounting principles applied.
In our opinion, the financial statements represent in a truthful and accurate manner shareholders' equity and the financial situation of the Company as at 31 December 2018, as well as of the economic result and cash flows for the fiscal year closed on the same date, in conformity with the International Financial Reporting Standards adopted by the European Union, as well as with the regulations implementing article 43 of Legislative Decree n. 136/2015.

Basis for the opinion
We conducted the audit in conformity with the procedures specified in the audit standards (ISA Italia). Our responsibilities pursuant to the aforementioned standards are further described in the section *Responsibility of the Independent Auditors for the audit of financial statements for the fiscal year* in this report. We are independent with respect to the Company, in compliance with regulations and standards regarding ethical principles and independence applicable in Italian Law to audits of financial statements. It is our opinion that we have acquired sufficient and adequate evidence on which to base our opinion.

Key aspects of the audit of accounts
The key aspects of the audit of accounts are those aspects that, in our professional opinion, are of greatest significance within the scope of the audit of accounts for the financial statements in review. This aspects were dealt with within the scope of the audit of accounts and in forming our opinion as to the overall financial statements; therefore, we will not express a separate opinion of such aspects.

Classification and measurement of receivables from customers measured at amortized cost
Receivables from customers (line item 40-b Receivables Balance Sheet) at 31 December 2018 show a balance of 2,176 million Euro, composed of 2,488 million Euro in receivables from customers and 288 million Euro in HTC securities, against overall assets in the balance sheet amounting to 3,765 million Euro.
Particular attention was given to these receivables within the scope of our auditing activity, in that the processes and methods for measurement adopted by the Bank and provided for by the respective policies, are characterized by processes estimating numerous variables such as, principally, the existence of indicators of possible losses in value, the calculation of expected cash flows and the relative recovery times, the realizable value of collateral, the type of customer and the use of internal and external elements observable at the date of assessment.

The Company has provided the information relative to the assessment in the Explanatory Notes:
Part B- Information on the balance sheet in section 4 of Receivables , Part C – Information on the income statement in section 8, Part E – Information on risks and the relative hedging policies.

Auditing procedures in response to the key aspects
Within the scope of the auditing activities, the following main activities were carried out to analyze this key aspect:

- Analysis of company procedures and processes and verification of the operating efficacy of relative controls, for the purpose of the assessment process of receivables from customers for financing;
- Comparative analysis procedures as regards the most significant differences as compared to the previous fiscal year's data and analysis of the results with the corporate functions involved:
- Analysis of the assessment models, both collectively and individually, and verification based on samples of the reasonableness of the variables subject to estimation within the scope of the aforementioned models;
- Verifications on a sample basis of evaluation and classification in the financial statements according the categories provided for by the applicable regulatory framework on financial and regulatory information

Goodwill impairment test

The Bank booked net goodwill amounting to 4,825 thousand Euro in the intangible assets of the statement of accounts closed at 31 December 2018, allocated to the Cash Generating Unit (CGU), relative to the purchase of former Binter tellers and the branches purchased from Banca A.G.C.I. S.p.A., within the scope of the "Way-Out" operation. In compliance with IAS 36 "Impairment of Assets", this goodwill is not amortized but instead is subject to an impairment test, at least on an annual basis, by comparing it to the recoverable value of the CGU.

The impairment test carried out by the Bank determined the need to register a partial write-down equal to 2,150 thousand Euro.

The Company has provided the information relative to the assessment in the Explanatory Notes:
Part A – Accounting policies, Part B- Information on the balance sheet in section 9 of Receivables , Part C – Information on the income statement in section 17

Auditing procedures in response to the key aspects

Within the scope of the auditing activities, the following main activities were carried out to analyze this key aspect:

- Analysis of company procedures and processes and verification of the operating efficacy of relative controls for the purpose of the assessment process of the accounting item;
- Comparative analysis procedures with reference to the most significant deviations with respect to data from the previous fiscal year and analysis of results with the company functions involved;
- Verification of the evaluation models used by the Bank and by the reasonableness of the data and input parameters used, with particular attention paid to the Impairment Test method on the accounting item in question.

First time application of the IFRS 9 international accounting principle

The first time application, on 1 January 2018, of the IFRS 9 international accounting principle required the reclassification and measurement of the Bank's financial assets and liabilities according to the new accounting categories provided for by the principle and the definition of a method to calculate the value adjustments (impairment) of financial assets based on the "expected credit losses" model.

The Company has provided the information relative to the assessment in the Explanatory Notes:
Part A – Accounting policies in the section "Transition to IFRS 9, financial instruments", including the principle decisions made regarding methodology.

In particular, the first time application of IFRS 9 resulted in, at 1 January 2018, an overall negative effect on the Bank's net equity equal to 74.7 million Euro.
These effects were determined as a result of the overall implementation process that involved numerous aspects of the Bank's internal control system in various ways.
Considering the significance of the aforementioned effects and the pervasive operational complexity of the transition, it our opinion that the first time application of IFRS 9 is a key aspect in the audit of the Bank's financial statements for the fiscal year in review.

Auditing procedures in response to the key aspects

Within the scope of the auditing activities, the following main activities were carried out to analyze this key aspect:

- Obtaining all the output documents regarding the transition process: resolutions of the Bank's Administrative and Control Bodies, accounting policy and all other documentation produced and made available;
- Analysis of the business model adopted by the company and verification of its compliance with the company's actual operations, particularly as regards classification and measurement criteria for financial assets in said business model;
- Understanding of the process in terms of methodologies and procedures;
- Searched for possible issues that may have arisen during the process.

Responsibility of the Directors and of the Board of Statutory Auditors for the financial statements.

The directors are responsible for preparing the financial statements so that they provide a true and correct representation in conformity with the International Financial Reporting Standards adopted by the European Union and with the provisions issued to implement Article 43 of Legislative Decree n. 136/2015 and, to the extent required by law, for those internal controls deemed necessary by the Directors to allow preparing financial statements that do not contain significant errors due to fraud or unintentional conduct or events.

Directors are responsible for assessing the capacity of the Company to continue operating as a working entity and, in preparing the financial results, for the appropriate use of the assumption of corporate continuity as well as for adequate information on this matter. Directors use the assumption of corporate continuity in preparing the financial statements, unless they have assessed the existence of conditions that require liquidation of the Company or interruption of business activities or that there are no realistic alternatives.

The Board of Statutory Auditors is responsible for vigilance, within the terms provided for by law, over the preparation process of the Company's financial information.

Responsibility of the Independent Auditors for the accounting audit of the financial statements

Our objectives are to acquire reasonable certainty that the financial statements contain no significant errors due to fraud or to intentional conduct or to events and to issue an audit report that includes our opinion. Reasonable certainty means a high level of certainty that, nonetheless, is not a guaranty that an accounting audit conducted according to international auditing principles (ISA Italia) will always identify a significant error, should one exist. Errors may derive from fraud or from unintentional conduct, and are considered significant if it may be reasonably expected that such errors, singly or as a whole, may influence user economic decisions made based on the financial statements for the year.

Within the scope of the accounting audit conducted in compliance with the international auditing principle (IAS ITALY), we have exercised our professional expertise and have maintained professional skepticism for the entire duration of the accounting audit. Moreover:

- We have identified and assessed the risk of significant errors in the financial statements, resulting from fraud or unintentional conduct or events; we have defined and carried out auditing procedures in response to said risks; we have acquired sufficient and appropriate evidence on which to base our opinion. The risk of not identifying a significant error resulting from fraud is higher than the risk of not identifying a significant error resulting from unintentional conduct or events, as fraud may implicate the existence of collusion, falsifications, intentional omissions, misleading representations or forced internal control results;
- We have acquired a sufficient understanding of the internal controls for the purpose of the accounting audit, in order to define accounting procedures that are appropriate to the circumstances and not for the purpose of expressing an opinion as regards the efficacy of the Company's internal controls;

- We have assessed the appropriateness of the accounting principles applied as well as the reasonableness of the accounting estimations made by company administrators, including the respective information documents;
- We have come to a conclusion regarding the appropriate use of the assumption of corporate continuity on the part of the directors and, based on the evidence acquired, as to the possible existence of significant uncertainty as regards events or circumstances that may give rise to significant doubts regarding the Company's capacity to continue to operate as a business entity. Where faced with a significant uncertainty, we are bound to call attention to the fact in the auditing report on the information provided or, if the information provided is insufficient, to take into account such inadequacy in the formulation of our opinion. Our conclusions are based on the documentation acquired as at the date of this report. However, subsequent events or circumstances may result in the Company ceasing to operate as a business unit.
- We have assessed the presentation, structure and contents of the financial statements for the fiscal year as a whole, including the information documents, and whether or not the financial statements as such faithfully represent the underlying operations and events.

We have informed the persons in charge of governance activities, identified at an appropriate level, as required by ISA Italia principles, among other aspects, of the scope and timing planned for the accounting review and of the significant findings thereof, including any significant deficiencies in internal controls observed during the accounting audit.

We have also provided persons in charge of governance activities with a declaration that all regulations and principles regarding ethical conduct and independence were observed, as applicable by Italian law, and have informed them of any situation that may reasonably affect our independence and, where applicable, the respective safeguarding measures.
Among aspects of which governance was informed, we identified those that were most relevant within the scope of the accounting audit of the financial statements for the fiscal year in review, which therefore constituted the key aspects of the audit. These aspects are described in the audit report.

Other information communicated pursuant to article 10 of EU Regulations 537/2014
On 7 May 2011, the Shareholders' Meeting of Banca Cambiano 1884 S.p.A. appointed Baker Tilly Revisa S.p.A. as statutory auditor of the Company's financial statements for the fiscal years from 31 December 2011 to 31 December 2019.

We hereby declare that no services forbidden by article 5, section 1 of EU Regulations 537/2014 were rendered other than the accounting audit and that we remained independent with respect to the Company in the performance of the statutory audit.

We confirm that the opinion expressed in this report on the financial statement is in line with the contents of the additional report sent to the Board of Statutory Auditors in its role as committee for internal control and legal review, pursuant to article 11 of the aforementioned Regulations.

REPORT ON OTHER LAW AND REGULATORY PROVISIONS

Opinion pursuant to article 14, sub-section 2, letter e) of Italian Legislative Decree 39/10
The Directors of Banca Cambiano 1884 S.p.A. are responsible for preparing the report on operations for Banca Cambiano 1884 S.p.A. at 31 December 2018, including its consistency with the respective financial statements for the fiscal year and its conformity to provisions of law.

We conducted the procedures specified in the audit standards (SA Italia) n. 720B for the purpose of expressing an opinion as regards the consistency of the report on operations with the financial statements of the Banca Cambiano

1884 S.p.A. as at 31 December 2018 and on compliance with provisions of law, and to issue a declaration regarding any significant errors.

In our opinion, the report on operations is consistent with the financial statements of Banca Cambiano 18884 S.p.A. as at 31 December 2018 and has been prepared in compliance with all provisions of law.

With reference to the declaration required by article 14, sub-section 2, letter e) of Italian Legislative Decree 39/10, issued based on knowledge and comprehension of the business and of the relative context acquired during auditing activities, we have nothing to report.

Florence, 18 March 2019

BAKER TILLY REVISA S.p.A.
Lucia Caciagli
Executive Partner

SCHEDULES TO THE FINANCIAL STATEMENTS

BANCA CAMBIANO 1884

SOCIETÀ PER AZIONI

OVERALL PROFITABILITY

	Asset line items	31/12/2018	31/12/2017
10.	Cash and cash equivalents	13,580,860	11,736,361
20.	Financial assets measured at fair value with recognition of income effects through profit and loss	177,963,877	25,469,718
	a) financial assets held for trading	*121,419,582*	*25,469,718*
	b) financial assets measured at fair value	-	-
	c) other financial assets obligatorily measured at fair value	*56,544,295*	-
30.	Financial assets measured at fair value with impact on total profits	389,393,708	534,579,568
40.	Financial assets measured at amortized cost	2,965,841,641	2,628,835,343
	a) receivables from banks	*249,782,058*	*183,365,545*
	b) receivables from customers	*2,716,059,583*	*2,445,469,798*
50.	Hedges	-	-
60.	Adjustment of value of generic hedges for financial assets (+/-)	-	-
70.	Equity investments	43,560,798	37,854,650
80.	Property, plants and equipment	57,539,225	58,105,430
90.	Intangible assets	5,404,454	7,519,409
	of which:		
	- goodwill	*4,824,577*	*6,974,772*
100.	Tax receivables	28,770,716	27,029,642
	a) current	*6,207,367*	*5,418,324*
	b) pre-paid	*22,563,349*	*21,611,318*
110.	Noncurrent assets and groups of assets in the course of divestment	-	-
120.	Other assets	83,403,469	41,972,572
	Total assets	**3,765,458,748**	**3,373,102,694**

	Liability line items and shareholders' equity	31/12/2018	31/12/2017
10.	Financial liabilities measured at amortized cost	3,449,602,767	3,061,397,832
	a) payables to banks	*609,055,464*	*503,979,961*
	b) payables to customers	*2,649,018,264*	*2,305,458,960*
	c) outstanding securities	*191,529,039*	*251,958,911*
20.	Financial liabilities from trading	46,458	80,079
30.	Financial liabilities measured at fair value	-	-
40.	Hedges	734,746	769,210
50.	Adjustment of value of generic hedges for financial liabilities (+/-)	-	-
60.	Tax liabilities	2,243,611	2,568,255
	a) current	*47,524*	*276,234*
	b) deferred	*2,196,087*	*2,292,021*
70.	Liabilities associated to assets in the course of divestment	-	-
80.	Other liabilities	141,423,478	64,482,313
90.	Employee severance pay	3,771,236	3,682,338
100.	Risk and expense funds:	2,320,590	75,164
	a) commitments and issued guarantees	*2,247,542*	-
	b) pensions and similar commitments	-	-
	c) other risk and expense funds	*73,048*	*75,164*
110.	Valuation reserves	-1,567,282	-1,481,232
120.	Redeemable shares	-	-
130.	Equity instruments	-	-
140.	Reserves	-70,220,097	3,425,493
150.	Premiums on issue of new shares	803,240	803,240
160.	Share Capital	232,800,000	232,800,000
170.	Treasury shares (-)	-	-
180.	Fiscal year profit/loss	3,500,000	4,500,000
	Total liabilities and shareholders' equity	**3,765,458,748**	**3,373,102,694**

INCOME STATEMENT

	Line items	31/12/2018	31/12/2017
10.	Earned interest e similar income	77,240,003	66,025,702
	of which: earned interest calculated using the actual interest method	*74,975,992*	*62,911,674*
20.	Interest expenses and similar expenses	14,235,808	18,276,036
30.	**Interest income**	**63,004,196**	**47,749,665**
40.	Commission income	30,108,528	27,280,656
50.	Commission expenses	2,500,689	2,069,633
60.	**Net commission income**	**27,607,839**	**25,211,023**
70.	Dividends and similar income	318,115	2,293
80.	Net trading result	-335,994	295,605
90.	Net hedging result	-10,456	47,176
100.	Gains (losses) from the disposal or repurchase of:	-224,280	3,340,666
	a) financial assets measured at amortized cost	*-364,904*	*0*
	b) financial assets measured at fair value with impact on total profits	*106,042*	*3,275,921*
	c) financial liabilities	*34,582*	*64,745*
110.	Net income of other financial assets and liabilities measured at fair value with recognition of income effects through profit and loss	-	-
	a) financial assets and liabilities measured at fair value	-	-
	b) other financial assets obligatorily measured at fair value	-	-
120.	**Operating income**	**90,359,420**	**76,646,428**
130.	Net adjustments/write-backs of value due to impairment of:	-25,930,661	-15,206,190
	a) financial assets measured at amortized cost	*-25,971,379*	*-15,206,190*
	b) financial assets measured at fair value with impact on total profits	*40,718*	-
140.	Profit/loss from contractual modifications without derecognition	-21,040	-
150.	**Net income from financial assets**	**64,407,719**	**61,440,238**
160.	Administrative costs:	60,407,918	56,007,946
	a) personnel costs	*26,209,957*	*24,728,206*
	b) other administrative costs	*34,197,962*	*31,279,740*
170.	Net allocations to risk and expense funds	-160,431	-17,630
	a) commitments and issued guarantees	*-158,315*	-
	b) other net allocations	*-2,116*	*-17,630*
180.	Net adjustments/write-backs of value to property, plants and equipment	3,008,502	3,009,806
190.	Net adjustments/write-backs on intangible assets	163,706	126,542
200.	Other operating costs/income	-3,801,875	-3,913,496
210.	**Operating costs**	**59,617,821**	**55,213,168**
220.	Profit (loss) from equity investments	706,147	512,824
230.	Net result of fair value measurement of property, plants and equipment and intangible assets	-	-
240.	Adjustments to value of goodwill	-2,150,195	-
250.	Gains (losses) from the disposal of investments	5,738	2,401
260.	**Gains (losses) from current operations before taxes**	**3,351,588**	**6,742,295**
270.	Fiscal year income tax on current operations	-148,412	2,242,295
280.	**Gains (losses) from current operations after taxes**	**3,500,000**	**4,500,000**
290.	Gains (losses) from groups of assets in the course of divestment after tax	-	-
300.	**Fiscal year profit (loss)**	**3,500,000**	**4,500,000**

SCHEDULE OF OVERALL PROFITABILITY

	Line items	31/12/2018	31/12/2017
10.	**Fiscal year profit (loss)**	**3,500,000**	**4,500,000**
	Other income components net of tax without reversal to income statement		
20.	Capital securities measured at fair value with impact on total profits	-27,423	-
30.	Financial liabilities measured at fair value with impact on the income statement (variations to own creditworthiness)	-	-
40.	Hedges on capital securities measured at fair value with impact on total profits	-	-
50.	Property, plants and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit assets	-39,280	68,151
80.	Noncurrent assets and groups of assets in the course of divestment	-	-
90.	Share of valuation reserves of equity investments measured on basis of shareholders' equity	-	-
	Other income components net of tax with reversal to income statement		
100.	Hedging foreign investments	-	-
110.	Exchange rate differences	-	-
120.	Hedging cash flows	-	-
130.	Hedging instruments (unmeasured elements)	-	-
140.	Financial assets (other than capital securities) measured at fair value with impact on total profits	-3,468,306	300,630
150.	Noncurrent assets and groups of assets in the course of divestment	-	-
160.	Share of valuation reserves of equity investments measured on basis of shareholders' equity	-	-1,124,908
170.	**Total other net of tax**	**-3,535,009**	**-756,127**
180.	**Overall profitability (line items 10+170)**	**-35,009**	**3,743,873**

TABLE OF VARIATIONS TO SHAREHOLDERS' EQUITY

TABLE OF VARIATIONS TO SHAREHOLDERS' EQUITY AT 31/12/2018	Amounts as at 31/12/2017	Modification of opening balance	Amounts as at 01/01/2018	Allocation of prior fiscal year result		Fiscal year variations								
				Reserves	Dividends and other allocations	Variations of reserves	Transactions involving shareholders' equity						Overall profitability for the fiscal year 31/12/2018	Shareholders' equity at 31/12/2018
							Issue of new shares	Purchase of treasury shares	Distribution of extraordinary	Variations of equity instruments	Derivatives on treasury shares	Stock options		
Share capital:														
a) ordinary shares	**232,800,000**		232,800,000											**232,800,000**
b) other shares	**0**													**0**
Premiums on issue of new shares	**803,240**		803,240											**803,240**
Reserves:														
a) from gains	**3,425,493**	-78,145,591	-74,720,097	4,500,000										**-70,220,097**
b) other	**0**													**0**
Valuation reserves	**-1,481,232**	3,448,958	1,967,727										-3,535,009	**-1,567,282**
Equity instruments	**0**													**0**
Treasury shares	**0**													**0**
Fiscal year profit (loss)	**4,500,000**		4,500,000	-4,500,000									3,500,000	**3,500,000**
Shareholders' equity	**240,047,502**	**-74,696,632**	**165,350,870**										**-35,009**	**165,315,861**

Detail of modifications of opening balance

Reserves - a) from gains:	**-78,145,591**
- Recognition of reserves from FTA: Impairment of financial assets measured at amortized cost:	**-74,689,176**
FTA - Receivables from customers: Impairment Stage 3 - UTP	-40,561,171
FTA - Receivables from customers: Impairment Stage 3 - Non-performing loans	-28,486,027
FTA - Receivables from customers: Impairment Stage 3 - PD	-543,047
FTA - Receivables from customers: Impairment Stage 2	-2,698,695
FTA - Receivables from customers: Impairment Stage 1	-2,320,506
FTA - Receivables from banks: Impairment Stage 1	-31
FTA - HTC securities	-79,699
- Recognition of reserves from FTA: Impairment on commitments and issued guarantees	**-2,405,857**
FTA – Issued guarantees: Impairment	-2,405,857
- Recognition of reserves from FTA: Impairment on financial assets measured at fair value with impact on OCI:	**-797,406**
FTA - HTCS Securities with impact on OCI: Impairment	-797,406
- Recognition of reserves from FTA: Reclassification reserve on AFS Securities transferred to financial assets measured at fair value with recognition of income effects through profit and loss:	**-253,152**
FTA - Reclassification Reserve AFS Securities transferred to FVTPL	-253,152
Valuation reserves:	**3,448,958**
- Reclassification reserve on AFS securities:	**2,651,553**
AFS Securities reclassified among financial assets measured at amortized cost – gross value	3,708,529
AFS Securities reclassified among financial assets measured at amortized cost - taxation	-1,226,410
AFS Securities reclassified among financial assets measured at fair value with recognition of income effects through profit and loss	253,152
AFS Securities reclassified among financial assets measured at fair value with recognition of income effects through profit and loss – taxation	-83,717
- Recognition of valuation reserves: Impairment of financial assets measured at fair value with impact on OCI:	**797,406**
HTCS Securities with impact on OCI: Impairment	797,406
HTCS Securities with impact on OCI: Taxation on impairment	0

TABLE OF VARIATIONS TO DEL SHAREHOLDERS' EQUITY AT 31/12/2017 (amounts in €)				Allocation of prior fiscal year result		Fiscal year variations								
							Transactions involving shareholders' equity							
	Amounts as at 31/12/2016	Modification of opening balance	Amounts as at 01/01/2017	Reserves	Dividends and other allocations	Variations of reserves	Issue of new shares	Purchase of treasury shares	Distribution of extraordinary	Variation of equity instruments	Derivatives on treasury shares	Stock options	Overall profitability for the fiscal year 31/12/2017	Shareholders' equity as at 31/12/2017
Share capital:														
a) ordinary shares	**3,864,168**	228,935,832	232,800,000											**232,800,000**
b) other shares	**0**													**0**
Premiums on issue of new shares	**562,291**	837,709	1,400,000	-596,760										**803,240**
Reserves:														
a) from gains	**251,964,891**	-247,729,309	4,235,582	42,430		-852,519								**3,425,493**
b) other	**0**													**0**
Valuation reserves	**12,367,554**	-13,092,658	-725,104										-756,127	**-1,481,232**
Equity instruments	0													**0**
Treasury shares	0													**0**
Fiscal year profit (loss)	**5,100,000**	**-5,057,570**	**42,430**	**-42,430**									**4,500,000**	**4,500,000**
Shareholders' equity	**273,858,904**	**-36,105,996**	**237,752,908**	**-596,760**		**-852,519**							**3,743,873**	**240,047,502**

Detail of modifications of opening balance

Share Capital - a) ordinary shares:	**228,935,832**
- Discharge of shares for Way Out referred to Ente Cambiano	-3,864,168
- Charge of shares for Way Out referred to former Banca AGCI now Banca Cambiano 1884 s.p.a.	232,800,000
Premiums on issue of new shares:	**837,709**
- Discharge of premium for Way Out referred to Ente Cambiano	-562,291
- Charge of premium for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	1,400,000
Reserves - a) from gains:	**-247,729,309**
- Discharge of reserves for Way Out referred to Ente Cambiano	-251,964,891
- Charge of contribution reserve for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	4,874,772
- Charge of other contribution reserve for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	720,000
- Charge of previous year deficit from contribution for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	-1,359,190
Valuation reserves:	**-13,092,658**
- Discharge of valuation reserves for Way Out referred to Ente Cambiano	-10,835,907
- Charge AFS Securities fund for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	-2,241,946
- Charge actuarial fund for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	-14,806
Fiscal year profit (loss):	**-5,057,570**
- Discharge of profit for Way Out referred to Ente Cambiano	-5,100,000
- Charge of profit for Way Out referred to former Banca AGCI now Banca Cambiano 1884 S.p.a.	42,430

CASH FLOW STATEMENT

INDIRECT METHOD	Amounts	Amounts
	31/12/2018	31/12/2017
A. OPERATING ASSETS		
1 Operations	**33,801,731**	**25,934,418**
- Fiscal year result (+/-)	3,500,000	4,500,000
- Gains/losses on financial assets held for trading and other financial assets/ liabilities measured at fair value with recognition of income effects through profit and loss (+/-)	1,336,817	-428,837
- Gains/losses on assets used for hedging (+/-)	10,456	-47,176
- Net adjustments/write-backs of value due to impairment (+/-)	25,930,661	15,206,190
- Net adjustments/write-backs of value of property, plant and equipment and intangible assets (+/-)	3,172,208	3,136,348
- Net allocations to risk and expense funds and other costs/income (+/-)	-160,431	-17,630
- Outstanding duties, taxes and receivables (+)	-148,412	2,242,295
- Net adjustments/write-backs of value of groups of assets being divested net of tax (+/-)	0	0
- Other adjustments (+/-)	160,431	1,343,228
2 Liquidity generated /absorbed by financial assets	**-413,185,569**	**-197,454,671**
- Financial assets held for trading	-96,881,928	32,605,080
- Financial assets measured at fair value	0	0
- Other assets obligatorily measured at fair value	-56,949,047	0
- Financial assets measured at fair value with impact on total profits	144,879,880	97,126,892
- Financial assets measured at amortized cost	-362,630,979	-334,414,221
- Other assets	-41,603,494	7,227,578
3 Liquidity generated/absorbed by financial liabilities	**389,004,466**	**215,062,980**
- Financial liabilities measured at amortized cost	388,204,935	243,331,356
- Financial liabilities from trading	-33,620	80,079
- Financial liabilities measured at fair value	0	0
- Other liabilities	833,152	-28,348,455
Net liquidity generated/absorbed by operating assets	**9,620,628**	**43,542,726**
B. INVESTIMENT ACTIVITIES		
1 Liquidity generated by	**-134,886**	**-17,201,637**
- Sale of equity investments	0	0
- Dividends received from equity investments	0	0
- Sale of property, plants and equipment	-134,886	-17,201,637
- Sale of intangible assets	0	0
- Sale of branches of business	0	0
2 Liquidity absorbed by	**-7,641,242**	**-236,111,010**
- Purchase of equity investments	-5,000,000	-5,751,652
- Purchase of property, plants and equipment	-2,442,297	-3,471,214
- Purchase of intangible assets	-198,945	-266,934
- Purchase of branches of business	0	-226,621,210
Net liquidity generated/absorbed by investment assets	**-7,776,128**	**-253,312,647**
C. FUNDING ACTIVITIES		
- Issues/purchases of treasury shares	0	211,086,440
- Issues/purchases of equity instruments	0	0
- Distribution of dividends and other purposes	0	0
Net liquidity generated/absorbed by funding activities	**0**	**211,086,440**
NET LIQUIDITY GENERATED/ABSORBED DURING THE FISCAL YEAR	**1,844,500**	**1,316,519**

Key:
(+) generated
(-) absorbed

RECONCILIATION

LINE ITEMS OF THE FINANCIAL STATEMENTS	Amounts	
	31/12/2018	31/12/2017
Cash and cash equivalents at the beginning of the fiscal year	11,736,361	10,419,842
Total net liquidity generated/absorbed during the fiscal year	1,844,500	1,316,519
Cash and cash equivalents: effect of variation of exchange rates	0	0
Cash and cash equivalents at the close of the fiscal year	13,580,860	11,736,361

EXPLANATORY NOTES

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

EXPLANATORY NOTES

PART A – Accounting policies

A.1 – GENERAL PART

Section 1 – Statement of conformity to International Accounting Standards

Conformity to International accounting standards

Banca Cambiano 1884 S.p.a. declares that these financial statements were prepared in compliance with the international accounting standards in force at 31 December 2017 and approved by the European Commission as set forth by EU regulations n. 1606/2002. The financial statements were prepared based on the instructions issued by Bank of Italy and contained in Circular n. 262/2005 and subsequent amendments and updates, by virtue of the powers conferred thereto by Legislative Decree 38/2005 and subsequent updates.

Structure and contents of the financial statements

The Bank's financial statements for the fiscal year are composed of the balance sheet, the income statement, the schedule of overall profitability, the table of variations to shareholders' equity, the explanatory notes and the relative comparative information, and are also accompanied by a report on operations, on the economic results and on the Bank's equity and financial situation. The schedules to the balance sheet and income statement are drawn up in Euro units and all other schedules and the tables in the explanatory notes are in thousands of Euro.

Section 2 – General preparation standards

The financial statements are prepared in observance of the following general principles set forth in IAS 1:

- Going concern – The financial statements were prepared on a going concern assumption, regarding which there are no uncertainties.
- Accrual basis accounting – Revenues and expenses are booked, regardless of their monetary settlement, based on economic accrual and correlation criteria.
- Coherency in the presentation of the financial statements – The format and classification of the various items are kept the same from one financial year to the next, in order to guaranty the comparability of the information, save for changes required by an International Accounting Standard or an interpretation thereof, or even only so that another presentation or classification is deemed more appropriate in terms of relevance and reliability in the representation of the information.
- Relevance and aggregation – Each relevant class of similar items is distinctly set out in the financial statements. Items that are dissimilar in terms by nature or destination are presented separately, unless they are irrelevant.
- No compensation – Assets, liabilities, expenses and revenues are not compensated the ones with the others, unless required by an International Accounting Standard or by an interpretation or unless where expressly provided for by statement schedules for banks.
- Comparative information – Comparative information is provided for the previous financial period for all data illustrated in the schedules to the financial statements with the exception of those cases in which an International Accounting Standard or interpretation allows otherwise. Commentary and descriptive information is also provided, where this favors better comprehension of the financial statements in review.

Section 3 – Events subsequent to the date of reference of these financial statements

See the respective section provided for within the Board of Director's report on management.

Section 4 – Other aspects

The Bank's financial statements were submitted to audit by the company Baker Tilly Revisa s.p.a.. Preparation of the financial statements is also based on estimations and assumptions that may have significant effects on the values registered in the income statement, as well as on the information regarding potential assets and liabilities recorded in the financial statements.

Calculating these estimations implicates the use of the information available and the application of subjective evaluations also based on acquired experience, used for the purpose of formulating reasonable assumptions regarding the relevance of management events. By their very nature, the estimations and assumptions used may vary from one period to another; therefore, it is not inconceivable that in subsequent fiscal years the values registered in the financial statements may differ even significantly, following changes in the subjective evaluations applied.

The main items for which the use of subjective evaluations on the part of the Bank is mostly required are:

- The quantification of losses due to loss in value of receivables and, in general, of other financial assets;
- The determination of the fair value of financial instruments to be used for the purpose of information on the financial statements;
- The use of evaluation models to determine the fair value of financial instruments not traded on an active market;
- The evaluation of the congruity of the value of goodwill and of other intangible assets;
- The quantification of personnel funds and risk and expense funds;

- Estimations and assumptions regarding the recoverability of deferred tax assets.

The description of the accounting policies applied on the main financial statement aggregates provides the details and information necessary to identify the main subjective assumptions and evaluations used to prepare the fiscal year financial statements. For further detailed information regarding the composition and the relative entry values of the items involved in the aforementioned estimations, please refer to the specific sections of the explanatory notes.

Transition to "IFRS15: Revenue from contracts with customers"

The IFRS15 accounting principle, effective as of 01/01/2018 and implemented by the European Union with Regulation EU 2016/1905 of 22 September 2016, amends the previous set of International accounting principles and interpretations regarding the recognition of revenue and, in particular IAS18. Based on the analysis carried out, the adoption of the IFRS15 accounting principle did not impact the current financial position and income statement.

Transition to "IFRS9: Financial Instruments"

The IFRS9 accounting principle, which came into force on 01/01/2018, introduced significant changes with respect to IAS39, regarding the rules for the classification and measurement of financial instruments. As regards lending and traded securities, the classification, and consequent measurement of these instruments is based on the business model and on the characteristics of the cash flows of the financial instrument (the SPPI criterion – Solely Payments of Principal and Interests). As regards equity instruments, these are to be classified at fair value with booking of differences in the Income Statement or with other revenue components. In this latter case, unlike the provisions of IAS39 for financial assets available for sale, IFRS9 has eliminated the requirement to measure long lasting value losses and provides that, if the instrument is transferred, gains and losses must be reclassified to other shareholders' equity reserves and not to the income statement.

The new principle has introduced:

- A new impairment accounting model for credit exposures based on an "expected losses" approach, as opposed to the current "incurred losses" approach and on the concept of expected loss over the life-time of the financial instrument;
- Guidelines that aim to make it clear in which circumstances it is necessary write-off financial instruments, specifying that the write-off is a derecognition.

The same principle has intervened on hedge accounting, rewriting the rules for the designation of a hedge and for the assessment of its efficacy, with the aim of guaranteeing greater alignment between the booking representation of hedges and the underlying operational logic. On this matter, please note that Banca Cambiano 1884 s.p.a. has taken advantage of the right to continue to apply the existing IAS39 requirements for hedge accounting to all hedges, until IASB has completed defining the rules relative to accounting of hedges for portfolios of financial instruments.

Reclassifications as at 01/01/2018

The tables below summarize the reclassifications made on overall profitability for assets and liabilities, in accordance with the entry into force of IFRS9 and of the V update of Bank of Italy Circular 262.

Version as per Circular 262 – 5th update of 22/12/2017 (implementing the IFRS 9 principle) in force starting 1/01/2018 - Thousands

	Asset line items	31/12/2017	FTA Adjustment – Classification and measurement	FTA Adjustment - Impairment	01/01/2018
10.	Cash and cash equivalents	11,736	0	0	11,736
20.	Financial assets measured at fair value with recognition of income effects through profit and loss	25,470	30,263	0	55,732
	a) financial assets held for trading	25,470	0	0	25,470
	b) financial assets measured at fair value	0	0	0	0
	c) other financial assets obligatorily measured at fair value	0	30,263	0	30,263
30.	Financial assets measured at fair value with impact on total profits	534,580	-128,578	0	406,001
40.	Financial assets measured at amortized cost	2,628,835	102,024	-74,689	2,656,171
	a) receivables from banks	183,366	0	0	183,366
	b) receivables from customers	2,445,470	102,024	-74,689	2,472,805
50.	Hedges	0	0	0	0
60.	Adjustment of value of generic hedges for financial assets (+/-)	0	0	0	0
70.	Equity investments	37,855	0	0	37,855
80.	Property, plants and equipment	58,105	0	0	58,105
90.	Intangible assets	7,519	0	0	7,519
	of which:				
	- goodwill	6,975	0	0	6,975
100.	Tax receivables	27,030	-1,310	0	25,720
	a) current	5,418	0	0	5,418

	Asset line items	31/12/2017	FTA Adjustment – Classification and measurement	FTA Adjustment - Impairment	01/01/2018
	b) pre-paid	21,611	-1,310	0	20,301
110.	Noncurrent assets and groups of assets in the course of divestment	0	0	0	0
120.	Other assets	41,973	0	0	41,973
	Total assets	**3,373,103**	**2,398**	**-74,689**	**3,300,812**

Version as per Circular 262 – 5th update of 22/12/2017 (implementing the IFRS 9 principle) in force starting 1/01/2018 - Thousands

	Liability line items and shareholders' equity	31/12/2017	FTA Adjustment – Classification and measurement	FTA Adjustment - Impairment	01/01/2018
10.	Financial liabilities measured at amortized cost	3,061,398	0	0	3,061,398
	a) payables to banks	503,980	0	0	503,980
	b) payables to customers	2,305,459	0	0	2,305,459
	c) outstanding Securities	251,959	0	0	251,959
20.	Financial liabilities from trading	80	0	0	80
30.	Financial liabilities measured at fair value	0	0	0	0
40.	Hedges	769	0	0	769
50.	Adjustment of value of generic hedges for financial liabilities (+/-)	0	0	0	0
60.	Tax liabilities	2,568	0	0	2,568
	a) current	276	0	0	276
	b) deferred	2,292	0	0	2,292
70.	Liabilities associated to assets in the course of divestment	0	0	0	0
80.	Other liabilities	64,482	0	0	64,482
90.	Employee severance pay	3,682	0	0	3,682
100.	Risk and expense funds:	75	0	2,406	2,481
	a) commitments and issued guarantees	0	0	2,406	2,406
	b) pensions and similar commitments	0	0	0	0
	c) other risk and expense funds	75	0	0	75
110.	Valuation reserves	-1,481	2,652	797	1,968
120.	Redeemable shares	0	0	0	0
130.	Equity instruments	0	0	0	0
140.	Reserves	3,425	-253	-77,892	-74,720
150.	Premiums on issue of new shares	803	0	0	803
160.	Share capital	232,800	0	0	232,800
170.	Treasury shares (-)	0	0	0	0
180.	Profits	4,500	0	0	4,500
	Total liabilities and shareholders' equity	**3,373,103**	**2,398**	**-74,689**	**3,300,812**

Below are the details of the variations subdivided into "Classification and measurement" and "Impairment":

Item	Description	Amounts from Reclassification	Amounts from Impairment
20.A	**Financial assets measured at fair value with recognition of income effects through profit and loss**	**30,263**	**0**
	a) financial assets held for trading	0	0
	b) financial assets measured at fair value	0	0
	c) other financial assets obligatorily measured at fair value	30,263	0
	- Reclassification from securities AFS	3,755	0
	- Reclassification from insurance policies	13,143	0
	- Reclassification from loans in gold	13,419	0
	- Reclassification from insurance policies (valuation reserve)	-27	0
	- Reclassification from loans in gold (valuation reserve)	-28	0
30.A	**Financial assets measured at fair value with impact on total profits**	**-128,578**	**0**
	- Reclassification from securities AFS (charge)	405,986	0
	- Reclassification from securities AFS - CR Cesena (charge)	15	0
	- Reclassification from securities AFS (discharge)	-534,565	0
	- Reclassification from securities AFS - CR Cesena (discharge)	-15	0

Item	Description	Amounts from Reclassification	Amounts from Impairment
40.A	**Financial assets measured at amortized cost**	**102,024**	**-74,689**
	a) receivables from banks	0	0
	- Impairment on banks	0	0
	b) receivables from customers	102,024	-74,689
	- Reclassification from securities AFS	124,823	0
	- Reclassification from securities AFS - (from valuation reserves)	3,709	0
	- FTA Impairment on securities HTC	0	-80
	- Reclassification from insurance policies	-13,143	0
	- Reclassification from loans in gold	-13,419	0
	- Reclassification from insurance policies (valuation reserve)	27	0
	- Reclassification from loans in gold (valuation reserve)	28	0
	- FTA Impairment on UTP FTA receivables	0	-40,561
	- FTA Impairment on FTA receivables past due	0	-543
	- FTA Impairment on bonis receivables stage 1	0	-2,321
	-FTA Impairment on bonis receivables stage 2	0	-2,699
	- FTA Impairment on non-performing loans FTA	0	-28,486
100. A	**Tax receivables - b) pre-paid**	**-1,310**	**0**
	- Discharge of assets for pre-paid tax on securities AFS	-1,770	0
	- Charge of assets for pre-paid tax on securities HTCS (FOS)	169	0
	- Charge of assets for pre-paid tax on securities HTCS (FOE)	291	0
100. P	**Risk and expense funds: a) commitments and issued guarantees**	**0**	**2,406**
	- Provision for released guarantees	0	2,406
110. P	**Valuation reserves**	**2,652**	**797**
	- Discharge AFS securities reserve fund	5,353	0
	- Charge HTCS (FOS) securities reserve fund	-511	0
	- Charge HTCS (FOE) securities reserve fund	-880	0
	- Discharge taxation on AFS securities reserve fund	-1,770	0
	- Charge taxation on HTCS (FOS) securities reserve fund	169	0
	- Charge taxation on HTCS (FOE) securities reserve fund	291	0
	- Valuation reserve on HTCS OCI (FOS) securities	0	797
140. P	**Reserves**	**-253**	**-77.892**
	- Reserve on former securities AFS passed to FVTPL	-253	0
	- Reserve fund for impairment on receivables from banks - Stage 1 - 1a FTA	0	0
	- Reserve fund for impairment on receivables from customers - Stage 1 - 1a FTA	0	-2,321
	- Reserve fund for impairment on receivables from customers - Stage 2 - 1a FTA	0	-2,699
	- Reserve fund for impairment on receivables customers - Stage 3 – Past due - FTA	0	-543
	- Reserve fund for impairment on receivables from customers - Stage 3 - Non-performing loans - FTA	0	-28,486
	- Reserve fund for impairment on receivables from customers - Stage 3 - UTP - FTA	0	-40,561
	- Valuation reserve on HTC securities	0	-80
	- Valuation reserve HTCS OCI (FOS) securities	0	-797
	- Reserve fund for issued guarantees	0	-2,406

The table below shows the detail of the impact of FTA on prudential ratios:

Categories/Values	Regulatory capital at 31.12.2017	Situation at 01/01/2018	
		Without application of the IFRS9 transitory regimen: FTA fully loaded	Application of the IFRS9 transitory regimen: Phase-in 95%
OWN FUNDS			
Primary tier 1 capital (Common Equity Tier 1 - CET1)	232,247	154,355	228,353
Tier 1 capital (Tier 1 capital)	232,247	154,355	228,353
Total own funds	232,247	154,355	228,353
RISK ASSETS			
Risk-weighted assets	1,923,548	1,845,655	1,919,653
PRUDENTIAL RATIOS			
Primary tier 1 capital/Risk-weighted assets (CET1 capital ratio)	**12.074%**	**8.363%**	**11.896%**
Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)	**12.074%**	**8.363%**	**11.896%**
Total own funds/Risk-weighted assets (Total capital ratio)	**12.074%**	**8.363%**	**11.896%**

A.2 – PART RELATED TO THE PTINCIPAL LINE ITEMS OF THE FINANCIAL STATEMENT

1. Financial assets measured at fair value with recognition of income effects through profit and loss (FVTPL)

Classification criteria

Financial assets other than those classified as “Financial assets measured at fair value with impact on total profits” and “Financial assets measured at amortized cost” are allocated to this line item. Specifically, this line item includes financial assets held for trading, essentially represented by debt securities, capital securities, derivative contracts held for trading with positive fair value and financial assets obligatorily valued at fair value, which are financial assets that do not meet the requirements for measurement at amortized cost or at fair value with impact on total profits. These are financial assets with contract terms that do not provide solely for repayment of principal and payment of interest on the amount of principal to be repaid (so-called “SPPI test” failed) or that are not held within the framework of a business model the objective of which is holding financial assets to collect contractual cash flows (HTC business model) or if the objective of the business model is both collection of contractual cash flows and trading (HTCS business model). Therefore, this line item includes:

- debt securities and loans that are included in an Other/Trading business model (therefore not in a “HTC” or “HTCS” business model) or that fail the SPPI Test;
- equity investments that do not qualify as holdings in subsidiaries, associated or joint venture companies, held for trading or which were not measured at fair value with impact on total profits on initial recognition;
- certificates of participation in mutual funds;
- derivative contracts, booked as financial assets held for trading, which are allocated to assets if the fair value is positive or to liabilities if the fair value is negative.

Based on the general rules set out in IFRS 9 regarding the reclassification of financial assets (with the exception of capital securities, for which reclassification is not admitted), reclassification to other categories of financial assets is permitted only if the entity changes its business model for management of financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category of “Financial assets measured at fair value with recognition of income effects through profit and loss” to one of the other two categories provided for by IFRS 9, those being “Financial assets measured at amortized cost” or “Financial assets measured at fair value with impact on total profits”. The carrying amount is represented by the fair value at the reclassification date and the effects of the reclassification shall be prospective starting from the reclassification date. In this case, the effective interest rate of the

reclassified financial asset is determined based on its fair value at the date of reclassification and this date is considered the date of initial measurement for al location to the various credit risk stages for the purpose of impairment.
For more information regarding financial asset classification criteria, please consult the next section, “Financial asset classification criteria”.

Recognition criteria
Debt securities and capital securities are recognized on the date of settlement and derivative contracts are recognized at the date of undersigning.
Financial assets measured at fair value with recognition of income effects through profit and loss are initially recognized at fair value, without considering costs or income directly attributable to the instrument itself.

Measurement criteria
Subsequent to initial recognition, financial assets measured at fair value with recognition of income effects through profit and loss are valued at fair value. The effects of the application of this measurement criteria are allocated to the Income Statement. The fair value of financial assets listed in active markets is determined with reference to market listings. In the absence of an active market, estimates and measurement models are used that take into account all the risk factors correlated to the instruments. For capital securities and derivative instruments based on capital securities, that are not listed on an active market, cost is used to estimate fair value only residually and limited to just a few circumstances.

Derecognition criteria
Financial assets are derecognized only if the sale of the assets has substantially transferred all the related risks and benefits. Contrarily, if a significant amount of risks and benefits related to sold financial assets is retained by the transferor, the assets in question will continue to be recognized on the balance sheet, even though the official title has been transferred.

2. Financial assets measured at fair value with impact on total profits (LINE ITEMS)

Classification criteria
This line item includes all financial assets that meet the following requirements:
- the objective of the respective business model is both collection of contractual cash flows and trading (HTCS business model);
- the contractual terms of the financial asset provide solely for repayment of principal and payment of interest on the amount of principal to be repaid at fixed dates (so-called “SPPI test” passed).

This line items also includes equity investments not held for trading which initially recognized at fair value with impact on total profits.
More specifically, this line item includes:
- debt securities that are included in an HTCS business model and that have passed the SPPI Test;
- equity investments that do not qualify as holdings in subsidiaries, associated or joint venture companies, not held for trading, which were measured at fair value with impact on total profits on;
- loans included in an HTCS business model that have passed the SPPI test.

Based on the general rules set out in IFRS 9 regarding the reclassification of financial assets (with the exception of capital securities, for which reclassification is not admitted), reclassification to other categories of financial assets is permitted only if the entity changes its business model for management of financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category of “Financial assets measured at fair value with recognition of income effects through profit and loss” to one of the other two categories provided for by IFRS 9, those being “Financial assets measured at amortized cost” or “Financial assets measured at fair value with impact on total profits”. The carrying amount is represented by the fair value at the reclassification date and the effects of the reclassification shall be prospective starting from the reclassification date. In the event of reclassification from the category in question to the category of assets measured at amortized cost, cumulative gains (losses) recognized in revaluation reserve is carried over to compensate the fair value of the asset at the reclassification date. In the event of reclassification to fair value with recognition of income effects through profit and loss, the cumulative gains (losses) previously recognized in the revaluation reserve is reclassified from shareholders’ equity to fiscal year profit (loss).
For more information regarding financial asset classification criteria, please consult the next section, “Financial asset classification criteria”.

Recognition criteria
Debt securities and capital securities are initially recognized at the date of settlement and loans are initially recognized at the date of disbursement. On initial recognition, assets are booked at fair value, comprehensive of transaction costs or income directly attributable to the instrument itself.

Measurement criteria
Subsequent to initial recognition, "Financial assets classified at fair value with impact on overall profitability", other than capital securities, are measured at fair value, with recognition of gains or losses deriving from variation in fair value in a specific reserve shareholders' equity until the financial asset is derecognized. On sale of the asset, be it total or partial, cumulative gains or losses in the revaluation reserve are recognized, in whole or in part, in the income statement. Equity instruments for which the option of valuation in this category has been exercised, are measured at fair value and the amounts are recognized with contra-entry to shareholders' equity. The same equity instruments remain allocated to shareholders' equity even if sold; the only component of the capital securities in question that is subject to recognition in the income statement is represented by the respective dividends. The fair value is calculated based on the criteria illustrated above for "Financial assets measured at fair value with recognition of income effects through profit and loss". As regards capital securities included in this category, not listed on an active market, cost is used to estimate fair value only residually and in a limited number of circumstances. "Financial assets measured at fair value with impact on total profits", in the form of both debt securities and receivables, are subject to the assessment of significant increase in credit risk (impairment) provided for by IFRS 9, just like "Assets at amortized cost", with consequent recognition in the income statement of a value adjustment to hedge expected losses. More in detail, for instruments classified in stage 1, on initial recognition and at each subsequent reporting date, the expected loss at one year is entered. Instead, for instruments classed in stage 2 and in stage 3 the expected loss for the entire residual life of the financial instrument is booked. Capital securities are not subject to the impairment process.

Derecognition criteria
Financial assets are derecognized only if the sale of the assets has substantially transferred all the related risks and benefits. Contrarily, if a significant amount of risks and benefits related to sold financial assets is retained by the transferor, the assets in question will continue to be recognized on the balance sheet, even though the official title has been transferred.

3. Financial assets measured at amortized cost

Classification criteria
A financial asset is classified among financial assets measured at amortized cost if it meets the following requirements:
- the objective of the relative business model is the collection of contractual cash flows ("HTC" business model);
- the contractual terms of the financial asset provide solely for repayment of principal and payment of interest on the amount of principal to be repaid at fixed dates (so-called "SPPI test" passed).
More specifically, this line item includes:
- lending to banks that meets the above requirements;
- lending to customers that meets the above requirements;
- debt securities that meet the above requirements.
Based on the general rules set out in IFRS 9 regarding the reclassification of financial assets (with the exception of capital securities, for which reclassification is not admitted), reclassification to other categories of financial assets is permitted only if the entity changes its business model for management of financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category of "Financial assets measured at fair value with recognition of income effects through profit and loss" to one of the other two categories provided for by IFRS 9, those being "Financial assets measured at amortized cost" or "Financial assets measured at fair value with impact on total profits". The carrying amount is represented by the fair value at the reclassification date and the effects of the reclassification shall be prospective starting from the reclassification date. Gains and losses resulting from the difference between the amortized cost of the financial asset and the respective fair value are recognized in the income statement in case of reclassification to "Financial assets measured at fair value with recognition of income effects through profit and loss" and in Shareholders' equity, in the specific revaluation reserve, in case of reclassification to "Financial assets measured at fair value with impact on total profits". For more information regarding financial asset classification criteria, please consult the next section, "Financial asset classification criteria".

Recognition criteria
Debt securities are initially recognized at the date of settlement and loans are initially recognized at the date of disbursement. On initial recognition, assets are booked at fair value, comprehensive of transaction costs or income directly attributable to the instrument itself.

Measurement criteria
Subsequent to initial recognition, these assets are measured at amortized cost using the effective interest rate method. Thus, the asset is recognized in the balance sheet for an amount equal to the initial value of recognition less repayment of principal, plus or minus cumulative amortization (calculated using the above-mentioned effective interest rate method) of any difference between the amount disbursed and the amount payable on maturity (typically comprising

costs/revenues attributable directly to the asset) and adjusted based on any hedging for losses. The effective interest rate is determined by calculating the rate equal to the current value of future cash flows for the asset, both principal and interest, on the sum disbursed, comprehensive of costs/revenues attributable to the asset itself. This accounting method, based on financial logic, allows distributing the economic effect of costs/revenues directly attributable to a financial asset along its entire expected residual life. The amortized cost method is not used for short-term assets measured at historic cost where discounting is deemed to have a negligible effect, for those with a fixed payment date and for those that are repayable on demand. Measurement criteria are closely connected to the inclusion of the instruments in question in one of the three credit risk stages provided for by IFRS 9, the last of which (stage 3) comprises impaired financial assets, while the first two (stages 1 and 2) comprise performing financial assets. As regards the booking of the aforementioned measurement effects, the value adjustments related to this type of asset are booked to the income statement:

- on initial recognition, for an amount equal to the expected loss at twelve months;
- on the next valuation of the asset, where the credit risk has not increased significantly with respect to initial recognition, in relation to the amount of value adjustments for expected losses over the next twelve months;
- on the next valuation of the asset, where the credit risk has increased significantly with respect to initial recognition, in relation to the amount of value adjustments for expected losses over the asset's entire residual contractual life;
- on the next valuation of the asset, where the credit risk has increased significantly with respect to initial recognition, where the "significance" of the increase has subsequently ceased to exist, in relation to the correction of cumulative value adjustments to take into account passing from expected loss over the entire residual life-time of the instrument to expected losses over a period of twelve months. If the financial assets in question are performing assets, they are subject to valuation, aimed at defining the value adjustments to be recognized in the balance sheet, as individual receivables or securities, based on parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD) specifically provided for by the IFRS 9 accounting principle. If, in addition to a significant increase of the credit risk, there is also objective evidence of a loss of value, the amount of the write-down is measured as the difference between the balance sheet value of the asset, classified as "impaired", as for all other positions with the same counterparty, and the current value of expected future cash flows, discounted by the original effective interest rate. The amount of the write-down, to be recognized in the income statement, is defined based on an analytical measurement process or determined by category and, therefore, analytically attributed to each position and takes into account forward looking information and possible alternative recovery scenarios. Impaired receivables include financial instruments those that are considered non-performing, probably non-performing or overdue/past-due for more than ninety days, as per Bank of Italy regulations, in compliance with IAS/IFRS and European regulatory regulations. Expected cash flows take into account forecast recovery times and the estimated realizable value of any collateral. If the reasons for write-down are removed following an event occurring subsequent to recognition of the write-down, write-backs are entered in the income statement. Value recovery cannot exceed the amortized cost that the financial instrument would have had without the previous adjustments. Reversal of impairment loss due to Value recoveries connected to the passage of time are booked to the income statement. In some cases, during the life of the financial assets in question and, specifically, of receivables, the original contractual conditions are modified by the contract parties. If the contractual clauses are modified during the life-span of a financial instrument, it must be ascertained whether the original asset must continue to be recognized in the balance sheet or if, to the contrary, the original asset should be derecognized, with recognition of a new financial instrument. In general, changes to a financial asset lead to derecognition of the asset and recognition of a new asset when the changes in question are "substantial". The analyses (qualitative and quantitative) aimed at defining the "substantiality" of contract modifications made to a given financial asset must, therefore, take into account the reason for the changes in question, for example, renegotiation for commercial reasons and renegotiation for financial difficulty of the counterparty. The first type of renegotiation, aimed at "holding onto" the customer, involve a debtor who is not in financial difficulty. These situations include all renegotiations aimed at adjusting the burden of the debt to market conditions. These operations entail a variation of the original contract conditions, usually by requested by the debtor, regarding aspects related to the cost of the debt, with a consequent economic benefit for the same debtor. Generally speaking, it is our opinion that every time the bank renegotiates in order to avoid losing a customer, the renegotiation should be considered substantial in that, were it not carried out, the customer could seek financing from another broker and the bank would suffer a loss of expected future revenue. The second kind, carried out for "credit risk reasons" (forbearance measures), are the bank's attempt to maximize recovery of the cash flow of the original receivable- The underlying risks and benefits, subsequent to the changes, are generally not transferred and, consequently, the accounting representation that provides the most relevant information for balance sheet interpretation is through "modification accounting", that entails recognition in the income statement of the difference between booking value and current value of the modified cash flow discounted by the original interest rate and not through derecognition.

Derecognition criteria

Financial assets are derecognized only if the sale of the assets has substantially transferred all the related risks and benefits. Contrarily, if a significant amount of risks and benefits related to sold financial assets is retained by the transferor, the assets in question will continue to be recognized on the balance sheet, even though the official title has been transferred. If ascertaining the substantial transfer of risks and benefits is not possible, the financial assets are derecognized from the financial statements if no control whatsoever is retained over the assets in question. Contrarily, retention, even in part, of control entails recognition of the assets in the balance sheet for the amount equal to the residual participation, measured by exposure to changes in value of the transferred assets and to the variations of asset cash flows.

4. Hedges

Banca di Cambiano 1884 s.p.a. avails itself of the faculty, provided for on introduction of the IFRS 9 accounting principle, to continue to fully apply the provisions of the IAS 39 accounting principle regarding hedge accounting for all types of hedging transactions.

Classification criteria

Risk hedging transactions are aimed at neutralizing potential losses, attributed to a given risk and measured on a given element or group of elements, where the particular risk in question should manifest itself. The following types of hedging transactions are used:

- fair value hedging aims to hedge exposure to changes in the fair value of assets and liabilities entered on the balance sheet, or quotas thereof, as permitted by IAS 39 and approved by the European Commission. General hedging of fair value ("macro hedge") aims to reduce fluctuations, in the fair value, attributable to interest rate risks, of a monetary amount, deriving from a portfolio of financial assets or liabilities;
- cash flow hedging aims to hedge exposure to variations in future cash flow attributable to specific risks associated to balance sheet items;
- currency investment hedging refers to hedging foreign currency exposure of investments in foreign enterprises.

Recognition criteria

Hedge instruments, like all derivatives, are initially recognized and subsequently measured at fair value.

Measurement criteria

Hedge instruments are measured at fair value. For fair value hedges, fair value variations of the hedged element are offset by the fair value variations of the hedging instrument. This compensation is recognized by entry in the income statement of the variations in value, of both the hedged element and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect. For generic fair value hedges ("macro hedge"), the fair value variations referred to the hedged exposure of the assets and liabilities being hedged are allocated to overall profitability, respectively to line item 60 "Adjustment of value of generic hedges for financial assets" or to line item 50 "Adjustment of value of generic hedges for financial liabilities". As regards cash flow hedges, variations in the fair value of the derivative are allocated to shareholders' equity, for the effective quota of the hedge, and are recognized in the income statement only when, with reference to the hedged item, there are cash flow variations to be offset of if the hedge is ineffective. Currency investment hedges are booked in the same way as cash flow hedges. The derivative instrument is designated as a hedge if the hedge relationship between the hedged instrument and the hedging instrument is formally documented and if it is effective from the time hedging initiates and, prospectively, for its entire duration. Hedge effectiveness depends on the extent to which variations of fair value of the hedged financial instruments of relative expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is determined by comparing the above variations, taking into the account the intent of the company when the hedge was initiated. A hedge is effective when the variations in fair value (or in the cash flows) of the hedge financial instrument almost entirely sterilize, that is within the range of 80% to 150%, the variations of risk of the hedged instrument. An effectiveness test is conducted at the close of financial statements. If a generic fair value generic hedge relationship is interrupted, cumulative value adjustments/write-downs entered at line item "Adjustment of value of generic hedges for financial assets" or line item 50 "Adjustment of value of generic hedges for financial liabilities" are recognized in the income statement as earned interest or interest expenses for the residual duration of the original hedging relationship, provided that the hedging requirements continue to exist.

5. Equity investments

Classification criteria

Shareholdings that entail control, joint control of significant influences are allocated to the equity investments portfolio. Control is presumed when more than 50% of the voting rights that can be exercised at shareholders' meetings are held, either directly or indirectly. Significant influence is exercised when the shareholder holds, directly or indirectly, a share equal to or greater than 20% of the voting rights. Significant influence is also exercised in the case of a holding of less than 20% when the following circumstances exist: a) representation on the board of directors; b) participation in the decision-making process with reference to decisions regarding dividends; c) there are major operations between the investor and the subsidiary. Joint control is when voting rights and control of the subsidiary is shared with other parties.

Recognition criteria
The line item includes equity investments in subsidiaries, jointly held companies or companies subject to significant influence. At the time of initial recognition, such equity investments are recognized at purchase cost, supplemented by directly attributable costs.

Measurement criteria
Equity investments are measured with continuity using the "equity" method. Equity investments in subsidiaries, jointly held companies or companies subject to significant interest are measured at cost, and the accounting value increases or decreases to reflect the share of subsidiary profits or losses, realized after the purchase date, to which the shareholder is entitled. The dividends received from a subsidiary reduce the accounting value of the shareholding. Adjustments to the accounting value might be required due to modifications of the share owned by the investor in the subsidiary, deriving from modifications of the shareholders' equity of the subsidiary.

Derecognition criteria
Financial assets are derecognized when the contractual rights to the cash flows deriving from such assets expire or when the financial asset is sold, transferring all of the risks and benefits connected to it.

Criteria for recognition of income components
Dividends paid by the subsidiary and generated subsequent to the purchase date are allocated to line item 220 of the income statement, "Profit/loss from equity investments". The result of the measurement of "shareholders' equity" are recognized in line item 220 of the income statement, "Profit/loss from equity investments" when they were included in the income statement of the subsidiary; when, instead, they were not included in the income statement of the subsidiary, they are allocated to Liability line item 110 "Valuation reserves". Profit or loss deriving from the sale of equity investments are recognized in line item 220 of the income statement, "Profit/loss from equity investments".

6. Property, plants and equipment

Classification criteria
This item includes land, property used for operating purposes, installations, furniture and decor and other equipment. Property used for operating purposes is any property used by the company for the purpose of providing services or for administrative purposes. The value for property, plant and equipment also includes advance payments for the purchase and restructuring of goods not yet a part of the production process, and therefore not yet subject to amortization.

Recognition criteria
Property, plants and equipment are initially recognized at purchase or construction cost, inclusive of accessory charges sustained and directly attributable to when the asset is purchased and put into operation. Extraordinary maintenance costs and costs that result in an increase of future economic benefits are allocated to increases of value of the assets and amortized in relation to residual possibility of use of the same. Costs for repairs, other maintenance or interventions to guaranty regular operation of the assets are instead recognized directly in the income statement of the fiscal year during which they are sustained.

Measurement criteria
After initial recognition, property, plant and equipment are recognized in the financial statements at cost net of accumulated depreciation and losses of value. Property, plants and equipment are systematically depreciated in every fiscal year based on their useful life, using the straight-line method. The following categories are not subject to depreciation:

- Land, be it purchased separately or incorporated in the value of buildings, in that considered assets with an indefinite useful life. If the value of the land is incorporated in the value of the buildings, it is considered an asset separable from the real properly; the value of the land is separated from the value of the buildings, determined on the basis of specific independent expert appraisals only for "from the earth to the sky" buildings;
- Art work, which has an indefinite useful life and a value that is generally destined to increase over time.

The depreciation process begins when the asset becomes available for use.

Derecognition criteria
Property, plants and equipment are derecognized when they are sold or when the economic benefits related to their use cease to exist.

Criteria for recognition of income components
Systematic depreciation is allocated to the income statement at the line item “Net adjustments/write-backs of value to property, plants and equipment”. In the fiscal period in which the asset is recognized for the first time, the depreciation rate applied takes into account the date in which the asset is available for use. Gains and losses deriving from disposal of property, plant and equipment are calculated as the difference between the net sale price and the asset’s carrying amount, and are recognized in the income statement at the same date as the write-off from accounts. The line item “Gains/losses on disposal of investments” is the balance, positive or negative, between gains and losses from the disposal of property, plant and equipment.

7. Intangible assets

Classification criteria
Intangible assets include non-monetary assets without physical substances held to be used for a multi-year or indefinite amount of time, which meet the following characteristics:
- Identifiable;
- Under control of the company;
- Capable of generating probable future economic benefits for the company;
- The cost of the asset may be measured reliably.

In absence of one of the aforementioned characteristics, the cost to purchase or generate the same internally is registered as a cost in the fiscal year in which it was sustained. Intangible assets include, in particular, application software for multi-year use and other identifiable assets that arise from legal or contractual rights. Expenses for improvements to third party assets (branch offices being rented) were recognized in Asset line item 150 “Other assets”; the relative amortization was proportional to the duration of the leases. Within the scope of a company merger, the IFRS3 principle establishes that at the date of purchase of the control, the purchaser must classify or designate the purchased intangible assets. As regards the definition of intangible elements, the principle identifies intangible elements purchased in company merger as identifiable non-monetary assets with no physical substance. Goodwill is represented by the positive difference between the purchase cost and the fair value of assets and liabilities acquired within the scope of the company merger.

Recognition criteria
Intangible assets are recognized at cost, adjusted for accessory costs sustained to prepare for use of the asset. Within the scope of a company merger, the purchaser must classify or designate the intangible assets acquired, and recognize them at fair value. Goodwill, recognized in the assets at the date of purchase, is initially valued at cost. On a yearly basis, or any time there is evidence of impairment, an impairment test will be carried out on the adequacy of goodwill, in conformity with the provisions of IAS n. 36. The amount of the impairment loss is calculated as the negative difference, if any, between the goodwill value recorded and its recoverable amount. This recoverable amount is equal to the greater between the fair value of the cash-generating unit, net sale price of the asset, and its usage value. The resulting value adjustment are recognized in the income statement at item “Adjustments to value of goodwill”. Any impairment loss recognized for goodwill cannot be derecognized in the subsequent fiscal year.

Measurement criteria
Subsequent to initial recognition, intangible assets of limited duration are recognized at cost, net of accumulated amortization and of accumulated impairment loss. Amortization begins when the asset becomes available for use, that is to say, when it is in the appropriate place and in suitable conditions to operate in the expected manner, and ceases when the asset derecognized. Amortization is calculated using the straight-line method, so as to reflect the multi-year use of the asset based on the estimate made of the residual useful life. At the end of each fiscal year, if there is evidence of impairment, the recoverable value of the asset is estimated. The write-down, recognized in the income statement, is equal to the difference between the asset’s carrying amount and its recoverable value.

Derecognition criteria
Intangible assets are derecognized from the balance sheet upon disposal or when no future economic benefits are expected.

Criteria for recognition of income components

Both amortization amounts and any adjustments/write-backs due to the impairment of intangible assets, other than goodwill, are allocated to line item “Net adjustments/write-backs of intangible assets” of the income statement. Value adjustment for goodwill are allocated to line item “Adjustments to value of goodwill”. Gains and losses deriving from disinvestment or disposal of intangible assets are calculated as the difference between the asset’s net sale price and carrying amount and are recognized in the income statement. The item “Gains (losses) from the disposal of investments includes the balance, positive or negative, between gains and losses from the disposal of investments.

8. Other assets

Other assets essentially include items awaiting allocation and entries that cannot be allocated to other line items of overall profitability, among which, receivables deriving from the supply of non-financial goods and services, fiscal entries other than those allocated to the respective line item, and accrued income and prepayments other than those capitalized on the respective financial assets.

9. Non-current assets or groups of assets/liabilities in the course of divestment

This item includes non-current assets destined to be sold. These assets are measured at the lesser value between the booking value and fair value, net of sale expenses. If they have been subject to amortization, this process also ceases with the sale. As they are sold operating elements, balance sheet items and the relative economic results are shown separately in the balance sheet and in the income statement. As at the date of these financial statements, the Bank holds no assets that fall under this category.

10. Current and deferred taxation

The Bank calculates income taxes, current, differed and pre-paid, based on current rates and they are recognized in the income statement, with the exception of those relative to items that are charged or credited directly to equity. Allocations for income taxes are calculated based on an estimate of the current, pre-paid and deferred tax burden. pre-paid taxes and deferred taxes are calculated based on the temporary difference – without time limits – between the value attributed to an asset or liability based on civilistic criteria, and the corresponding values for tax purposes. Pre-paid tax assets are recorded in the balance sheet to the extent in which there is a probability they will be recovered, measured on the basis of the capacity of the company in question or the controlling company to continue to generate positive taxable income, taking into account the effect of exercising the option for the so-called “consolidated fiscal regime”. Deferred tax liabilities are recognized in the balance sheet in that the amount of the available taxed reserves is such that it may reasonably be held that transactions which require their taxation will not take place. Pre-paid and deferred tax assets are recorded in the balance sheet, without offsets, respectively as “Tax receivables” and “Tax liabilities”. Assets and liabilities recorded for pre-paid and deferred taxes are measured systematically to take into account any changes in rates or current regulations.

11. Risk and expense funds

Risk and expense funds against commitments and issued guarantees

This line sub-item of risk and expense funds includes provisions for credit risks related to commitments and issued guarantees that fall within the scope of application of the regulations regarding impairment provided for by IFRS 9. In principal, these items are allocated in the same manner to the three credit risk stages, based on the same calculation method for expected loss as financial assets measured at amortized cost or at fair value with impact on total profits. This aggregate also includes risk and expense funds for other types of commitments and issued guarantees which, due to their peculiarities, cannot be included within the aforementioned scope of application of impairment provided for by IFRS 9.

Other funds in risk and expense funds

This item includes provisions for legal obligations or obligations connected to employment relationships or controversies, including those related to taxation, originating from past events, for which an outflow of resources will probably be required to settle the obligation, provided that the amount can be reliably estimated. Consequently, a provision is recognized only if:
- there is a current obligation (legal or implicit) originating from a past event;
- it is probable that resources producing economic benefits will need to be used to settle the obligation;
- a reliable estimation of the amount required to settle the obligation can be made.

The amount registered as provision represents the best possible estimate of the resources required to settle the existing obligation as at the date of reference of the financial statements and reflects the risks and uncertainties that inevitably characterize a plurality of facts and circumstances. The provision is reversed when it becomes improbable that an out flow of resources producing economic benefits will be required to settle the obligation or when the obligation ceases to exist. This item includes long-term benefits for employees, which are calculated using the same accounting criteria described for pension provisions. Accounting gains and losses are immediately booked to the income statement.

12. Financial liabilities measured at amortized cost

Classification criteria
The line items "Payables to banks", "Payables to customers" and "Outstanding Securities" include the various forms of interbank and customer funding, repurchase agreements with commitment to repurchase and overall deposits through certificates of deposit, securities and other outstanding instruments, net of any repurchases. This category also includes liabilities entered by the company as lessor within the scope of financial leasing transactions.

Recognition criteria
These financial liabilities are initially recognized on the date of undersigning of the contract, which generally coincides with the date of receipt of the deposited sum or of the issue of the debt securities. The liabilities are initially recognized at their fair value, generally equal to the amount collected or to the issue price, increased by any additional costs or revenues directly attributable to the individual funding or issue transactions. In-house administrative costs are not included in the item.

Measurement criteria
After initial recognition, financial liabilities are valued at amortized cost using the effective interest rate method, with the exception of short-term liabilities, for which the time factor is negligible and which, therefore, continue to be entered at the collection value.

Derecognition criteria
Financial liabilities are derecognized when settled or expired, or repurchased in the case of previously issued securities. In this latter case, the difference between the book value and the purchase value is recorded in the income statement. The reissue on the market of own repurchased securities is considered a new issue, with recognition at the new issue price, without any effects in the income statement.

13. Financial liabilities from trading

Recognition criteria
These financial instruments are recognized on the date of undersigning or of issue, at a value equal to the fair value of the instrument, without considering any transaction costs or revenue directly attributable to the instruments themselves. This line item includes derivative contracts held for trading with a negative value.

Measurement criteria
All trading liabilities are measured at fair value and booked to the income statement.

Derecognition criteria
Financial liabilities held for trading are derecognized when the contract rights on the respective cash flows expire or when the financial liability is sold, with substantial transfer of all risks and benefits deriving from property of the liability in question.

14. Financial liabilities measured at fair value

Financial liabilities measured at fair value include liabilities for which the so-called fair value option applies. The Bank has no financial liabilities measured at fair value.

15. Operations in foreign currency

Classification criteria
Operations in foreign currency consist of all assets and liabilities denominated in currency other than the Euro.

Recognition criteria
Operations in foreign currency are registered, at the time of initial recognition, in Euro, applying the exchange rate in effect as of the date of the operation to the amount in foreign currency.

Measurement criteria
As of the close of the fiscal year, the conversion of monetary assets and liabilities in foreign currency is done using the spot exchange rate on that date.

Criteria for recognition of income components
Exchange rate differences of operations in foreign currency are recognized in line item 80 of the income statement "Net trading result".

Other information

Treasury shares
Any treasury shares held in portfolio are recorded as a reduction to shareholders' equity. Similarly, the original cost of treasury shares and gains or losses deriving from the subsequent sale thereof are recorded as movement in shareholders' equity.

Accruals and deferrals
Accruals and referrals, regarding charges and income competence of the fiscal year accrued on assets and liabilities are attributed to adjustment of the assets and liabilities to which they refer; if they cannot be thus allocated, they will be registered as "Other assets" or "Other liabilities".

Costs for leasehold improvements
Costs for restructuring of leasehold property are capitalized taking into consideration the fact that, for the duration of the lease, the user company controls the property and may gain future economic benefits from it. The aforementioned costs, booked among "Other assets", are amortized for a period no longer than the duration of the lease agreement.

Employee severance pay
Employee severance pay was recorded based on the actuarial value calculated yearly by an independent accountant. To calculate this value, the projected unit credit method is used, which projects future expenses based on historical, statistical and probabilistic analysis, in addition to applying appropriate demographic techniques, and the rate used is the market interest rate. Contributions paid in each fiscal year are considered separate units and measured individually for the purpose of determining the final amount due. Following entry into force of the supplementary social security/pension scheme plan reform, as per Italian Legislative Decree n.252 of 5 December 2005, the severance pay quotas accrued as at 31 December 2006 remain in the company accounts, while quotas accrued subsequently are either destined to supplementary social security plans or to the INPS Treasury Fund, based on the personal choice of each employee. Starting from the 2012 fiscal year, variations to actuarial components relating to severance pay are booked with an impact on net equity and are therefore shown in the schedule of overall profitability.

Income Statement
Revenues are valued at fair value of the amount received or due and are recognized when future benefits are likely to be received and such benefits may be reliably measured. Expenses are recognized when incurred. Expenses that cannot be associated with revenue are immediately recognized in the income statement. Specifically:

- Revenues and expenses directly related to financial instruments measured at amortized cost and determinable from the start, regardless of when they are settled, flow to the income statement by applying the effective interest rate;
  - Dividends are recognized in the income statement when they are received;
  - Revenues deriving from dealing in trading instruments, representing the difference between the transaction price and the fair value of the instrument, are recognized in the income statement when the transaction is recorded if fair value can be determined with reference to parameters or recent transactions observed on the same market on which the instrument is traded;
  - Other fees are recognized on an accruals basis.

Expenses directly related to financial instruments measured at amortized cost and determinable from the start, regardless of when they are settled, flow to the income statement by applying the effective interest rate, for which definition please refer to the paragraph "Loans and Financing". Impairment losses are immediately recognized in the income statement. Default interest, where provided for by contract, is entered in the income statement only when paid. Losses in value are recognized in the income statement immediately.

Classification criteria for financial assets
Classification of financial assets in the three categories provided for by the accounting principle depends on two classification criteria: the business model based on which the financial instruments are managed and the contractual

characteristics of the cash flows deriving from the financial assets in question (or SPPI Test). The classification of a financial asset is the result of the combination of the two aforementioned criteria, as illustrated here following:
- Financial assets measured at amortized cost: assets that pass the SPPI test and are managed based on an HTC business model;
- Financial assets measured at fair value with impact on total profits (FLINE ITEMS): assets that pass the SPPI test and are managed based on an HTCS business model;
- Financial assets measured at fair value with recognition of income effects through profit and loss (FVTPL): this is a residual category, that includes financial instruments that cannot be classified in the above categories based on the outcome of the business model test or of the test on contractual cash flow characteristics (SPPI test failed).
In order to be able to classify a financial asset at amortized cost or at FLINE ITEMS, in addition to the business model analysis, the contractual terms of the asset in question must provide for payment of principal and interest only, at fixed dates, ("solely payment of principal and interest" - SPPI). This analysis must especially be carried out for loans and debt securities. The SPPI test must be carried out on each and every financial instrument, at the moment of registration in the balance sheet. Subsequent to initial recognition, and for as long as the asset is recorded in the balance sheet, it will no longer be subject to further analysis for the purpose of the SPPI test. If a financial instrument is derecognized and a new financial instrument is recognized, the SPPI test must be carried out on the new asset. For the purpose of application of the SPPI test, the IFRS 9 accounting principles provides the following definitions:
- Principal: is the fair value of the financial asset at initial recognition. This value may change during the life of the financial instrument, for example, due to reimbursement of part of the principal;
- Interest: is the consideration for the time value of money and for the credit risk associated to the existing principal in a given period of time. This may also include remuneration for other basic risks and expenses associated to the asset and with a profit margin.
In terms of evaluating whether contractual flows from a financial asset may be defined as SPPI, IFRS 9 refers to the general concept of "basic lending arrangement", that is separate from the legal form of the asset. When the clauses of the arrangement introduce exposure to risks or volatility of contractual cash flows that are outside the definition of basic lending arrangement, such as, for example, exposure to variations in prices of shares or goods, the contractual cash flows in review do not meet the definition of SPPI. The application of the classification criterion based on contractual cash flows sometimes requires a subjective judgment and, therefore, the definition of internal policies for application of the criteria. If the time value of money is modified – for example, when the interest rate for the financial asset is periodically recalculated, but the frequency of the recalculation or the frequency of payment of the coupons does not reflect the nature of the interest rate (for example, the interest rate is reviewed on a monthly basis based on an annual rate) or when the interest rate is recalculated periodically based on an average of specific short or long-to-medium term rates, the company must evaluated, both quantitatively and qualitatively, if the contractual cash flows still fulfill the requirements of SPPI (benchmark cash flows test). If the outcome of this test shows that the cash flows (not discounted) are "significantly different" from the cash flows (also not discounted) of a benchmark instrument (that is without modification of the time value), the cash flows in question cannot be considered as compliant to SPPI criteria.
For the purpose of the SPPI test, as regards debt securities operations, Banca Cambiano 1884 s.p.a. uses external info-provider services. This choice means that, on one hand, front office securities traders can obtain an immediate outcome for execution of the test, which also entails less paperwork during purchasing, and on the other hand it means that the same market benchmarks are shared by multiple traders and auditing companies. Vice versa, as regards the execution of the SPPI test for loan arrangements, a proprietary tool has been developed, based on an methodology developed internally by decision tree.

Business model
As regards the business model, IFRS 9 identifies three types of business model based on the method used to manage cash flows and sales of financial instruments:
- Hold to Collect (HTC): This is a business model whose objective is to hold assets in the related asset portfolios in order collect contractual cash flows. Including an asset portfolio in this business model does not necessarily mean it is impossible to sell the instruments, although it is necessary to take into consideration the frequency, entity of value, reasons for the sale and expectations regarding future sales;
- Hold to Collect and Sell (HTCS): this is a mixed business model, whose objective is to both collect the contractual cash flows and sell the financial asset, where the sale of the asset in an integral part of the strategy. Both activities (collection of cash flows and sale of the asset are indispensible for the purpose of reaching the objective of the business model. Therefore, sales are more frequent and volumes more significant with respect to the HTC business model HTC and are an integral part of the business strategies;
- Others/Trading: this is a residual category that includes both financial assets held for trading and financial assets managed through a business model that does not meet the qualifying criteria for the aforementioned models (HTC and HTCS). Generally speaking, this classification applies to financial asset portfolios that are managed and performance evaluated on a fair value basis.

The business model reflects the way in which the financial assets are managed to generate cash flows for the entity and is defined by the bank's corporate bodies with the appropriate input from business functions. Fundamentally, the business model:
- reflects the way in which financial assets are managed to generate cash flows;
- is defined by the bank's corporate bodies, with appropriate input from the business functions;
- must be observable, considering the methods for management of financial assets. In operational terms, the evaluation and composition of the business model is made consistently with the corporate organization mode, the specialization of the business functions, the expected risk model and the assignment of delegated powers. To evaluate a business model, all the relevant factors available at the date of the evaluation are used. The factors mentioned above include strategy, risks and how they are managed, reporting and the volume of sales. It is important that the elements taken under review to analyze the business model are coherent across the board and, specifically, are consistent with the strategy being pursued. Evidence of operations that are not in line with the strategy must be analyzed and adequately justified. For the HTC portfolio, Banca di Cambiano 1884 s.p.a. has set limits for admissibility of sales that do not compromise the classification (frequent but not significant, individually and as aggregates, or infrequent if significant in volume) and, simultaneously, has established the parameters used to identify sales that are coherent with this business model in so far as resulting from an increased credit risk. More in detail, the HTC business model allows sales:
- in case of increased credit risk, which can be calculated for securities, if there is a downgrade of predetermined notches with respect to the original rating;
- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. Limits for frequency and significance have been set for the purpose of evaluating these aspects.

As regards the determination of "Risks" on HTCS and Other/Trading business models, in line of principle the bank applies the provisions of the internal Finance Regulations and the RAF for market risk controls.

Method of calculation of amortized cost

The amortized cost of a financial asset or liability is the value measured for initial recognition, net of principal repayments, plus or minus overall amortization, determined by applying the effective interest method, the difference between the initial value and the value at maturity and net of any impairment losses. The effective interest rate is the rate that equalizes the current value of the financial asset or liability to the contractual cash flow of future payments or payments received up to the date of maturity or up to the next repricing date. For instruments with a fixed rate or a rate that is fixed for specific time periods, future cash flows are determined based on the known interest rate during the life of the instrument. For financial assets and liabilities with a floating interest rate, the future cash flows are determined based on the last known rate. At each repricing date, the amortization schedule and the effective rate of return over the entire useful life of the financial instrument, that is up to maturity, are recalculated. Amortized cost is applied is applied to receivables, financial assets held to maturity, those available for sale, liabilities and outstanding securities. Financial assets and liabilities traded at market conditions are initially recognized at fair value, which usually corresponds to the amount paid or disbursed, comprehensive of transactions costs and commissions directly attributable to the asset or liability. Transactions costs include internal marginal costs and revenues attributed at the moment of initial recognition of the instrument and recoverable from customers. These accessory components, which must be attributed to an individual asset or liability, impact the effective performance and modify the effective interest rate with respect to the contractual interest rate. Therefore, costs and revenues that refer indistinctly to more than one transaction, and the correlated components that may be subject to recognition during the life of the financial instrument, are excluded. Furthermore, the calculation of amortized cost does not take into consideration any costs the Bank would sustain regardless of the transaction, such as administrative costs, expenses for office supplies, etc.

Method for calculation of impairment

Value losses of non performing financial assets

At each balance sheet date, in compliance with IFRS 9, financial assets that are not measured at fair value with recognition of income effects through profit and loss must be subjected to a test to verify if there is evidence that the recognition value of the assets in question may be considered not fully recoverable. A similar evaluation is also carried out for commitments to disburse funds and for issued guarantees meet IFRS 9 impairment requirements. In case the aforementioned evidence exists (so-called evidence of impairment) the financial assets in question are considered impaired and classified in stage 3. For this kind of exposure, represented by financial assets classified, in compliance with Bank of Italy Circular n. 262/2005, in the categories of non-performing loans, probable defaults and exposures overdue/past-due for more than ninety days, value adjustments must be recognized in an amount equal to expected losses over the entire residual life of the asset. Positions classified in Stage 3 are classified for various risk conditions and are consequently subject to analytical or lump-sum evaluations. Value adjustments for loans in Stage 3 reflect the expected loss calculated for a period of time equal to the entire residual life of the loan. Impaired assets that are not non performing for an amount lower than a set threshold, for which there is no objective evidence of impairment, were subjected to lump-sum evaluation, that involves a statistical calculation of expected loss and of the relative write-downs for receivables belonging to the same category (defined based on the segment of the counterparty and the technical format). However, the analytical write-down must be made whenever objective degradation events are observed, calling for a precise analysis. Specifically, as regards the concept of significance referred to in the current accounting principles, impairment was applied, using the lump-sum method, to impaired receivables past due and probable defaults for individual amounts lower than the threshold of significance set at € 300,000. The evaluation of receivables classified as non-performing is updated periodically, in order to allow for immediate transposition of any events that could modify recovery forecasts for receivables. Evaluation of non-performing loans is carried out using an analytical method, that is, based on a precise survey of the recoverability of each loan, taking into account all useful elements for the definition of expectation of recovery, including but by no means limited to:

- The nature of the receivable;
- The presence of collateral and/or personal guarantees, with respect to the valuation of which please refer to the specific sections that follow;
- The total estate assets of the obligors/any co-obligors;
- The income situation of the obligors/any co-obligors;
- The presence of settlement or restructuring agreements;
- The status of any legal proceedings underway (enforcement procedures);
- Exposure of the obligors towards the banking system, overdraft status, notification to non-performing loans;
- Exposure of the obligors towards other creditors;
- Results of the last available balance sheets;
- The legal status of the obligors and pending winding-up and/or personal procedures.

In calculating value loss, the Bank takes into account the following factors:

- existence/type of guarantee: loans secured by mortgage, loans secured by pledged collateral, loans covered by personal guarantees, unsecured credit;
- asset used collateral: residential real estate property, non-residential real estate property, pledges of cash, Securities, GPM, receivables or merchandise;
- available evaluation (CTU, assessment report issued by an independent expert, date of the assessment report);
- nature of the guarantor (banks or other subjects);
- status of recovery (procedures not yet initiated, extra-judicial agreements, insolvency procedures);
- value groupings, for unsecured credit.

The evaluation of receivables classified as probable non-performing is updated periodically is updated periodically, in order to allow for immediate transposition of any events that could modify recovery forecasts, and ascertain that the loans in question still do not meet requirements to be passed to the non-performing category.
For this category, write-downs are applied:

- for positions above € 300,000 analytically;
- for positions lower than or equal to € 300,000, for which there is no objective evidence of impairment, using the lump-sum method for similar types of portfolios.

Probable non-performing loans that show a gross exposure greater than € 300,000, are measured analytically. The measurement is aimed at calculating expected value losses, taking into account however that the positions are classified in this risk class based the Bank's opinion regarding the improbability that the debtor will fully meet all credit obligations, without recourse to measures such as enforcement of guarantees; as known, this evaluation must be carried out regardless of the presence of any overdue or not overdue amounts (or installments). Therefore, for positions classified among probable non-performing, the presumed disposal value of the receivable is estimated by evaluating the capacity of the borrower to meet all the obligations, measured based on all available information regarding the debtor's financial and economic situation, and the value of any existing collateral underlying the receivable/s in question. The salvage value is determined, based on the foreseen recovery strategy (distinguishing between management for "business continuity" and management "for sale") that reflects the overall degree of risk, by evaluating the capacity to generate cash flows sufficient to repay the credit and/or on the mere enforcement of collateral and guarantees. The receivable is measured by examining the appropriate documentation that includes, by way of example but is not limited to, and as applicable to the type of customer:

- the trend of the relationship;
- the current and prospective economic and financial situation of the counterparty, by analyzing the last available balance sheets and outlooks where the counterparty is a legal entity;
- debt exposure towards third parties and towards the banking system (by analyzing CR, CRIF notifications);
- any notifications of non-performance by the banking system/other creditors or ongoing debit restructuring plans;

- Any documentation prepared by third party professional operators or experts attesting in various ways to, also as per law, the reversibility of the customer's crisis condition, the appropriateness of the measures taken to overcome the crisis and the measurement criteria applied;
- The willingness of the debtor to come to an agreement regarding recovery of overdue/past due amounts or renegotiate the loan;
- The length of time the loan has been classified as probable non-performing. The forecasts for loss of value, formulated for each exposure, are based on an in-depth and thorough examination of all the elements for assessment that may be extracted from the available and retrievable documentation.

For positions lower than or equal to the € 300,000 threshold amount, for which there is no objective evidence of impairment, lump-sum statistical write-down is applied for homogenous types of exposure. The lump-sum evaluation involves the statistical calculation of the expected loss and therefore of the relative value adjustments. Specifically, lump-sum write-downs must be calculated using the following formula, seeing as the PD (probability of default) is considered equal to 100% for probable non-performing loans as well:

DR x LGD x EAD

where:

- DR = deterioration rate at 30 years of probable defaults, divided by credit exposure segment (corporate/retail);
- LGD (Loss Given Default) = LGD of non-performing loans;
- EAD = amount of loans classified as probable non-performing at the date of reference, divided, like non-performing loans, by type of underlying guarantee (collateral/other), by segment (corporate/retail) and by amount bracket (0-20,000, 20,000-50,000, over 50,000).

Loans classified as overdue/past-due, for which non objective evidence of impairment has been found, are measured using the lump-sum method, for homogenous types of exposure. The lump-sum evaluation involves the statistical calculation of the expected loss and therefore of the relative value adjustments Specifically, lump-sum write-downs must be calculated using the following formula, seeing as the PD (probability of default) is considered equal to 100% for overdue/past-due loans as well:

DR x LGD x EAD

where:

- DR = deterioration rate at 30 years of probable defaults, divided by credit exposure segment (corporate/retail);
- LGD (Loss Given Default) = LGD of non-performing loans;
- EAD = amount of loans classified as probable non-performing at the date of reference, divided, like non-performing loans and probable non-performing loans, by type of underlying guarantee (collateral/other), by segment (corporate/retail) and by amount bracket (0-20,000, 20,000-50,000, over 50,000).

Value losses of performing financial assets

As regards financial assets for which there is no objective evidence of impairment (non impaired financial instruments), it is necessary to verify if there are indicators that show that the credit risk for each transaction is significantly increased with respect to the initial recognition. The consequences of this assessment, in terms of classification (or, more appropriately, of the staging) and of the measurement, are the following: - if such indicators are found, the financial asset belongs in stage 2. The measurement, in this case, in compliance with international accounting principles and even in absence of a manifest impairment, entails recognition of write-downs equal to expected losses over the entire residual life of the financial instrument. These adjustments are subject to review at each subsequent reporting date, to both periodically verify congruity with the constantly updated loss estimations, and to take into account – in case the indicators of "significantly increased" credit risk – the changed outlook for calculation of expected losses; - if such indicators are not found, the financial asset belongs in 1. In this case, the measurement, in compliance with International accounting principles and even in absence of a manifest impairment, entails recognition of expected losses, for the specific financial instrument, over the next twelve months. These adjustments are subject to review at each subsequent reporting date, to both periodically verify congruity with the constantly updated loss estimations, and to take into account – in case the indicators of "significantly increased" credit risk – the changed outlook for calculation of expected losses. As regards the measurement of financial assets and, specifically, the identification of "significant increase" of credit risk (a condition necessary and sufficient for classification of the asset in stage 2), the elements that are considered critical and primary to be taken into consideration, in compliance with the accounting principle and its implementation by Banca Cambiano 1884 s.p.a, are the following:

- The variation of the probability of default used for internal management purposes; this is, therefore, an evaluation that is made by adopting a criterion of "relativity";

- The presence, if any, of an overdue payment that – without prejudice to the thresholds for significance provided for in current regulations – is past due by at least 30 days. In such a case, in other words, the credit risk of the exposure is considered allegedly "significantly increased" and, therefore, it is "passed" to stage 2 (if the exposure was previously in stage 1);
- The presence, if any, of forbearance measures, which – again, presumable – entail classification of the exposures among those for which credit risk is "significantly increased" with respect to initial recognition;
- Finally, for the purpose of transfer from one stage to another, some specific indicators of the credit monitoring are taken into consideration. This refers specifically to so-called "watchlist" positions, that is, positions that are kept under observation due to evidence of individual criticality.

Once the classification of the exposures in the various credit risk stages has been defined, the expected loss, which represent an estimate of losses on receivables weighted by the respective probability of occurrence, is calculated for a 12 month period for receivables classified in Stage 1, or for the entire expected residual life of the financial instrument for receivables classified in Stage 2. Then, a similar measurement model is adopted for all receivables classified in Stage 1 and in Stage 2, the only distinguishing feature of which is the time frame for estimation of expected loss. The measurement model takes into account the following risk factors:

- PD (Probability of Default) – probability of insolvency, a parameter that represents the probability that a counterparty will migrate from a "bonis" condition to an "insolvency" condition within the time frame of one year (Stage 1) or during the entire expected life of the financial instrument (Stage 2). The probability of insolvency is calculated based on parameters decided internally by Banca Cambiano and subsequently by including adequate corrective elements that allow taking into account the effects of so-called forward looking information relative to the macro-economic reference scenarios;
- LGD (Loss Given Default) – deterioration rate in case of insolvency, a parameter that expresses the impact of the loss, as a percent, net of recovery amounts, with respect to the amount of the exposure that has become insolvent, measured based on specific internal models of Banca Cambiano (contained in annex A4). This parameter also includes expected recovery costs;
- EAD (Exposure at Default) – EAD is managed based on the type of exposure and maturity: exposures with a "deterministic" repayment schedule with a known cash flow and a known maturity, and "stochastic" exposures, with an unknown cash flow and/or an unknown maturity. For exposures with a deterministic repayment schedule, EAD is calculated using the repayment schedule based on the evolution of the contractual cash flows. For exposures with an unknown repayment schedule (for example, without installments, like bank accounts) the EAD is calculated based on appropriate models that take into account both the so-called "on balance" value and of the exposure and the "off balance" component considered as potentially risky due to the possibility that the customer increases use of credit. These exposures are valued for a 12 month period, consistently with the review period provided for by the Bank for these types of contracts.

The calculation of expected losses takes into account all reasonable and demonstrable information available at the reference date of the balance sheet without excessive costs or effort. The information used must take into consideration past events, current economic conditions and forecasts for future economic conditions.
Banca Cambiano has defined the formula to calculate ECL (1), as follows:

$$ECL(t_0) = \sum_{i=1}^{n} D(t_0, t_i) \times EAD(t_i) \times MPD(t_i) \times LGD(t_i)$$

Where:
n = Expiry of the relationship
$ECL(t_0)$ = calculated value adjustment at the reporting date
MPD(t_i) = Marginal probability of default in t_i
$LGD(t_i)$ = LGD value at the t-th future instant
$EAD(t_i)$ = EAD value at the t-th future instant
$D(t_0, t_i)$= Discounting factor t_0 e t_i
n = residual life of the relationship (maturity minus reporting date)

As regards financial assets classified in Stage 1, the calculation formula is applied only to a timeline of maximum 1 year, or less if the duration of the financial instrument is less than 12 months. The t_i instants indicated in the formula are consistent with the frequency estimated by the output of the multi-period EAD calculation or with the annual frequency, in case of repayment schedules with a single repayment at maturity (so-called bullet). As regards financial assets classified in Stage 2, the calculation formula is applied to a timeline equivalent to the residual duration of the instrument

(life-time). The t_i instants are always consistent with the frequency estimated by the output of the multi-period EAD calculation, or with the annual frequency for bullet repayment schedules.
At each reporting date and for each contract relationship, both the 1 year ECL and the Lifetime ECL are calculated, using the multi-period PD, LGD and EAD parameters described above in the application of the formula, and considering all the payment deadlines up to:
- Timeline of 1 year from the reporting date for calculation of 1 year ECL 1 (if duration is less than 12 months, the residual contract duration will be used);
- Expiry/maturity date of the individual contract relationship for calculation of Lifetime ECL (if duration is less than 12 months, the residual contract duration will be used).

Information regarding goodwill impairment test - Information required by Bank of Italy, Consob, Isvap joint document n. 4 dated 03/03/2010.
As regards the booking of corporate merger operations, the IFRS 3 accounting principles requires registering new intangible assets and measuring goodwill that may result from the operation in question. As provided for by IAS 36, the value of assets measured following the merger that are characterized by an indefinite useful life, including goodwill, cannot be amortized in accounting but must be subjected to impairment test annual (or at any rate, whenever a loss of value is observed) to verify the recoverability of the book value. The impairment test requires first identifying the unit that generates the cash flows (Cash Generating Unit - CGU) to which goodwill is attributed. A CGU is the smallest group of assets capable of generating cash flows autonomously. When the recoverable value of any single asset cannot be estimated, one must estimate the recoverable value of the cash generating unit to which the asset belongs. Seeing as goodwill is nota n asset capable of generating cash flow autonomously, for the purpose of the impairment test, the CGUs that benefit from the goodwill deriving from a company merger must be identified and the goodwill must be allocated thereto. The impairment test must be conducted by comparing the book value of the CGU with the recoverable value of the same CGU, where the recoverable value is the greater value between the fair value net of any sales costs, and the relative value in use. The resulting value adjustments are booked in the income statement. Goodwill described in this document refers to the following “business combination” transactions in accordance with IFRS 3
-Purchase by former BCC di Cambiano of two territorial units from former Banca Interregionale Spa - Binter (Pistoia and San Giovanni Val d’Arno branches); this transaction, which was concluded at the beginning of 2015, resulted in booking of goodwill for a total of 2,100,000 Euro;
-transfer, pursuant to Legislative Decree n. 18/2016 (amended and converted into Law n. 49/2016), of the bank business of former BCC di Cambiano to former Banca A.G.C.I. (so-called "way-out” operation, concluded effective 01/01/2017); considering that, pursuant to the IFRS 3 accounting principal, former Banca A.G.C.I. is in substance the purchased party (and, conversely, former BCC di Cambiano is in substance the purchasing party), the goodwill (equal to 4,874,772 Euro) refers to the valuation of former Banca A.G.C.I., with three territorial units in the cities of Bologna, Rome and Turin.
Therefore, Banca Cambiano 1884 SpA goodwill subject to impairment is equal to overall € 6,974,772. The procedures for the impairment test are defined in the document entitled "IAS 36 – Goodwill Impairment Policy" and establish the following stages:
- Definitions of the Cash Generating Unit/s (“CGU”) and allocation of the booking goodwill to the CGU/s that has/have been identified;
- Determination of the recoverable value of the CGU/s;
- Comparison between the booking value and the recoverable value of the CGU/s.

The test was subject to approval by the Bank Board of Directors prior to approval of the financial statements for the fiscal year.
Based on the results of the impairment test it was necessary to:
- Adjust the booking value of goodwill associated to the oldest branches (Pistoia and San Giovanni Valdarno), for a total of 2,023 thousand Euro
- Adjust the booking value of goodwill allocated to the Turn CGU for approximately 50 thousand Euro, while goodwill allocated to the remaining CGUs is confirmed.

Definition of Cash Generating Units (CGU) and allocation of goodwill.
In accordance with IAS 36, if it is not possible to directly calculate the recoverable value of an individual asset entered in the balance sheet, the recoverable value of the cash generating unit (CGU) to which the asset belongs must be calculated. IAS 36 defines a CGU as “the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows generated by other assets or groups of assets”. In order to identify the cash generating units to which the assets subject to impairment tests are to be attributed, the identified CGUs must generate cash inflows that are largely independent of those deriving from other identified units. With respect to the condition set forth above, for the purpose of the impairment test, the following Cash Generating Units (CGU) were identified:
- with reference to the purchase of territorial units from former Binter by former BCC di Cambiano: Pistoia branch CGU and San Giovanni Val d'Arno branch CGU;

- with reference to the "way-out" operation: Bologna branch CGU, Turin branch CGU, and Rome branch CGU.

Please note that, in accordance with the provisions of IFRS 8, the CGUs identified are not larger than the operational sectors.

The table below illustrates the allocation of goodwill among the CGUs at 31 December 2018 before the impairment test:

CGU		Book value before the impairment test	Years from purchase
Purchase of former BINTER tellers	Pistoia branch	1,691,702	4
	San Giovanni V/A branch	408,298	4
	TOTAL (A)	**2,100,000**	**4**
Branches purchased within the scope of the way out operation	Bologna branch	2,001,492	2
	Turin branch	1,505,280	2
	Rome branch	1,368,000	2
	TOTAL (B)	**4,874,772**	**2**
TOTAL (A+B)		**6,974,772**	-

Criteria used to calculated the recoverable value of the CGU

For the purpose of the impairment test, to calculate the recoverable value reference was made to the value in use based on the evaluation method known as the discounted cash flow method. This method calculates the value in use of an asset by discounting expected cash flows determined based on economic and financial projections elaborated with reference to the asset being evaluated. The flow from the last analytical forecast is projected perpetually through an appropriate long-term growth rate ("g"), in order to estimate the so-called "Terminal Value". Future cash flows must be discounted at a rate that reflects the current assessments of the time value of money and the risks specific to the asset. Specifically, the rates to be applied must incorporate current market values referred to the risk free component and risk premium correlated to the share component, observed over a sufficiently long time frame as to reflect different market conditions and economic cycles, and using an appropriate Beta coefficient in consideration of operational risk of the CGUs. The Discounted Cash Flow financial method, in the so-called "*equity side*" is expressed by the following formula:

$$W = \sum_{i=0}^{n} CF_i(1+k_e)^{-i} + TV(1+k_e)^{-n}$$

where:
W = value in sue;
CFi = cash flow to time i;
i = year of reference of the flow;
n = time frame covered by financial forecasts;
Ke = discount rate;
TV = Terminal Value, corresponds to the current value of a perpetual source of income calculated based on a cash inflow that is sustainable over the long term with a constant growth rate equal to "g".

Calculation of future cash flows.

The value in use of each CGS was calculated by discounting the future cash flows referred to a five year forecasting period, from 2019-2023. Forecasts were elaborated starting from the economic and financial situation of each territorial unit at the end of 2017 (preliminary annual data), following two stages of assessment:

- for 2019 budget data were used;
- for the 2020-2023 period, in order to identify a long-term, sustainable, normalized income, economic and financial forecasts within an inertial growth context were development, considering the expected evolution of the macro-economic, the final position registered by each CGU, on the other hand, without considering the effects of future reorganizations or restructuring.

The table below shows the main assumptions on which the economic and financial forecasts used to estimate value in use were based and, in particular, the average compound annual growth rates (CAGR), the average annual rate variations and the income indexes for the last year of forecasting (2023). For a detailed analysis of the economic and financial forecasts, please consult Appendix n. 1 to this document.

CGU	CAGR 2019-2023				Average annual rate variation (bps)		Income indexes at 2023			
	Lending	Overall Direct deposits	Comm. income	Comm. expenses	Economic lending	Overall direct deposits	Average branch spread	Mg. Interim./ Overall direct deposits	Cost / Income	Gross Res./Direct deposits
Pistoia branch	1.50%	1.50%	1.50%	1.50%	1.0	1.0	1.36%	5.69%	56.73%	0.02%
San Giovanni V/A branch	1.50%	1.50%	1.50%	1.50%	5.0	5.0	1.86%	9.20%	79.70%	0.02%
Bologna branch	2.00%	2.00%	2.00%	2.00%	5.0	5.0	2.11%	3.09%	44.50%	0.88%
Turin branch	2.00%	2.00%	2.00%	2.00%	1.5	-5.0	1.82%	2.61%	71.33%	0.24%
Rome branch	2.00%	2.00%	2.00%	2.00%	-10.0	5.0	2.30%	4.63%	40.08%	1.32%

In synthesis, in the specific forecast period, the prudential forecasts are:

- an average yearly increase (for the 5 year period) of economic lending and direct deposits between 1.50% and 2.00%, favored by an, albeit small, recovery of the economic cycles;
- a moderate increase of net commission income, favored by greater attention in the development of asset management and insurance products;
- a limited average yearly variation in rates on economic lending and deposits, considering that for the Turin and Rome CGUs (so-called metropolitan areas) forecasts take into account the repricing with respect to pricing applied by former Banca A.G.C.I; in particular, adjustments to interest rates payable and receivable meet the strategic objective of strengthening the presence of the Bank in the newly acquired urban centers and rebalancing the cost of deposits with respect to both average market rates and to the rates applied by the Bank itself;
- a credit risk cost diversified by lending area, included between 0.5% and 1.1% (with an average value greater than 0.85%);
- an increase in operating costs (due to an increase in personnel costs and other administrative costs) that is less than proportional with respect to the growth in operating income, with a progressive improvement of cost/income (the Pistoia, Bologna and Rome CGUs are at values that are amply lower than the overall value for the Bank).

The terminal value, that includes the value referring to the period subsequent to that covered by explicit forecasts, was calculated considering a normalized flow resulting from the result expected at the last year of projection (2023) and assuming a prudential long-term growth rate “g” that is in line with the current expected rate of inflation.

Discount rate.

The value in use is estimated by discounting the cash flows at a rate that takes into account current market rates referred to both the time value component and the country risk component, in addition to the specific risks of the asset in question.

The discount rate was estimated using the Capital Asset Pricing Model based on the following formula:

$$ke = Rf + \beta \times (Rm - Rf)$$

where:

Rf = Risk free rate;

(Rm – Rf) = Market Risk Premium;

β = Beta.

The CAPM expresses a linear relation in balanced market conditions between the return of an investment and its systemic risk. In greater detail, the return of an investment is calculated as a sum of the risk free rate (an expression of the time value of money) and the premium for the risk, this latter corresponding to the product between the beta of the security and the premium for overall market risk (so-called “Equity Risk Premium”).

The rate used to discount the cash flows (Ke) was equal to 9.35% (in the previous estimation on the values at December 2017, this rate was 7.03%) considering the following parameters:

- Risk Free Rate (Rf): this is the time value of money, corresponding to the return of a risk free investment normally represented by Government Bonds. Basically, the CAPM system refers to a risk free rate, but does not refer to the time period to be considered; therefore, in line with prevailing valuation practices that use long-term Government Bond rates of return, and considering the volatility of Italian Government Bond rates of return, the average rates of return for five-year treasury bonds was used prudentially applied (in line with the structure of Bank rates, which are prevalently floating rates), using the last data published by the MEF, in that it is the datum that is most consistent with the growth of the risk free rate (2.44%);

- Market Risk Premium (Rm – Rf): this is the premium for market risk, which is the result of the difference between the return of a diversified portfolio composed of all risky investments available on the market and the return of a risk free asset. Specifically, a 5.96% market risk premium was applied, in line with the valuation practice for the Italian market;
- Beta (β): expresses the specific risk of the investment, represented by the correlation between the returns of a single risky investment and the returns of the market portfolio. Specifically, the Beta – derived from the databases currently used in valuation practices supplied by external providers – for the Italian market is 1.16.

In line with the current " IAS 36 – Goodwill Impairment Policy", a correction factor proportionate to the number of years for which the asset/CGU is held was applied to the discount rate calculated according to the CAPM, this in order to consider the time component as a variable that strongly influences the value of the branches.

Results of the *impairment test.*

The impairment test requires comparing the recoverable value of the CGU, to which goodwill is allocated, and its book value.

In compliance with the accounting principles, the value of goodwill must be adjusted when the book value of the CGU to which it is allocated is greater than the recoverable value of the same, which, in the case in question, is assumed to be equal to the value in use.

The comparison between the book value and the recoverable value (value in use) of the CGUs, calculated as described above, gave the outcomes illustrated below:

CGU	Book value before impairment	Recoverable value (value in use)	Difference
Pistoia branch CGU	1,691,702	59,748	-1,631,954
San Giovanni V/A branch CGU	408,298	17,224	-391,074
Bologna branch CGU	2,001,492	9,010,695	7,009,203
Turin branch CGU	1,505,280	1,455,085	-50,195
Rome branch CGU	1,368,000	9,167,200	7,799,200
TOTAL	**6,974,772**	**19,709,952**	**12,735,180**

The Pistoia and San Giovanni Valdarno branch CGUs show a residual value in use that is 5% lower than the previously allocated book value, equal to an overall residual value of approximately 77 thousand Euro. Therefore, based on the above evidence, the valuations show a loss in the value of goodwill allocated to the Pistoia, San Giovanni Valdarno and Turin CGUs for a total of 2,073,223 Euro, while the amounts allocated to the other CGUs remain confirmed. As per the results of the impairment test, the book value of the CGUs at 31.12.2018 is equal to 4,824,577 Euro, as shown in the table below:

CGU		Book value at 31.12.2018
Purchase of former BINTER tellers	Pistoia branch	59,748
	San Giovanni V/A branch	17,224
	TOTAL (A)	**76,972**
Branches purchased within the scope of the way out operation	Bologna branch	2,001,492
	Turin branch	1,455,085
	Rome branch	1,368,000
	TOTAL (B)	**4,824,577**
TOTAL (A+B)		**4,901,549**

Sensitivity analysis

The main parameters used in the valuation model, such as cash flows and the discount rate, may be influenced, even considerably, by developments in the overall economic context, especially in the current market crisis conditions with prevailing uncertainty regarding future economic prospects. The effects that these changes may have on the calculation of hypothetical cash flows, as well as on the main financial assumptions, could therefore lead to future results that are different from those contained in this document. For these reasons, a sensitivity analysis was deemed useful in order to evaluate the effects on the estimated values in use, and therefore on the results of the impairment test, of variations in the main parameters at the base of the valuation model. Specifically, the impact of the following elements on the value in use of the CGUs was verified:

- A +50 b.p. variation of the base cost of capital (from 9.35% to 9.85%)
- Zeroing of the long-term growth rate "g".

The tables that follow illustrate the value in use of the CGUs resulting from the sensitivity analysis, and the percent variation of the same value with respect to the value obtained using the "base" parameters.

CGU	Value in use before sensitivity analysis	Book value at 31/12/2018 (after sensitivity analysis)	Sensitivity analysis - Increase of Ke (+ 50bp)		
			Value in use after sensitivity analysis	Variation of value in use	Potential adjustment
Pistoia branch	59,748	59,748	57,176	-4.31%	- 2,573
San Giovanni V/A branch	17,224	17,224	17,091	-0.78%	- 134
Bologna branch	9,010,695	2,001,492	8,447,749	-6.25%	-
Turin branch	1,455,085	1,455,085	1,341,911	-7.78%	- 113,174
Rome branch	9,167,200	1,368,000	8,644,467	-5.70%	-
Total	**19,709,952**	**4,901,549**	**18,508,394**	**-6.10%**	**-115,880**

As regards Ke cost of capital, the analysis shows decreases in values o fuse between 0.78% and 7.78%; with the exception of the CGUs subject to impairment in the fiscal year in review, none of the hypotheses considered showed a value in use for the CGU that was lower than the book value for the same CGU.

CGU	Value in use before sensitivity analysis	Book value at 31/12/2018	Sensitivity analysis - Zeroing of "g"		
			Value in use after sensitivity analysis	Variation of value in use	Potential adjustment
Pistoia branch	59,748	59,748	59,434	-0.53%	- 314
San Giovanni V/A branch	17,224	17,224	17,078	-0.85%	- 147
Bologna branch	9,010,695	2,001,492	8,015,317	-11.05%	-
Turin branch	1,455,085	1,455,085	1,248,221	-14.22%	- 206,863
Rome branch	9,167,200	1,368,000	8,257,995	-9.92%	-
Total	**19,709,952**	**4,901,549**	**17,598,045**	**-10.71%**	**-207,324**

The sensitivity analysis carried out with zeroing of the long-term growth rate "g", shows a decrease in values between 0.53% and 14.22%, with values in use that are lower than the book values only for the CGUs already subject to adjustments in the fiscal year in review. As shown above, the negative variations in some parameters used in the impairment test procedure could require further adjustments, for a possible maximum of approximately 323 thousand Euro, attributable to the Pistoia, San Giovanni Valdarno and Turin branch CGUs, as a result of which the goodwill could potentially decrease to an overall value of 4,578,345 Euro.

As a further stress test, a variation of the discount rate sufficient to make the value in use of the CGU equal to its book value was taken into consideration, that is to say, the limit value of cost of capital (Ke) beyond which the impairment test on the CGU would show a loss of value.

CGU	Value in use at 31/12/2018	Book value	**Limit discount rate** (value in use = book value)
Pistoia branch CGU	59,748	59,748	28.05%
San Giovanni V/A branch CGU	17,224	17,224	28.05%
Bologna branch CGU	9,010,695	2,001,492	36.77%
Turin branch CGU	1,455,085	1,455,085	9.35%
Rome branch CGU	9,167,200	1,368,000	70.35%
Total	**19,709,952**	**4,901,549**	

In synthesis, the sensitivity analysis shows a positive difference, which is amply satisfactory, between the values used for the impairment test and the limit value, therefore demonstrating the solidity of the values in use with respect to adverse dynamics in current market scenarios, with the exception of the branches that were positive at impairment testing.
In light of the above, below is the respective table with the summary of the impairments recorded at 31/12/2018:

Description of the CGU	Book value at 31/12/2017	2018 impairment	Book value at 31/12/2018
Goodwill allocated to the Pistoia branch	1,691,702.00	-1,691,702.00	0.00
Goodwill allocated to the San Giovanni V/A branch	408,298.00	-408,298.00	0.00
Goodwill allocated to the Bologna branch	2,001,491.59	0.00	2,001,491.59
Goodwill allocated to the Turin branch	1,505,279.95	-50,195.00	1,455,084.95
Goodwill allocated to the Rome branch	1,368,000.46	0.00	1,368,000.46
Totals	**6,974,772.00**	**-2,150,195.00**	**4,824,577.00**

APPENDIX 1

PISTOIA BRANCH DATA AT 31/12/2018 – FORECAST DATA FROM 2019 TO 2023 – Values in Euro.

Description	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Average forecasted economic lending	-122,733,638	-124,574,643	-126,443,262	-128,339,911	-130,265,010	-132,218,985
Forecasted earned interest	2,344,849	2,392,479	2,441,010	2,490,460	2,540,843	2,592,177
Forecasted average performance rate %	1.911	1.921	1.931	1.941	1.951	1.961
Cost assigned by head office against average forecasted lending	-983,428	-1,058,884	-1,137,989	-1,283,399	-1,367,783	-1,454,409
Average rate assigned by head office against average forecasted lending %	-0.801	-0.850	-0.900	-1.000	-1.050	-1.100
Forecasted average overall economic deposits	45,152,111	45,829,393	46,516,834	47,214,586	47,922,805	48,641,647
Forecasted interest expenses	-187,514	-194,910	-202,485	-210,244	-218,190	-226,327
Forecasted average borrowing rate %	-0.415	-0.425	-0.435	-0.445	-0.455	-0.465
Gains assigned by head office against average forecasted overall deposits	678,126	721,813	755,899	814,452	850,630	887,710
Average rate assigned by head office against average forecasted overall deposits %	1.502	1.575	1.625	1.725	1.775	1.825
Total interest difference	1,852,033	1,860,498	1,856,435	1,811,268	1,805,501	1,799,152
Base for average calculation	-122,733,638	-124,574,643	-126,443,262	-128,339,911	-130,265,010	-132,218,985
Total average spread	**1.509**	**1.493**	**1.468**	**1.411**	**1.386**	**1.361**
030 - Interest income	1,852,033	1,860,498	1,856,435	1,811,268	1,805,501	1,799,152
040 - Commission income	991,160	1,006,027	1,021,118	1,036,435	1,051,981	1,067,761
050 - Commission expenses	-90,740	-92,101	-93,483	-94,885	-96,308	-97,753
120 - Operating income	2,752,453	2,774,424	2,784,070	2,752,818	2,761,173	2,769,160
130 – Net adjustments/write-backs for credit risk of:						
a) financial assets measured at amortized cost	-613,668	-1,370,321	-1,264,433	-1,219,229	-1,237,518	-1,189,971
150 - Net income from financial assets	2,138,785	1,404,103	1,519,637	1,533,589	1,523,656	1,579,189
210 - Operating costs	-1,325,185	-1,416,095	-1,453,273	-1,491,460	-1,530,684	-1,570,975
260 Gains (losses) from current operations before tax	**813,600**	**-11,992**	**66,364**	**42,129**	**-7,028**	**8,214**
Discount rate applied (average rate of economic lending)		**28.0608000**				
Discount growth rate		**1.0000000**				
Discounted profit/loss flows		**-9,364**	**40,467**	**20,060**	**-2,613**	**2,385**
Sum of discounted flows		50,935				
Base of calculation for term value beyond 31/12/2023		2,385				
Discounted value beyond 31/12/2023		8,813				
Value in use of the Pistoia branch		**59,748**				
Goodwill attributable to the Pistoia branch		**1,691,702**				
Difference between value in use and goodwill of the Pistoia branch		**-1,631,953**				
Value in use greater than goodwill - Impairment of the Pistoia branch		**0**				

The impairment of the Pistoia branch amounts to 1,631,953 and consequently the residual value of goodwill amounts to 59,748. As the residual is equal to 3.53% of original goodwill, we considered it appropriate to cancel goodwill for the branch altogether.

SAN GIOVANNI V/A BRANCH DATA AT 31/12/2018 – FORECAST DATA FROM 2019 TO 2023 – Values in Euro.

Description	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Average forecasted economic lending	-55,057,342	-55,883,202	-56,721,450	-57,572,272	-58,435,856	-59,312,394
Forecasted earned interest	1,255,173	1,301,942	1,349,832	1,398,865	1,449,066	1,500,458
Forecasted average performance rate %	2.280	2.330	2.380	2.430	2.480	2.530
Cost assigned by head office against average forecasted lending	-441,158	-475,007	-510,493	-575,723	-613,576	-652,436
Average rate assigned by head office against average forecasted lending %	-0.801	-0.850	-0.900	-1.000	-1.050	-1.100
Forecasted average overall economic deposits	14,933,395	15,157,396	15,384,757	15,615,528	15,849,761	16,087,508
Forecasted interest expenses	-56,127	-64,548	-73,208	-82,114	-91,271	-100,684
Forecasted average borrowing rate %	-0.376	-0.426	-0.476	-0.526	-0.576	-0.626

Description	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Gains assigned by head office against average forecasted overall deposits	280,280	295,569	307,695	327,926	340,770	353,925
Average rate assigned by head office against average forecasted overall deposits %	1.877	1.950	2.000	2.100	2.150	2.200
Total interest difference	1,038,168	1,057,956	1,073,825	1,068,954	1,084,989	1,101,263
Base for average calculation	-55,057,342	-55,883,202	-56,721,450	-57,572,272	-58,435,856	-59,312,394
Total average spread	**1.886**	**1.893**	**1.893**	**1.857**	**1.857**	**1.857**
030 - Interest income	**1,038,168**	**1,057,956**	**1,073,825**	**1,068,954**	**1,084,989**	**1,101,263**
040 - Commission income	386,240	392,034	397,914	403,883	409,941	416,090
050 - Commission expenses	-34,580	-35,099	-35,625	-36,160	-36,702	-37,252
120 - Operating income	**1,389,828**	**1,414,891**	**1,436,114**	**1,436,677**	**1,458,228**	**1,480,101**
130 – Net adjustments/write-backs for credit risk of:						
a) financial assets measured at amortized cost	-275,287	-279,416	-340,329	-316,647	-321,397	-296,562
150 - Net income from financial assets	**1,114,541**	**1,135,475**	**1,095,785**	**1,120,030**	**1,136,830**	**1,183,539**
210 - Operating costs	-1,068,494	-1,089,863	-1,111,661	-1,133,894	-1,156,572	-1,179,703
260 Gains (losses) from current operations before tax	**46,047**	**45,611**	**-15,875**	**-13,864**	**-19,741**	**3,836**
Discount rate applied (average rate of economic lending)		**28.06080**				
Discount growth rate		**1.00000**				
Discounted profit/loss flows		**35,617**	**-9,680**	**-6,601**	**-7,340**	**1,114**
Sum of discounted flows		13,109				
Base of calculation for term value beyond 31/12/2023		1,114				
Discounted value beyond 31/12/2023		4,116				
Value in use of the San Giovanni V/A branch		**17,224**				
Goodwill attributable to the San Giovanni V/A branch		**408,298**				
Difference between value in use and goodwill of the San Giovanni V/A branch		**-391,074**				
Value in use greater than goodwill - Impairment of the San Giovanni V/A branch		**0**				

The impairment of the San Giovanni V/A branch amounts to 391,074, and consequently the residual value of goodwill amount to 17,224. As the residual is equal to 4.22% of original goodwill, we considered it appropriate to cancel goodwill for the branch altogether.

BOLOGNA BRANCH DATA AT 31/12/2018 – FORECAST DATA FROM 2019 TO 2023 – Values in Euro.

Description	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Average forecasted economic lending	-66,407,805	-67,735,961	-69,090,680	-70,472,494	-71,881,944	-73,319,583
Forecasted earned interest	1,879,417	1,950,873	2,024,436	2,100,161	2,178,105	2,258,327
Forecasted average performance rate %	2.830	2.880	2.930	2.980	3.030	3.080
Cost assigned by head office against average forecasted lending	-1,030,164	-1,083,775	-1,139,996	-1,233,269	-1,293,875	-1,356,412
Average rate assigned by head office against average forecasted lending %	-1.551	-1.600	-1.650	-1.750	-1.800	-1.850
Forecasted average overall economic deposits	78,887,090	80,464,832	82,074,128	83,715,611	85,389,923	87,097,722
Forecasted interest expenses	-495,747	-545,894	-597,849	-651,664	-707,392	-765,089
Forecasted average borrowing rate %	-0.628	-0.678	-0.728	-0.778	-0.828	-0.878
Gains assigned by head office against average forecasted overall deposits	1,283,390	1,367,902	1,436,297	1,548,739	1,622,409	1,698,406
Average rate assigned by head office against average forecasted overall deposits %	1.627	1.700	1.750	1.850	1.900	1.950
Total interest difference	1,636,896	1,689,106	1,722,888	1,763,967	1,799,247	1,835,232
Base for average calculation	-78,887,090	-80,464,832	-82,074,128	-83,715,611	-85,389,923	-87,097,722
Total average spread	**2,.075**	**2.099**	**2.099**	**2.107**	**2.107**	**2.107**
030 - Interest income	**1,636,896**	**1,689,106**	**1,722,888**	**1,763,967**	**1,799,247**	**1,835,232**
040 - Commission income	854,840	871,937	889,376	907,163	925,306	943,812
050 - Commission expenses	-76,440	-77,969	-79,528	-81,119	-82,741	-84,396

Description	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
120 - Operating income	**2,415,296**	**2,483,074**	**2,532,736**	**2,590,012**	**2,641,812**	**2,694,648**
130 – Net adjustments/write-backs for credit risk of:						
a) financial assets measured at amortized cost	-332,039	-677,360	-690,907	-704,725	-718,819	-733,196
150 - Net income from financial assets	**2,083,257**	**1,805,714**	**1,841,829**	**1,885,287**	**1,922,993**	**1,961,452**
210 - Operating costs	-1,062,064	-1,107,857	-1,130,014	-1,152,615	-1,175,667	-1,199,180
260 Gains (losses) from current operations before tax	**1,021,194**	**697,857**	**711,814**	**732,672**	**747,326**	**762,272**
Discount rate applied (average rate of economic lending)		**9.35360**				
Discount growth rate		**1.50000**				
Discounted profit/loss flows		**638,166**	**595,252**	**560,287**	**522,610**	**487,466**
Sum of discounted flows		2,803,780				
Base of calculation for term value beyond 31/12/2023		487,466				
Discounted value beyond 31/12/2023		6,206,915				
Value in use of the Bologna branch		**9,010,695**				
Goodwill attributable to the Bologna branch		**2,001,492**				
Difference between value in use and goodwill of the Bologna branch		**7,009,204**				
Value in use greater than goodwill - Impairment of the Bologna branch		**0**				

As the value in use of the Bologna branch is greater than goodwill, no impairment was recorded and therefore, the goodwill for this branch is not varied and amounts to 2.001.492.

TURIN BRANCH DATA AT 31/12/2018 – FORECAST DATA FROM 2019 TO 2023 – Values in Euro.

Description	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Average forecasted economic lending	-39,414,136	-40,202,419	-41,006,467	-41,826,596	-42,663,128	-43,516,391
Forecasted earned interest	1,012,771	1,037,047	1,061,889	1,089,400	1,119,721	1,150,819
Forecasted average performance rate %	2.570	2.580	2.590	2.605	2.625	2.645
Cost assigned by head office against average forecasted lending	-611,420	-643,239	-676,607	-731,965	-767,936	-805,053
Average rate assigned by head office against average forecasted lending %	-1.551	-1.600	-1.650	-1.750	-1.800	-1.850
Forecasted average overall economic deposits	58,796,400	59,972,328	61,171,775	62,395,210	63,643,114	64,915,977
Forecasted interest expenses	-536,761	-517,510	-497,274	-476,022	-453,721	-430,337
Forecasted average borrowing rate %	-0.913	-0.863	-0.813	-0.763	-0.713	-0.663
Gains assigned by head office against average forecasted overall deposits	956,541	1,019,530	1,070,506	1,154,311	1,209,219	1,265,862
Average rate assigned by head office against average forecasted overall deposits %	1.627	1.700	1.750	1.850	1.900	1.950
Total interest difference	821,132	895,828	958,514	1,035,724	1,107,283	1,181,290
Base for average calculation	-58,796,400	-59,972,328	-61,171,775	-62,395,210	-63,643,114	-64,915,977
Total average spread	**1.397**	**1.494**	**1.567**	**1.660**	**1.740**	**1.820**
030 - Interest income	**821,132**	**895,828**	**958,514**	**1,035,724**	**1,107,283**	**1,181,290**
040 - Commission income	507,136	517,279	527,624	538,177	548,940	559,919
050 - Commission expenses	-45,412	-46,320	-47,247	-48,192	-49,155	-50,139
120 - Operating income	**1,282,856**	**1,366,787**	**1,438,892**	**1,525,710**	**1,607,068**	**1,691,070**
130 – Net adjustments/write-backs for credit risk of:						
a) financial assets measured at amortized cost	-197,071	-301,518	-307,549	-313,699	-319,973	-326,373
150 - Net income from financial assets	**1,085,785**	**1,065,269**	**1,131,343**	**1,212,010**	**1,287,095**	**1,364,698**
210 - Operating costs	-1,068,493	-1,114,415	-1,136,704	-1,159,438	-1,182,627	-1,206,279
260 Gains (losses) from current operations before tax	**17,292**	**-49,147**	**-5,361**	**52,572**	**104,468**	**158,418**
Discount rate applied (average rate of economic lending)		**9.3536000**				
Discount growth rate		**1.5000000**				

Description	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Discounted profit/loss flows		**-44,943**	**-4,483**	**40,203**	**73,055**	**101,307**
Sum of discounted flows		165,139				
Base of calculation for term value beyond 31/12/2023		101,307				
Discounted value beyond 31/12/2023		1,289,946				
Value in use of the Turin branch		**1,455,085**				
Goodwill attributable to the Turin branch		**1,505,280**				
Difference between value in use and goodwill of the Turin branch		**-50,195**				
Value in use greater than goodwill - Impairment of the Turin branch		**-50,195**				

Impairment for the Turin branch amounts to 50,195 and consequently the residual value of goodwill amounts to 1,455,085.

ROME BRANCH DATA AT 31/12/2018 – FORECAST DATA FROM 2019 TO 2023 – Values in Euro.

Description	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Average forecasted economic lending	-69,323,350	-70,709,817	-72,124,013	-73,566,494	-75,037,823	-76,538,580
Forecasted earned interest	2,632,704	2,614,648	2,594,817	2,573,147	2,549,572	2,524,025
Forecasted average performance rate %	3.798	3.698	3.598	3.498	3.398	3.298
Cost assigned by head office against average forecasted lending	-1,075,392	-1,131,357	-1,190,046	-1,287,414	-1,350,681	-1,415,964
Average rate assigned by head office against average forecasted lending %	-1.551	-1.600	-1.650	-1.750	-1.800	-1.850
Forecasted average overall economic deposits	47,734,824	48,689,520	49,663,311	50,656,577	51,669,709	52,703,103
Forecasted interest expenses	-218,624	-247,341	-277,120	-307,990	-339,985	-373,136
Forecasted average borrowing rate %	-0.458	-0.508	-0.558	-0.608	-0.658	-0.708
Gains assigned by head office against average forecasted overall deposits	776,584	827,722	869,108	937,147	981,724	1,027,711
Average rate assigned by head office against average forecasted overall deposits %	1.627	1.700	1.750	1.850	1.900	1.950
Total interest difference	2,115,271	2,063,672	1,996,759	1,914,889	1,840,631	1,762,635
Base for average calculation	-69,323,350	-70,709,817	-72,124,013	-73,566,494	-75,037,823	-76,538,580
Total average spread	**3.051**	**2.919**	**2.769**	**2.603**	**2.453**	**2.303**
030 - Interest income	**2,115,271**	**2,063,672**	**1,996,759**	**1,914,889**	**1,840,631**	**1,762,635**
040 - Commission income	673,065	686,526	700,257	714,262	728,547	743,118
050 - Commission expenses	-60,059	-61,260	-62,485	-63,735	-65,010	-66,310
120 - Operating income	**2,728,277**	**2,688,938**	**2,634,530**	**2,565,416**	**2,504,168**	**2,439,443**
130 – Net adjustments/write-backs for credit risk of:						
a) financial assets measured at amortized cost	-346,617	-707,098	-721,240	-735,665	-750,378	-765,386
150 - Net income from financial assets	**2,381,660**	**1,981,840**	**1,913,290**	**1,829,751**	**1,753,790**	**1,674,058**
210 - Operating costs	-854,794	-903,316	-921,383	-939,810	-958,607	-977,779
260 Gains (losses) from current operations before tax	**1,526,866**	**1,078,523**	**991,908**	**889,941**	**795,183**	**696,279**
Discount rate applied (average rate of economic lending)		**9.35360**				
Discount growth rate		**1.50000**				
Discounted profit/loss flows		**986,271**	**829,478**	**680,553**	**556,077**	**445,264**
Sum of discounted flows		3,497,644				
Base of calculation for term value beyond 31/12/2023		445,264				
Discounted value beyond 31/12/2023		5,669,556				
Value in use of the Rome branch		**9,167,200**				
Goodwill attributable to the Rome branch		**1,368,000**				
Difference between value in use and goodwill of the Rome branch		**7,799,199**				
Value in use greater than goodwill - Impairment of the Rome branch		**0**				

As the value in use of the Rome branch is greater than goodwill, no impairment was recorded and therefore, the goodwill for this branch is not varied and amounts to 1.368.000.

A.3 – INFORMATION ON ASSET TRANSFERS BETWEEN PORTFOLIOS

A.3.1. Reclassified financial assets: change of business model, book value and earned interest
After the FTA - IFRS9 of 01/01/2018, did not make any changes in business model during the fiscal year.

A.3.2. Reclassified financial assets: change of business model, fair value and effect on overall profitability
After the FTA - IFRS9 of 01/01/2018, did not make any changes in business model during the fiscal year.

A.3.3. Reclassified financial assets: change of business model and effective interest rate
After the FTA - IFRS9 of 01/01/2018, did not make any changes in business model during the fiscal year.

A.4 – INFORMATION ON FAIR VALUE

IFRS 13 requires that assets and liabilities measured at fair value on a recurring basis are those for which the IAS/IFRS accounting principles require or allow measurement at fair value in the balance sheet. Instead, assets and liabilities measured at fair value on a non recurring basis are those for which the IAS/IFRS accounting principles require or allow measurement at fair value in the balance sheet in specific circumstances. For the purpose of improving transparency of information in the balance sheet regarding the measurement of fair value, IASB has introduced the so-called hierarchy of fair value.

A.4.1 Fair value levels 2 and 3: measurement and input techniques used
In December 2012, through Commission Regulation (EU) n. 1255/2012, the European Commission approved the new IFRS 13 “Fair Value Measurement” principle, effective as of 1 January 2013. 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”. As far as financial instruments are concerned, this definition of fair value replaces the previous version contained in IAS 39. As regards financial liabilities, the new definition of fair value provided for by IFRS 13 therefore requires identifying as such the value that would be paid to transfer the liability in question (exit price), as opposed to the value required to settle the same liability (definition contained in IAS 39). This serves to reinforce the theme of the recognition of fair value adjustments of financial liabilities – different from derivatives – attributable to the credit rating of the issuer (Own Credit Adjustment - OCA), with respect to the provisions already set forth on the matter in IAS 39. In particular, as regards calculating the fair value of OTC derivatives under assets in the Balance Sheet, IFRS 13 has confirmed the application of the adjustment relative to counterparty risk (Credit Valuation Adjustment - CVA). As regards financial liabilities represented by OTC derivatives, IFRS 13 introduces the so-called Debit Valuation Adjustment (DVA), which is a fair value adjustment aimed at reflecting own credit risk on such instruments, an issue not explicitly dealt with in IAS 39. The fair value of investments listed in active markets is calculated with reference to market listings on the last day of reference for the financial period. For financial instruments listed on active markets, the fair value assessment is based on the listings on the active market of reference even obtained from international providers and registered on the last day of the financial period. A market is defined as active when the listings reflect standard market transactions, are readily and regularly available and express the price of actual and regular market transactions. If the same financial instrument is listed on more than one market, the listing to be taken into consideration is that on the most advantageous market to which the company has access. The fair value of unlisted financial instruments is calculated by applying valuation methods that aim to determine the price that the instrument would have had on the market at the measurement date in a free exchange motivated by normal commercial considerations. Fair value is obtained using the following methods: use of recent market transactions, reference to the price of financial instruments with the same characteristics as that being measured, and quantitative methods. Specifically, unlisted securities are evaluated by applying models that discount expected future cash flow, using interest rate structures that take into proper consideration the issuer’s business sector and, where available, rating class. The fair value of mutual funds that are not traded on active markets is calculated based on the Net Asset Value as published, and adjusted if necessary to take into account possible changes in value occurring between the date of request of redemption and the effective redemption date. Equity and capital shares not traded on an active market, for which the fair value cannot be calculated reliably using the most common methods, are valued at cost, adjusted to take into account possible significant impairment of value. As regards loans and deposits, at sight/revocable, immediate expiry of contract obligations, coinciding with the date of the financial statements, is considered and therefore their fair value is approximated at booking value. Similarly, booking value is considered for short-term loans as well. The fair value of medium to long-term loans to customers is measured by discounting residual contractual cash flows at the effective interest rate, appropriately adjusted to take into account the credit rating of individual borrowers (represented by the probability of

default and by the estimated loss in the event of default). The booking value of impaired assets is an approximation of the fair value. For medium to long-term debt positions, represented by securities valued at amortized cost and hedged for interest rate risk, the booking value is adjusted, due to hedging, to fair value attributable to the hedged risk, discounting the respective flows. The fair value of derivative contracts traded on regulated markets is considered the market price of the last listing day of the fiscal period. Over the counter derivative contracts are measured on the basis of a variety of models, based on input factors that affect the relative valuation and taking into account adjustments for counterparty risk. The Bank does not calculate and recognize corrections in fair value of derivatives for CVA and DVA if there are formalized and operative agreements for collateralization of the positions in derivatives with the following characteristics:

- Bilateral and high-frequency exchange of collateral (daily or, at most, mid-week);
- Type of guaranty represented by cash or government bonds with high liquidity and credit quality, subject to an adequate safety margin;
- Absence of a threshold for the fair value of the derivative below which no exchange of guaranty is provided for, or setting of this threshold at a level that allows for an effective and significant mitigation of counterparty risk;
- MTA - Minimum Transfer Amount (that is, the difference between the contract fair value and the value of the guaranty) – below which collateralization of positions is not adjusted, identified by contract at a level that allows for substantial mitigation of counterparty risk.

A.4.2 Measurement process and sensitivity

At 31 December 2018 there were no assets classified at level 2 in the hierarchy of Fair Value. Financial assets that refer to capital securities “valued at cost” relative to instrumental capital holdings, and for which the fair value cannot be calculated in a reliable or verifiable manner, are conventionally classified at level in the hierarchy of Fair Value.

A.4.3 Hierarchy of fair value

Hierarchy of fair value, based on the provisions of IFRS 13, must be applied to all financial instruments for which fair value is recognized in the balance sheet. In this regard, for these instruments, maximum priority is given to official prices available on active markets and lower priority to the use of non-observable input, which are more discretional. Consequently, fair value is calculated through the use of prices acquired from financial markets, in the case of instruments listed on active markets or, for other financial instruments, through the use of measurement methods that aim at an estimation of fair value. The levels used for classifications and referred to hereinafter in the explanatory notes are the following:

• “Level 1”: the fair value of the financial instruments is calculated based on price listings observable on active markets (unadjusted) which may be accessed on the date of assessment;

• “Level 2”: the fair value of the financial instruments is calculated based on other inputs observable directly or indirectly for the asset or liability, also using measurement techniques;

• “Level 3”: the fair value of the financial instruments is calculated based on other input not observable for the asset or liability, also using measurement technique.

A price listed on an active market provides the most reliable evidence of the fair value and, when available, must be used without adjustments to measure fair value. If there are not price listing on active markets, the financial instruments must be classified in level 2 or 3. Classification in Level 2 as opposed to Level 3 is determined based on the observability on markets of significant inputs used to calculate fair value.

A.4.4 Other information

There is no other information to be provided.

A.4.5 Hierarchy of fair value

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

Financial assets/ liabilities measured at fair value	31/12/2018			31/12/2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets measured at fair value with recognition of income effects through profit and loss	96,685	0	81,279	13,026	0	12,444
a) financial assets held for trading	95,532	0	25,887	13,026	0	12,444
b) financial assets measured at fair value	0	0	0	0	0	0
c) other financial assets obligatorily measured at fair value	1,153	0	55,391	0	0	0
2. Financial assets measured at fair value with impact on total profits	378,997	0	10,397	528,405	0	6,175
3. Hedges	0	0	0	0	0	0
4. Property, plants and equipment	0	0	0	0	0	0

Financial assets/ liabilities measured at fair value	31/12/2018			31/12/2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
5. Intangible assets	0	0	0	0	0	0
Total	**475,682**	**0**	**91,675**	**541,431**	**0**	**18,618**
1. Financial liabilities held for trading	0	0	46	0	0	80
2. Financial liabilities measured at fair value	0	0	0	0	0	0
3. Hedges	0	0	735	0	0	769
Total	**0**	**0**	**781**	**0**	**0**	**849**

Key:
Level 1 = Fair value of a financial instrument listed in an active market;
Level 2 = Fair value measured on the basis of measurement techniques that use parameters that can be observed on the market, other than the listings of the financial instrument;
Level 3 = Fair value measured on the basis of measurement techniques that use parameters that cannot be observed on the market.

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

	Financial assets measured at fair value with recognition of income effects through profit and loss				Financial assets measured at fair value with impact on total profits	Hedges	Property, plants and equipment	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. Initial value	**18,618**	**12,444**	**0**	**0**	**6,175**	**0**	**0**	**0**
2. Additions								
2.1. Purchases	32,230	13,349	0	11,381	7,500	0	0	0
2.2. Revenues allocated to:	0	0	0	0	0	0	0	0
2.2.1. Income Statement	273	273	0	0	0	0	0	0
- of which gains	273	273	0	0	0	0	0	0
2.2.2. Shareholders' equity	0	X	X	X	0	0	0	0
2.3. Transfers from other levels	44,374	0	0	44,374	0	0	0	0
2.4. Other additions	62	4	0	17	41	0	0	0
3. Reductions								
3.1. Sales	0	0	0	0	0	0	0	0
3.2. Redemptions	10	0	0	0	10	0	0	0
3.3. Losses allocated to:	0	0	0	0	0	0	0	0
3.3.1. Income Statement	564	183	0	381	0	0	0	0
- of which losses	132	132	0	0	0	0	0	0
3.3.2. Shareholders' equity	921	X	X	X	0	0	0	0
3.4. Transfers to other levels	2,388	0	0	0	2,388	0	0	0
3.5. Other reductions	0	0	0	0	0	0	0	0
4. Final values	**91,675**	**25,887**	**0**	**55,391**	**10,397**	**0**	**0**	**0**

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

	Financial liabilities held for trading	Financial liabilities measured at fair value	Hedges
1. Initial values	**80**	**0**	**769**
2. Additions	0	0	0
2.1. Issues	46	0	0
2.2. Losses allocated to:	0	0	0
2.2.1. Income Statement	0	0	11
- of which losses	0	0	11
2.2.2. Shareholders' equity	X	0	0
2.3. Transfers from other levels	0	0	0
2.4. Other additions	0	0	0
3. Reductions	0	0	0
3.1. Redemptions	79	0	0

	Financial liabilities held for trading	Financial liabilities measured at fair value	Hedges
3.2. Repurchases	0	0	0
3.3. Losses allocated to:	0	0	0
3.3.1. Income Statement	1	0	0
- of which capital gains	0	0	0
3.3.2. Shareholders' equity	X	0	0
3.4. Transfers to other levels	0	0	0
3.5. Other reductions	0	0	45
4. Final values	**46**	**0**	**735**

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a recurring basis: division by fair value levels

Assets/liabilities not measured at fair value or measured at fair value on a non recurring basis	31/12/2018				31/12/2017			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortized cost	2,965,842	229,844	0	2,735,997	2,628,835	0	0	2,628,835
2. Property, plants and equipment held as investments	0	0	0	0	0	0	0	0
3. Noncurrent assets and groups of assets in the course of divestment	0	0	0	0	0	0	0	0
Total	**2,965,842**	**229,844**	**0**	**2,735,997**	**2,628,835**	**0**	**0**	**2,628,835**
1. Financial liabilities measured at amortized cost	3,449,603	0	0	3,449,603	3,061,398	0	0	3,061,398
2. Liabilities associated to assets in the course of divestment	0	0	0	0	0	0	0	0
Total	**3,449,603**	**0**	**0**	**3,449,603**	**3,061,398**	**0**	**0**	**3,061,398**

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

A.5 – INFORMATION ON SO-CALLED "DAY ONE PROFIT/LOSS"

The Bank does not present transactions for which, at the moment of initial recognition of the financial instruments not listed in active markets, the component relative to the so-called "day one profit/loss" was measured. Consequently, the information required by paragraph 28 of IFRS 7 is not herein provided.

EXPLANATORY NOTES

PART B – Information on the balance sheet

ASSETS

Section 1 - Cash and cash equivalents – Line item 10

1.1 Cash and cash equivalents: breakdown

Line item	31/12/2018	31/12/2017	Var.	% Var.
a) Cash	13,581	11,736	1,844	15.72%
b) Demand deposits with Central Banks	0	0	0	
Total	**13,581**	**11,736**	**1,844**	**15.72%**

The line item “Demand deposits with central banks” does not include the regulatory reserve that was noted in asset line item 40 a) "Financial assets measured at amortized cost a) receivables from banks".

Section 2 - Financial assets measured at fair value with recognition of income effects through profit and loss – Line item 20

2.1 Financial assets held for trading: break down by time

Line items/values	31/12/2018			31/12/2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1 Debt securities	74, 657	0	3, 654	11, 126	0	750
1.1 Structured securities	7, 372	0	0	0	0	0
1.2 Other debt securities	67, 285	0	3, 654	11, 126	0	750
2 Capital securities	929	0	0	1, 312	0	0
3 Shares in mutual funds	19, 946	0	22, 075	1, 710	0	10.239
4 Loans	0	0	0	0	0	0
4.1 Repurchase agreements	0	0	0	0	0	0
4.2 Other	0	0	0	0	0	0
Total A	**95, 532**	**0**	**25, 729**	**14, 148**	**0**	**10.989**
B. Derivative instruments						
1 Financial derivatives :	0	0	158	0	0	332
1.1 from trading	0	0	158	0	0	332
1.2 connected with the fair value option	0	0	0	0	0	0
1.3 other	0	0	0	0	0	0
2 Credit derivatives	0	0	0	0	0	0
2.1 from trading	0	0	0	0	0	0
2.2 connected with the fair value option	0	0	0	0	0	0
2.3 other	0	0	0	0	0	0
Total B	**0**	**0**	**158**	**0**	**0**	**332**
Total (A+B)	**95, 532**	**0**	**25, 887**	**14, 148**	**0**	**11.321**

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

Line items/Values	31/12/2018	31/12/2017	Var.	% Var.
A. CASH ASSETS				
1. Debt securities	78, 311	11, 876	66, 435	0.00%
a) Central Banks	0	0	0	0.00%
b) Public administrations	39, 947	0	39, 947	0.00%
c) Banks	34, 710	11, 126	23, 584	0.00%
d) Other finance companies	3, 654	0	-750	0.00%
of which: insurance companies	0	0	-383	0.00%
e) Non finance companies	0	750	-314	0.00%
2 Equity instruments	929	1, 312	0	0.00%
a) Banks	0	314	0	0.00%
b) Other finance companies	0	0	-69	0.00%
of which: insurance companies	0	0	0	0.00%
c) Finance companies	929	998	30, 072	0.00%
d) Other issuers	0	0	0	**0.00%**
3 Shares in mutual funds	42, 021	11, 949		

Line items/Values	31/12/2018	31/12/2017	Var.	% Var.
4 Loans	0	0	0	0.00%
a) Central banks	0	0	0	0.00%
b) Public administrations	0	0	0	0.00%
c) Banks	0	0	0	0.00%
d) Other finance companies	0	0	96, 124	0.00%
of which: insurance companies	0	0	0	0.00%
e) Non finance companies	0	0	-252	0.00%
f) Families	0	0	78	0.00%
Total (A)	121, 261	25, 138	78	0.00%
B DERIVATIVE INSTRUMENTS				
a) Central counterparties	0	252	0	0.00%
b) Other	158	80	0	0.00%
Total (B)	158	332	0	0.00%
Total (A+B)	121, 420	25, 470	0	0.00%

2.5 Financial assets obligatorily measured at fair value: breakdown by type

Line items/Values	31/12/2018			31/12/2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1 Debt Securities	1,153	0	11,761	0	0	0
1.1 Structured Securities	0	0	0	0	0	0
1.2 other debt securities	1,153	0	11,761	0	0	0
2 Equity instruments	0	0	0	0	0	0
3 Shares in mutual funds	0	0	1,716	0	0	0
4 Loans	0	0	41,915	0	0	0
4.1 Repurchase agreements	0	0	0	0	0	0
4.2 Other	0	0	41,915	0	0	0
Total	1,153	0	55,391	0	0	0

2.6 Financial assets obligatorily measured at fair value: breakdown by borrower/issuer

Line items/values	31/12/2018	31/12/2017
1 Equity instruments	**0**	0
of which: Banks	0	0
of which: Other finance companies	0	0
of which: Other non finance companies	0	0
2. Debt securities	**12, 913**	0
a) Central Banks	0	0
b) Public administrations	0	0
c) Banks	1, 242	0
d) Other finance companies	11, 672	0
of which: insurance companies	512	0
e) Non finance companies	0	0
3 Shares in mutual funds	**1, 716**	0
2 Loans	**41, 915**	0
a) Central Banks	0	0
b) Public administrations	0	0
c) Banks	768	0
d) Other finance companies	11, 107	0
of which: insurance companies	11, 107	0
e) Non finance companies	29, 751	0
f) Families	288	0
Total	**56, 544**	0

Section 3 - Financial assets measured at fair value with impact on total profits – Line item 30

3.1 Financial assets measured at fair value with impact on total profits: breakdown by type

Line items/values	Total 31/12/2018			Total 31/12/2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt Securities	378, 997	0	0	528, 405	0	2, 076
1.1 Structured Securities	21, 916	0	0	21, 967	0	0
1.2 Other debt securities	357, 081	0	0	506, 438	0	2, 076
2. Equity instruments	0	0	10, 397	0	0	2, 948
Shares in mutual funds (as per 3 IAS 39)				0	0	1, 151
3. Loans	0	0	0	0	0	0
Total	**378, 997**	**0**	**10, 397**	**528, 405**	**0**	**6, 175**

3.2 Financial assets measured at fair value with impact on total profits: breakdown by borrower/issuer

Line items/values	Total 31/12/2018	Total 31/12/2017	Var.	% Var.
1. Debt securities	**378,997**	**530,481**	**-149,506**	**-28.56%**
a) Central banks	0	402,298	-402,298	-100.00%
b) Public administrations	340,230	0	340,230	0.00%
c) Banks	38,767	126,205	-87,438	-69.28%
d) Other finance companies	0	0	0	0.00%
of which: insurance companies	0	0	0	0.00%
e) Non finance companies	0	0	0	0.00%
Other issuers (ex point d) IAS 39)	0	1,978	-1,978	-100.00%
			0	0.00%
2. Equity instruments	**10,397**	**2,948**	7,449	252.72%
a) Banks	8,922	2,120	6,801	320.75%
b) Other issuers:	1,475	827	648	78.30%
- other finance companies	844	216	0	0.00%
of which: insurance companies	0	0	0	0.00%
- non finance companies	631	611	20	3.29%
- others	0	0	0	-
Shares in mutual funds (as per point 3 IAS 39)	0	1,151	-1,151	-100.00%
3. Loans	**0**	**0**	0	0.00%
a) Central banks	0	0	0	0.00%
b) Public administrations	0	0	0	0.00%
c) Banks	0	0	0	0.00%
d) Other finance companies	0	0	0	0.00%
of which: insurance companies	0	0	0	0.00%
e) Non finance companies	0	0	0	0.00%
f) Families	0	0	0	0.00%
Total	**389,394**	**534,580**	-145,186	-27.16%

3.3 Financial assets measured at fair value with impact on total profits: gross value and overall value adjustments

	Gross value				Overall value adjustments			Overall partial write-off
	First stage	of which: instruments with a low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	347,468	347,468	32,285	0	370	387	0	0
Loans	0	0	0	0	0	0	0	0

	Gross value				Overall value adjustments			Overall partial write-off
	First stage	of which: instruments with a low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Total 31/12/2018	347,468	347,468	32,285	0	370	387	0	0
Total 31/12/2017	0	0	0	0	0	0	0	0
of which: Impaired financial assets purchased or originated	X	X	0	0	X	0	0	0

Section 4 - Financial assets measured at amortized cost – Line item 40

4.1 Financial assets measured at amortized cost: breakdown by type of receivables from banks

Type of transaction / Values	Total 31/12/2018						Total 31/12/2017					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: purchased or originated impaired	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: purchased or originated impaired	Level 1	Level 2	Level 3
A. Receivables from central banks												
1. Time deposits	0	0	0	0	0	0	0			0	0	0
2. Regulatory reserve	95,003	0	0	0	0	95,003	66,692			0	0	66,692
3. Repurchase agreements	0	0	0	0	0	0	0			0	0	0
4. Other	0	0	0	0	0	0	0			0	0	0
B. Receivables from banks	0	0	0	0	0	0						
1. Loans	0	0	0	0	0	0	51,519			0	0	51,519
1.1. Bank accounts e demand deposits	86,208	0	0	0	0	86,208	65,155			0	0	65,155
1.2. Term deposits	66,854	0	0	0	0	66,854	0			0	0	0
1.3. Other financing:	0	0	0	0	0	0	0			0	0	0
- Repurchase agreements - receivable	0	0	0	0	0	0	0			0	0	0
- Financial Leasing	0	0	0	0	0	0	0			0	0	0
- Other	0	0	0	0	0	0	0			0	0	0
2. Debt securities	1,717	0	0	1,717	0	0	0			0	0	0
2.1 Structured securities	0	0	0	0	0	0	0			0	0	0
2.2 Other debt securities	1,717	0	0	1,717	0	0	**183,366**			**0**	**0**	**183,366**
Total	**249,782**	**0**	**0**	**1,717**	**0**	**248,065**	**131,847**	**0**	**0**	**0**	**0**	**131,847**

4.2 Financial assets measured at amortized cost: breakdown by type of receivables from customers

Type of transaction /Values	Total31/12/2018							Total 31/12/2017						
	Book value				Fair value			Book value				Fair value		
	First and second stage	Third stage	of which: purchased or originated impaired	Total	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: purchased or originated impaired	Total	Level 1	Level 2	Level 3
1. Loans														
1.1. Bank accounts	527,099	27,037	0	554,136	X	X	X	404,235	42,878	0	447,112	X	X	X
1.2. Repurchase agreements - receivable	0	0	0	0	X	X	X	0	0	0	0	X	X	X
1.3. Mortgages	1,156,326	139,552	616	1,295,877	X	X	X	1,125,814	200,307	0	1,326,122	X	X	X

Type of transaction /Values	Total31/12/2018							Total 31/12/2017						
	Book value				Fair value			Book value				Fair value		
	First and second stage	Third stage	of which: purchased or originated impaired	Total	Level 1	Level 2	Level 3	First and second stage	Third stage	of which: purchased or originated impaired	Total	Level 1	Level 2	Level 3
1.4. Credit cards, personal loans and salary-backed loans	19,540	738	38	20,278	X	X	X	18,959	895	0	19,854	X	X	X
1.5. Financial Leasing	1,094	0	0	1,094	X	X	X	24,308	0	0	24,308	X	X	X
1.6. Factoring	0	0	0	0	X	X	X	0	0	0	0	X	X	X
1.7. Other financing	593,320	23,611	5	616,931	X	X	X	596,492	31,581	0	628,074	X	X	X
2. Debt securities	227,742	0	0	227,742	227,996	0	0	0	0	0	0	0	0	0
2.1 Structured securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2.2 Other debt Securities	227,742	0	0	227,742	227,996	0	0	0	0	0	0	0	0	0
Total (book value)	**2,525,121**	**190,938**	**658**	**2,716,060**	**227,996**	**0**	**0**	**2,169,809**	**275,661**	**0**	**2,445,470**	**0**	**0**	**0**

4.3 Receivables from customers: Financial leasing

This line item is composed of receivables from customers for finance lease contracts for property purchases; these receivables were valued at amortized cost.

The item went from 24,308 thousand Euro at 31/12/2017 to 17,637 thousand Euro at 31/12/2018, with a decrease of 6,671 thousand Euro.

4.4 Financial assets measured at amortized cost: breakdown by borrower/issuer of receivables from customers

Type of transaction/Values	Total 31/12/2018			Total 31/12/2017		
	First and second stage	Third stage	of which: purchased or originated impaired	First and second stage	Third stage	of which: purchased or originated impaired
1. Debt securities						
a) Public administrations	227,742	0	0	0	0	0
b) Other finance companies	0	0	0	0	0	0
of which: insurance companies	0	0	0	0	0	0
c) Non finance companies	0	0	0	0	0	0
2. Loans to:	0	0	0	0	0	0
a) Public administrations	1,595	0	0	1,960	0	0
b) Other finance companies	150,570	1,869	0	114,683	915	0
of which: insurance companies	0	0	0	0	0	0
c) Non finance companies	1,144,565	108,452	156	1,223,446	196,258	0
d) Families	1,000,649	80,617	502	0	0	0
Other subjects – others (IAS 39)	*0*	*0*	*0*	*829,720*	*78,488*	*0*
Total	**2,525,121**	**190,938**	**658**	**2,169,809**	**275,661**	**0**

4.5 Financial assets measured at amortized cost: gross value and overall value adjustments

	Gross value				Overall value adjustments			Overall partial write-offs
	First stage	of which: instruments with a low credit risk	Second stage	Third stage	First stage	Second Stage	Third stage	
Debt securities	227,996	227,996	1,849	0	254	132	0	0
Loans	2,403,411	2,403,411	150,473	363,350	5,810	2,629	172,411	174
Total 31/12/2018	**2,631,407**	**2,631,407**	**152,321**	**363,350**	**6,063**	**2,761**	**172,411**	**174**
Total 31/12/2017	**2,179,666**	**2,179,666**	**177,779**	**439,077**	**3,906**	**365**	**163,416**	**0**
of which: Impaired financial assets purchased or originated	**X**	**X**	0	806	**X**	0	148	0

Section 7 – Equity investments – Line item 70

7.1 Equity investments in subsidiaries, jointly held companies or companies subject to significant influence: information on shareholdings

Denomination	Registered office	Operating office	Shareholding %	Votes available %
A. Wholly owned subsidiaries				
1. Cabel Leasing s.p.a. (1)	**Empoli**	**Empoli**	**52.00%**	**52.00%**
2. Immobiliare 1884 s.r.l.	**Firenze**	**Empoli**	**100.00%**	**100.00%**
B. Jointly held companies				
C. Companies subject to significant influence				
1. Cabel Holding s.p.a.	**Empoli**	**Empoli**	**49.60%**	**49.60%**
2. Cabel Industry s.p.a. (2)	**Empoli**	**Empoli**	**18.00%**	**18.00%**

(1) – The shareholding percent in Cabel Leasing s.p.a. increases to 70.85% due to Cabel Holding s.p.a. equity investments in Cabel Leasing s.p.a. for 38.00%.
(2) – The shareholding percent in Cabel Industry s.p.a. increases to 51.61% due to Cabel Holding s.p.a. equity investments in Cabel Industry s.p.a. for 67.77%.

7.2 Significant equity investments: balance sheet value, fair value and dividends received

Denomination	Balance sheet value	Fair value	Dividends received
A. Wholly owned subsidiaries	**20,116**	**20,116**	**0**
1. Cabel Leasing S.p.a.	10,117	10,117	0
2. Immobiliare 1884 s.r.l.	10,000	10,000	0
B. Jointly held companies	**0**	**0**	**0**
C. Companies subject to significant influence	**23,445**	**23,445**	**0**
1. Cabel Holding S.p.a.	21,518	21,518	0
2. Cabel Industry S.p.a.	1,927	1,927	0
Total	**43,561**	**43,561**	**0**

The fair value of shareholdings in companies subject to significant interest corresponds to the balance sheet value in that none of the companies in question is listed on a trade market

7.3 Significant equity investments: accounting information

Denomination	Cash and cash equivalents	Financial assets	Non financial assets	Financial liabilities	Non financial liabilities	Total revenue	Interest income
A. Wholly owned subsidiaries	**4**	**146,655**	**6,848**	**128,446**	**5,606**	**4,910**	**2,863**
1. Cabel Leasing s.p.a.	4	146,655	6,848	128,446	5,606	4,910	2,863
2. Immobiliare 1884 s.r.l.	0	4,999	7	0	6	0	0
B. Jointly held companies	**0**	**0**	**0**	**0**	**0**	**0**	**0**
C. Companies subject to significant influence		**29,199**	**51,013**	**2**	**28,173**	**36,619**	
1. Cabel Holding s.p.a.	x	25,385	17,087	2	1,137	5,480	x

Denomination	Cash and cash equivalents	Financial assets	Non financial assets	Financial liabilities	Non financial liabilities	Total revenue	Interest income
2. Cabel Industry s.p.a.	x	3,814	33,926	0	27,036	31,139	x
Total	**4**	**175,854**	**57,861**	**128,448**	**33,779**	**41,529**	**2,863**

Denomination	Value adj. and write-backs on prop., plant and equip. and intangible assets	Profit (loss) on continuing operations before tax	Profit (loss) on continuing operations after tax	Profit (loss) on groups of assets under divestment, after tax	Fiscal year profit (loss)(1)	Other income components after tax (2)	Overall income (3) = (1) + (2)
A. Wholly owned subsidiaries	**200**	**1,001**	**766**	**0**	**766**	**0**	**766**
1. Cabel Leasing s.p.a.	200	1,001	766	0	766	0	766
2. Immobiliare 1884 s.r.l.	0	0	0	0	0	0	0
B. Jointly held companies	**0**	**0**	**0**	**0**	**0**	**0**	**0**
C. Companies subject to significant influence		**2,069**	**1,590**	**0**	**1,590**	**0**	**1,590**
1. Cabel Holding s.p.a.	x	1,131	988	0	988	0	988
2. Cabel Industry s.p.a.	x	937	602	0	602	0	602
Total	**200**	**3,070**	**2,356**	**0**	**2,356**	**0**	**2,356**

The above companies carry out activities that are instrumental to Bank activities and perform services that area auxiliary to Bank activities. The values shown in the above table refer to the year 2017 in that at the date of presentation of the financial statements to the BoD for approval, the definitive balance sheet data for 2018 for the companies in question were not available.

The balance sheet value was calculated according to the schedule below.

Denomination	Shareholders' equity	Shareholding %	Purchase/Sale	Dividends received	Balance sheet value
1. Cabel Leasing s.p.a.	19,455	52.00%	0	0	10,117
2. Immobiliare 1884 s.r.l.	5,000	100.00%	5,000	0	10,000
3. Cabel Holding s.p.a.	43,383	49.60%	0	0	21,518
4. Cabel Industry s.p.a.	10,704	18.00%	0	0	1,927
Total	**78,541**		**5,000**	**0**	**43,561**

7.5 Equity investments: annual variations

Line items	Total as at 31/12/2018	Total as at 31/12/2017
A. Initial value	**37,855**	**25,573**
B. Additions		
B.1 Purchases	5,000	12,909
B.2 Write-backs of value	0	0
B.3 Revaluations	766	513
B.4 Other variations	0	0
C. Reductions		
C.1 Sales	0	0
C.2 Value adjustments	0	0
C.3 Other variations	60	1,141
D. Final value	**43,561**	**37,855**
E. Total revaluations	**13,084**	**12,318**
F. Total adjustments	**0**	**0**

Line B.3 "Revaluations" includes the revaluation of the company Cabel Leasing s.p.a. for 336 thousand Euro and the revaluation of the company Cabel Holding s.p.a. for 430 thousand Euro.

The data from the 2017 financial statement refer to the last financial statements approved by the subsidiaries (31/12/2016).

The data from the 2018 financial statements refer to the last financial statements approved by the subsidiaries (31/12/2017).

7.7 Equity investments: commitments referred to investments in companies subject to significant influence

There are no investments that may generate potential liabilities deriving from any joint investment.

7.8 Equity investments: restrictions

There are no significant restrictions referred to investments in companies subject to significant influence.

Section 8 - Property, plants and equipment – Line item 80

8.1 Property, plants and equipment with a functional use: breakdown of assets measured at cost

Assets/Values	Total 31/12/2018	Total 31/12/2017
1. Own assets	**57.539**	**58.105**
a) land	11.127	11.081
b) buildings	31.769	31.977
c) furniture	9.631	9.347
d) electronic equipment	797	826
e) other	4.215	4.876
2. Assets purchased in financial leasing	**0**	**0**
a) land	0	0
b) buildings	0	0
c) furniture	0	0
d) electronic equipment	0	0
e) other	0	0
Total	**57.539**	**58.105**
of which: obtained by enforcing guarantees	0	0

All the Bank's property, plant and equipment are measured at cost; the line item "land" indicates the value of the land that is separated from the value of the buildings.

8.6 Property, plants and equipment with a functional use: annual variations

Line items	Land	Buildings	Furniture	Electronic systems	Other	Total 31/12/2018
A. Initial gross value	**11,081**	**45,627**	**12,762**	**2,763**	**10,731**	**82,964**
A.1 Total net reductions of value	0	13,651	3,415	1,938	5,855	24,859
A.2 Initial net value	**11,081**	**31,977**	**9,347**	**826**	**4,876**	**58,105**
B. Additions:						
B.1 Purchases	46	186	726	291	618	1,867
of which: corporate merger operations	0	0	0	0	0	0
B.2 Expenses for capitalized improvements	0	576	0	0	0	576
B.3 Write-backs of value	0	0	0	0	0	0
B.4 Increases of Fair value allocated to:						
a) shareholders' equity	0	0	0	0	0	0
b) income statement	0	0	0	0	0	0
B.5 Positive Exchange rate difference	0	0	0	0	0	0
B.6 Transfers from real property held for investment	0	0	0	0	0	0
B.7 Other additions	0	0	0	0	135	135
C. Reductions:						
C.1 sales	0	0	0	0	135	135
of which: corporate merger operations	0	0	0	0	0	0
C.2 Depreciation	0	969	441	319	1,278	3,009

Line items	Land	Buildings	Furniture	Electronic systems	Other	Total 31/12/2018
C.3 Value adjustments from impairment allocated to:						
a) shareholders' equity	0	0	0	0	0	0
b) income statement	0	0	0	0	0	0
C.4 Negative fair value variations allocated to:						
a) shareholders' equity	0	0	0	0	0	0
b) income statement	0	0	0	0	0	0
C.5 Negative exchange rate differences	0	0	0	0	0	0
C.6 Transfers to:						
a) Property, plant and equipment held for investment	0	0	0	0	0	0
b) assets in the course of divestment	0	0	0	0	0	0
C.7 Other variations	0	0	0	0	0	0
D. Final net value	**11,127**	**31,769**	**9,631**	**797**	**4,215**	**57,539**
D.1 Reductions of total net value	0	14,620	3,857	2,257	6,999	27,732
D.2 Final gross value	**11,127**	**46,388**	**13,488**	**3,054**	**11,214**	**85,272**
E. Measurement at cost	**0**	**0**	**0**	**0**	**0**	**0**

Depreciation was measured *pro rata* as specified below:

- Land	0.00%
- Buildings	3.00%
- Artwork	0.00%
- Furniture and various furnishings	12.00%
- AED plants, machinery and equipment	20.00%
- Technical plants, machinery and equipment	15.00%
- Vehicles	20.00%

Section 9 - Intangible assets – Line item 90

9.1 Intangible assets: breakdown by type of assets

Assets/Values	Total 31/12/2018		Total 31/12/2017	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill	0	4,825	0	6,975
A.2 Other intangible assets				
A.2.1 Assets measured at cost:	580	0	545	0
a) Intangible assets generated internally	0	0	0	0
b) Other assets	580	0	545	0
A.2.2 Assets measured at fair value:	0	0	0	0
a) Intangible assets generated internally	0	0	0	0
b) Other assets	0	0	0	0
Total	**580**	**4,825**	**545**	**6,975**

All of the Bank's intangible assets are measured at cost.
The goodwill booked refers to the following transactions:
1) 2,100 thousand relative to the purchase of n. 2 Banca Interregionale s.p.a. bank tellers. The branches were purchased on operating date 01/01/2015, and are the Pistoia (PT) branch and the San Giovanni Valdarno (AR) branch.
2) 4,875 thousand relative to the purchase of Banca A.G.C.I. S.p.A. during the way out operation on operating date 01/01/2017.
The calculation of the amounts for goodwill is illustrated in "Part A" of these Explanatory Notes.

The table below illustrates the goodwill variations in 2018 subsequent to impairment.

Detail of line item A.1 Goodwill

	Initial value (cost)	Impairment	Book value at 31/12/2018
Pistoia branch	1,692	1,692	0
San Giovanni Valdarno branch	408	408	0
Bologna branch	2,001	0	2,001
Turin branch	1,505	50	1,455
Rome branch	1,368	0	1,368
TOTAL	**6,975**	**2,150**	**4,825**

9.2 Intangible assets: annual variations

Line items	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total 31/12/2018
		Limited duration	Unlimited duration	Limited duration	Unlimited duration	
A. Initial gross value	**6,975**	**0**	**0**	**4,419**	**0**	**11,394**
A.1 Total net reduction of value	0	0	0	3,874	0	3,874
A.2 Initial net value	**6,975**	**0**	**0**	**545**	**0**	**7,519**
B. Additions						
B.1 Purchases	0	0	0	199	0	199
Of which: corporate merger transactions	0	0	0	0	0	0
B.2 Increases of internal intangible assets	0	0	0	0	0	0
B.3 Write-backs of value	0	0	0	0	0	0
B.4 Increases of fair value						
- to shareholders' equity	0	0	0	0	0	0
- to the income statement	0	0	0	0	0	0
B.5 Positive exchange rate differences	0	0	0	0	0	0
B.6 Other additions	0	0	0	0	0	0
C. Reductions						
C.1 Sales	0	0	0	0	0	0
C.2 Value adjustments						
- Amortization	0	0	0	164	0	164
- Write-downs						
+ Shareholders' equity	0	0	0	0	0	0
+ income statement	2,150	0	0	0	0	2,150
C.3 Reductions of fair value						
- to shareholders' equity	0	0	0	0	0	0
- to the income statement	0	0	0	0	0	0
C.4 Transfers of noncurrent assets in course of divestment	0	0	0	0	0	0
C.5 Negative exchange rate differences	0	0	0	0	0	0
C.6 Other variations	0	0	0	0	0	0
D. Final net value	**4,825**	**0**	**0**	**580**	**0**	**5,404**
D.1 Total net value adjustments	2,150	0	0	4,038	0	6,188
E. Final gross value	**6,975**	**0**	**0**	**4,618**	**0**	**11,593**
F. Measurement at cost	0	0	0	0	0	0

Other intangible assets consist in goodwill and the cost of corporate software.

Section 10 – Tax receivables and tax liabilities – Assets line item 100 and Liabilities line item 60

10.1 Assets from pre-paid tax: breakdown

Line items/Values	Total 31/12/2018	Total 31/12/2017
1. Multi-year costs	0	0
2. Personnel costs	0	0
3. Receivables	19,343	19,343
4. Entertainment expenses	0	0
5. Financial instruments (HTCS securities)	2,356	0
Financial instruments (A.F.S. securities) IAS 39	0	1,959
6. Tax losses	0	0
7. Goodwill	540	0
8. Other	324	309
Total	**22,563**	**21,611**

The line item "Financial instruments" indicates tax receivables related to financial instruments classified in the portfolio of financial assets measured at fair value with impact on total profits.

Breakdown of assets related to pre-paid taxes point 3. Receivables from the previous table:

Line items/Values	Total 31/12/2018	Total 31/12/2017
1. Ires (corporate income tax) subdivided into eighteenths	0	0
2. Ires (corporate income tax) subdivided into fifths	0	0
3. Irap (tax on productive activities) subdivided into fifths	0	0
4. Irap (tax on productive activities) scheduled for 2016	0	0
5. Ires (corporate income tax) scheduled for 2016	0	0
6. Irap (tax on productive activities) scheduled for 2017	0	0
7. Ires (corporate income tax) scheduled for 2017	0	0
8. Irap (tax on productive activities) scheduled for 2018 – deferred to 2016	294	294
9. Ires (corporate income tax) scheduled for 2018 – deferred to 2026	1,929	1,929
10. Irap (tax on productive activities) scheduled for 2019	353	353
11. Ires (corporate income tax) scheduled for 2019	2,315	2,315
12. Irap (tax on productive activities) scheduled for 2020	353	353
13. Ires (corporate income tax) scheduled for 2020	2,315	2,315
14. Irap (tax on productive activities) scheduled for 2021	353	353
15. Ires (corporate income tax) scheduled for 2021	2,315	2,315
16. Irap (tax on productive activities) scheduled for 2022	353	353
17. Ires (corporate income tax) scheduled for 2022	2,315	2,315
18. Irap (tax on productive activities) scheduled for 2023	353	353
19. Ires (corporate income tax) scheduled for 2023	2,315	2,315
20. Irap (tax on productive activities) scheduled for 2024	353	353
21. Ires (corporate income tax) scheduled for 2024	2,315	2,315
22. Irap (tax on productive activities) scheduled for 2025	147	147
23. Ires (corporate income tax) scheduled for 2025	965	965
Total	**19,343**	**19,343**

10.2 Liabilities for deferred taxes: breakdown

Line items/Values	Total at 31/12/2018	Total at 31/12/2017
1. Property, plant, equipment	1,879	1,923
2. Personnel costs	0	0
3. Former credit risk fund	0	0
4. Equity investments	46	46
5. Financial instruments (HTCS securities)	0	0
6. Goodwill	163	205

Line items/Values	Total at 31/12/2018	Total at 31/12/2017
7. Other	108	118
Total	**2,196**	**2,292**

Among liabilities for deferred taxes, please not the line "Property, plant and equipment ": the tax liability was calculated between the IAS value and the "tax" value of the property, plant and equipment owned.
The line "Equity investments" indicates the tax liability referable to equity investments calculated at the IRES tax rate (27.50) on 5.00% of overall capital gain (3,344 thousand Euro.).
The line "Financial instruments" indicates tax liabilities related to financial instruments classified in the portfolios of financial assets measured at fair value with impact on total profits.

10.3 Variations of pre-paid taxes (as an offset to the Income Statement)

Line items	Total at 31/12/2018	Total at 31/12/2017
1. Initial value	**19,343**	**19,710**
2. Additions		
2.1 Pre-paid taxes recognized during the fiscal year		
a) related to previous fiscal years	0	0
b) due to change of accounting policies	0	0
c) write-backs of value	0	0
d) other	540	0
e) corporate merger operations	0	0.00
2.2 New taxes or increases of tax rates	0	0
2.3 Other additions	0	0
3. Reductions		
3.1 Pre-paid taxes derecognized during the fiscal year		
a) reversals	0	1,779
b) write-downs for receivables written off as unrecoverable	0	0
c) change of accounting policies	0	0
d) other	0	0
e) corporate merger operations	0	0.00
3.2 Reductions of tax rates	0	0
3.3 Other reductions		
a) transformation into tax credits pursuant to Law n. 214/2011	0	0
b) other	0	0
4. Final value	**19,883**	**19,343**

The table summarizes all pre-paid taxes which will be absorbed in subsequent fiscal years as offsets to the income statement.

10.3.1 Variations of pre-paid taxes as per Law 214/2011 (as offset to the income statement)

Line items	Total at 31/12/2018	Total at 31/12/2017
1. Initial value	**19,343**	**19,710**
2. Additions	**0**	**1,412**
2.1 Corporate merger operations	0	0.00
3. Reductions	**0**	**1,779**
3.1 reversals	0	1,779
3.2 transformation into tax credits	0	0
a) deriving from operating losses	0	0
b) deriving from tax losses	0	0
3.3 other reductions	0	0
4. Final value	**19,343**	**19,343**

There is no value recorded for item 3.1 "reversals" during the current fiscal year in that article 1, sub-section 1056 of Law n. 145 of 30 December 2018 (Budget Law for 2019) has provided, for the purpose of both IRES and IRAP taxation, reversal from the fiscal year at 31 December 2018 to the fiscal year at 31 December 2026 of the 10% reduction of write-downs and losses on receivables as per Law 2014/2011.

10.4 Variations of deferred taxes (as offset in the income statement)

Line items	Total at 31/12/2018	Total at 31/12/2017
1. Initial value	**2,246**	**3,442**
2. Additions		
2.1 Deferred taxes recognized during the fiscal year		
a) related to previous fiscal years	0	0
b) due to a change of accounting policies	0	0
c) other	166	128
e) corporate merger operations	0	0
2.2 New taxes or increases of tax rates	0	0
2.3 Other increases	0	0
3. Reductions		
3.1 Deferred taxes derecognized during the fiscal year		
a) reversals	262	72
b) due to a change of accounting policies	0	0
c) other	0	0
e) corporate merger operations	0	1,252
3.2 Reductions of tax rates	0	0
3.3 Other reductions	0	0
4. Final value	**2,150**	**2,246**

The table summarizes all deferred taxes that will be absorbed during subsequent fiscal years as offsets to the income statement.

10.5 Variations of pre-paid taxes (as an offset to shareholders' equity)

Line items	Total at 31/12/2018	Total at 31/12/2017
1. Initial value	**2,268**	**1,329**
2. Additions		
2.1 Pre-paid taxes recognized during the fiscal year		
a) related to previous fiscal years	0	0
b) due to a change in accounting policies	0	0
c) other	412	0
e) corporate merger operations	0	1,113
2.2 New taxes or increases of tax rates	0	0
2.3 Other additions	0	0
3. Reductions		
3.1 Pre-paid tax derecognized during the fiscal year		
a) reversals	0	174
b) write-downs for receivables written off as unrecoverable	0	0
c) due to a change in accounting policies	0	0
d) other	0	0
e) corporate merger operations	0	0
3.2 Reductions of tax rates	0	0
3.3 Other reductions	0	0
4. Final value	**2,680**	**2,268**

The variations are exclusively due to the pre-paid taxes recorded in movements to the reserves of shareholders' equity related to the financial instruments classified in the portfolios of financial assets measured at fair value with impact on total profits (reserve on "AFS" securities according to the IAS 39 principle).

10.6 Variations of deferred taxes (as an offset to shareholders' equity)

Line items	Total at 31/12/2018	Total at 31/12/2017
1. Initial value	**46**	**62**

Line items	Total at 31/12/2018	Total at 31/12/2017
2. Additions		
2.1 Deferred taxes recognized during the fiscal year		
a) related to previous fiscal years	0	0
b) due to a change in accounting policies	0	0
c) other	0	0
d) corporate merger operations	0	0
2.2 New taxes or increases of tax rates	0	0
2.3 Other additions	0	0
3. Reductions		
3.1 Deferred taxes derecognized during the fiscal year		
a) reversals	0	16
b) due to a change in accounting policies	0	0
c) other	0	0
d) corporate merger operations	0	0
3.2 Reduction of tax rates	0	0
3.3 Other reductions	0	0
4. Final value	**46**	**46**

10.7 Other information – Assets due to current taxes – Breakdown

Line items	Total at 31/12/2018	Total at 31/12/2017
1. Advances paid to the tax authority	6,022	5,195
2. Tax receivables – principal	328	268
3. Tax receivables – interest	0	0
4. Other withholdings	74	62
Total	**6,424**	**5,525**

Assets due to current taxes in 2018 are shown on a “closed” account basis in the balance sheet and on an “open” account basis in the table above.

10.7 Other information – Liabilities due to current taxes – Breakdown

Line items	Total at 31/12/2018	Total at 31/12/2017
1. Fund for IRES tax	0	0
2. Fund for IRAP tax	217	383
3. Fund for stamp duty	28	0
4. Tax fund – substitute tax Law 244/2007	0	0
5. Tax fund – other	19	0
Total	**264**	**383**

Liabilities for current taxes in 2017 are shown on a “closed” account basis in the balance sheet and on an “open” account basis in the table above.

Section 12 – Other assets – Line item 120

12.1 Other assets: breakdown

Line items	Total at 31/12/2018	Total at 31/12/2017
01. Other debtors	7,874	5,662
02. Entries in transit	88	3,501
03. Entries being processed	44,639	13,947
04. Various entries to be settled	309	1,226
05. Stipulated loans to be disbursed	22,209	8,874
06. Checks, bills returned unpaid and protested	81	163

Line items	Total at 31/12/2018	Total at 31/12/2017
07. Assets sold and not derecognized	0	0
08. Assets for expenses on third party goods	1,163	1,356
09. Expenses not yet invoiced	84	73
10. Costs to be allocated	296	288
11. Advanced operations on Securities	191	350
12. Various open entries	4,132	4,218
13. Accrued income and prepayments	2,339	2,313
14. Securities to be settled (sales)	0	0
Total	**83,403**	**41,973**

PAYABLES

Section 1 - Financial liabilities measured at amortized cost – Line item 10

1.1 Financial liabilities measured at amortized cost: breakdown by type of payable to banks

Type of transaction/Values	Total at 31/12/2018				Total at 31/12/2017				Var.	% Var.
	Book value	Fair value			Book value	Fair value				
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3		
1. Payables to central banks	474,130	0	0	474,130	479,380	0	0	479,380	-5,250	-1.10%
2. Payables to banks										
2.1 Bank accounts and demand deposits	89,653	0	0	89,653	10,876	0	0	10,876	78,777	724.29%
2.2 Term deposits	45,163	0	0	45,163	321	0	0	321	44,842	13951.97%
2.3 Loans	109	0	0	109	13,402	0	0	13,402	-13,293	
2.3.1 Repurchase agreements – payable	0	0	0	0	0	0	0	0	0	
2.3.2 Other	109	0	0	109	13,402	0	0	13,402	-13,293	
2.4 Liabilities for commitments to repurchase own shares	0	0	0	0	0	0	0	0	0	
2.5 Liabilities for leases	0	0	0	0	0	0	0	0	0	
2.6 Other liabilities	0	0	0	0	0	0	0	0		
Total	**609,055**	**0**	**0**	**609,055**	**503,980**	**0**	**0**	**503,980**	**105,076**	**20.85%**

Payables to banks are all measured at cost or at amortized cost.
The item "Payables to central banks" includes the TLTROII opened by the bank for € 479,000 thousand. The amount at 31/12/2018 is less the interest expenses calculated at a -0.40% rate from the date of initiation (€ 4,870 thousand).

1.2 Financial liabilities measured at amortized cost: breakdown by type of payable to customers

Type of operation/Values	Total at 31/12/2018				Total at 31/12/2017				Var.	% Var.
	Book value	Fair value			Book value	Fair value				
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3		
1. Bank accounts and demand deposits	1,805,787	0	0	1,805,787	1,761,298	0	0	1,761,298	44,489	2.53%
2. Term deposits	498,360	0	0	498,360	491,571	0	0	491,571	6,789	1.38%
3. Loans	344,353	0	0	344,353	51,943	0	0	51,943	292,410	562.94%
3.1 Repurchase agreements – payable	337,316	0	0	337,316	39,936	0	0	39,936	297,380	744.65%
3.2. Other	7,038	0	0	7,038	12,008	0	0	12,008	-4,970	-41.39%
4. Liabilities for commitments to buy back treasury shares	0	0	0	0	0	0	0	0	0	-
5. liabilities for leases	0	0	0	0	0	0	0	0	-129	-
6. Other liabilities	518	0	0	518	647	0	0	647	343,559	-19.94%
Total	**2,649,018**	**0**	**0**	**2,649,018**	**2,305,459**	**0**	**0**	**2,305,459**	**687,119**	**14.90%**

Payables to customers are all measured at cost or at amortized cost.
Item 3.2 "Loans - Other" for 7,038 thousand Euro includes transactions with the Cassa Depositi e Prestiti s.p.a..

1.3 Financial liabilities measured at amortized cost: breakdown by type of outstanding securities

Type of security/Values	Total at 31/12/2018				Total at 31/12/2017			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Securities	190,779	0	0	190,779	249,575	0	0	249,575
1.1 structured	4,883	0	0	4,883	4,824	0	0	4,824
1.2 other	185,895	0	0	185,895	244,751	0	0	244,751
2. Other securities	750	0	0	750	2,384	0	0	2,384
2.1 structured	0	0	0	0	0	0	0	0
2.2 other	750	0	0	750	2,384	0	0	2,384
Total	**191,529**	**0**	**0**	**191,529**	**251,959**	**0**	**0**	**251,959**

The table indicates deposits consisting of securities that also include, in addition to bonds, outstanding and matured certificates of deposit to be repaid.
All of the liabilities are measured at cost or at amortized cost, with the exception of entries that are the object of specific hedges of the interest rate risk on which the effect of the Swap was capitalized.
Liabilities are indicated net of repurchased bonds.
The aggregate decreased with respect to the previous fiscal year by 60,430 thousand Euro (-23.98%). During the fiscal year, a type T2 subordinate bond loan was issued for a nominal value equal to € 45,000 thousand. Net of this operation, the reduction of the aggregate with respect to the previous fiscal year would have been € 105,430 thousand (-41.84%). The aforementioned load is described in detail in table 1.4

1.4 Financial liabilities measured at amortized cost: detail of subordinate liabilities/ securities

ISIN	Date of issue	Date of redemption	Issue value	Amount attributable to Own funds
- Isin IT0005337719	28/06/2018	28/06/2025	45,000	45,000
Total			**45,000**	**45,000**

Section 2 - Financial liabilities from trading – Line item 20

2.1 Financial liabilities from trading: breakdown by type

Type of transaction/Values	Total at 31/12/2018					Total at 31/12/2017				
	Notional value	Fair value			Fair Value (*)	Notional value	Fair value			Fair Value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1. Payables to banks	0	0	0	0	0	0	0	0	0	0
2. Payables to customers	0	0	0	0	0	0	0	0	0	0
3. Debt securities	0	0	0	0	0	0	0	0	0	0
3.1 Securities	0	0	0	0	0	0	0	0	0	0
3.1.1 Structured	0	0	0	0	0	0	0	0	0	0
3.1.2 Other securities	0	0	0	0	0	0	0	0	0	0
3.2 Other securities	0	0	0	0	0	0	0	0	0	0
3.2.1 structured	0	0	0	0	0	0	0	0	0	0
3.2.2 other	0	0	0	0	0	0	0	0	0	0
Total A	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
B. Derivative instruments	**0**	**0**	**0**	**46**	**0**	**0**	**0**	**0**	**80**	**0**
1. Financial derivatives	0	0	0	46	0	0	0	0	80	0
1.1 From trading	0	0	0	46	0	0	0	0	80	0
1.2 Connected with the fair value option	0	0	0	0	0	0	0	0	0	0
1.3 Others	0	0	0	0	0	0	0	0	0	0

Type of transaction/Values	Total at 31/12/2018					Total at 31/12/2017				
	Notional value	Fair value			Fair Value (*)	Notional value	Fair value			Fair Value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
2. Credit derivatives	0	0	0	0	0	0	0	0	0	0
2.1 From trading	0	0	0	0	0	0	0	0	0	0
2.2 Connected with the fair value option	0	0	0	0	0	0	0	0	0	0
2.3 Others	0	0	0	0	0	0	0	0	0	0
Total B	**0**	**0**	**0**	**46**	**0**	**0**	**0**	**0**	**80**	**0**
Total A + B	**0**	**0**	**0**	**46**	**0**	**0**	**0**	**0**	**80**	**0**

Key
FV (*) - fair value measured excluding variations in value due to changes in issuer creditworthiness with respect to the date of issue.

Section 4 - Hedges – Line item 40

4.1 Hedges: breakdown by type of hedge and hierarchical level

Line items	Fair value 31/12/2018			Notional value 31/12/2018	Fair value 31/12/2017			Notional value 31/12/2017
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	**0**	**0**	**735**	**25,000**	**0**	**0**	**769**	**25,000**
1) Fair value	0	0	735	25,000	0	0	769	25,000
2) Cash flows	0	0	0	0	0	0	0	0
3) Foreign investments	0	0	0	0	0	0	0	0
B. Credit derivatives	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
1) Fair value	0	0	0	0	0	0	0	0
2) Cash flows	0	0	0	0	0	0	0	0
Total	**0**	**0**	**735**	**25,000**	**0**	**0**	**769**	**25,000**

The table shows the negative balance sheet value (fair value) of hedges contracts for hedges, using the hedge accounting instrument.
Specifically, a bond issued by the Bank was hedged in order to hedge the relative interest rate risk.

4.2 Hedges: breakdown by hedged portfolio and by type of hedge

Operations/Type of hedge	Fair Value							Cash flows		Foreign investments
	Specific						Generic	Specific	Generic	
	Debt securities and interest rate risk	Capital securities equity indices	Currency and gold	Credit	Goods	Other				
1. Financial assets measured at fair value with impact on total profits	647	0	0	0	0		0	0	0	0
2. Financial assets measured at amortized cost	0	0	0	0	0		0	0	0	0
3. Portfolio	0	0	0	0	0		0	0	0	0
4. Other transactions	0	0	0	0	0		0	0	0	0
Total assets	**647**	**0**	**0**	**0**	**0**		**0**	**0**	**0**	**0**
1. Financial liabilities	88	0	0	0	0		0	0	0	0
2. Portfolio	0	0	0	0	0		0	0	0	0
Total liabilities	**88**	**0**	**0**	**0**	**0**		**0**	**0**	**0**	**0**
1. Expected transactions	0	0	0	0	0		0	0	0	0
2. Portfolio of financial assets and liabilities	0	0	0	0	0		0	0	0	0

Section 8 - Other liabilities - Line item 80

8.1 Other liabilities : breakdown

Line items	Total at 31/12/2018	Total at 31/12/2017
01. Various tax entries	5,815	3,974
02. Entries in transit	452	5,550
03. Differences receivable on offsets of third party portfolios	41,950	12,670
04. Suppliers	3,151	3,488
05. Entries being processed and other creditors	64,342	13,169
06. Accrued liabilities and deferred income	3,504	3,466
07. Borrower accounts for stipulated loans to be disbursed	22,209	8,874
08. Securities to be settled (purchases)	0	13,292
Total	**141,423**	**64,482**

Section 9 - Employee severance pay – Line item 90

9.1 Employee severance pay: annual variations

Line items	Total at 31/12/2018	Total at 31/12/2017
A. Initial value	**3,682**	**3,580**
B. Additions		
B.1 Allocations during the fiscal year	1,098	1,032
B.2 Other variations	144	279
C. Reductions		
C.1 Payments made	46	143
C.2 Other variations	1,107	1,065
D. Final value	**3,771**	**3,682**
Total	**3,771**	**3,682**

Line item B.1 "Allocations during the fiscal year" includes severance pay matured during the fiscal year in the amount of 1,098 thousand Euro.
Line item B.2 "Other variations" includes "Interest Cost", for 45 thousand Euro and “Service Cost” for 45 thousand Euro as well as Actuarial Gains/Losses for 54 thousand Euro.
Line item C.1 "Payments made" includes "Benefit Paid" for IAS purposes of employee severance pay for 46 thousand Euro.
Line item C.2 "Other variations" includes employee severance pay transferred to the Supplementary Pension Fund for employees (an external fund) or INPS Treasury for 1,098 thousand Euro.

Section 10 - Risk and expense funds – Line item100

10.1 Risk and expense funds: breakdown

Line items/Values	Total at 31/12/2018	Total at 31/12/2017
1. Funds for credit risk related to commitments and guarantees issued	0	0
2. Funds for other commitments and other guarantees issued	2,248	0
3. Funds for company pensions	0	0
4. Other risk and expense funds	73	75
4.1 lawsuits	73	75
4.2 personnel costs	0	0
4.3 other	0	0
Total	**2,321**	**75**

During the fiscal year in review, €2,248 thousand were allocated to funds for guarantees issued and commitments.

10.2 Risk and expense funds: annual variations

Line items	Funds for other commitments and guarantees issued	Pension funds	Other funds	Total at 31/12/2018
A. Initial value	**0**	**0**	**75**	**75**
B. Additions				
B.1 Allocations during the fiscal year	525	0	1	**526**
B.2 Additions due to the passage of time	0	0	0	**0**
B.3 Variations due to modifications of the discount rate	0	0	0	**0**

Line items	Funds for other commitments and guarantees issued	Pension funds	Other funds	Total at 31/12/2018
B.4 Other variations	2.406	0	0	**2.406**
C. Reductions				
C.1 Use during the fiscal year	469	0	0	**469**
C.2 Variations due to modifications of the discount rate	0	0	0	**0**
C.3 Other variations	214	0	3	**217**
D. Final value	**2.248**	**0**	**73**	**2.321**

Line item B.4 "Other variations" includes allocations made at 1/01/2018 on commitments and guarantees issued, in application of the new IFRS9 (FTA) accounting principle.
The contra-entry for the above allocations, as required by the regulations, was allocated to a special reserve of shareholders' equity.

10.4 Funds for credit risk related to commitments and other guarantees issued

	Funds for credit risk related to commitments and other guarantees issued			
	First stage	Second stage	Third stage	Total 31/12/2018
1. Other commitments	0	0	0	0
2. Other guarantees issued	0	0	2,248	2,248
Total	**0**	**0**	**2,248**	**2,248**

Section 12 – Shareholders' equity - Line items 110, 130, 140, 150, 160, 170, and 180

12.2 Share capital – Number of shares: annual variations

Line items/Type	Ordinary	Other
A. Outstanding shares at the start of the fiscal year	**232,800,000**	**0**
- entirely unrestricted	232,800,000	0
- with restrictions	0	0
A.1 Treasury shares (-)	0	0
B.2 Outstanding shares: initial value	**232,800,000**	**0**
B. Additions		
B.1 New issues		
- for payment:	0	0
- corporate merger operations	0	0
- conversion of securities	0	0
- exercise of warrants	0	0
- other	0	0
- on a gratuitous basis:	0	0
- to employees	0	0
- to directors	0	0
- other	0	0
B.2 Sale of treasury shares	0	0
B.3 Other variations	0	0
C. Reductions		
C.1 Derecognition	0	0
C.2 Purchase of treasury shares	0	0
C.3 Sale of companies	0	0
C.4 Other variations	0	0
D. Outstanding shares: Final value	**232,800,000**	**0**
D.1 Treasury shares (+)	0	0
D.2 Outstanding shares at the end of the fiscal year	232,800,000	0

Line items/Type	Ordinary	Other
- entirely unrestricted	232,800,000	0
- with restrictions	0	0

12.3 Share capital: other information – annual variations

Line items	Amounts	Number of shares	Number of shareholders
A. Initial value	**232,800**	**232,800,000**	**324**
B. Additions			
B.1 Purchase of shares – new shareholders	0	0	0
B.2 From other additions	0	0	2
C. Reductions			
C.1 Redemptions – extinct shareholders	0	0	0
C.2 From other reductions	0	0	20
D. Final value	**232,800**	**232,800,000**	**306**

12.4 Retained earnings: other information – breakdown of shareholders' equity

Line items	Total at 31/12/2018	Total at 31/12/2017
1. Share capital	232,800	232,800
2. Premiums on issue of new shares	803	803
3. Reserves	-70,220	3,425
3.1 Ordinary/extraordinary reserves	4,500	0
3.2 Regulatory reserve	0	0
3.3 Reserves - Fist Time Adoption IAS/IFRS	-78,146	0
3.4 Reserve - Way Out	3,425	3,425
4. (Treasury shares)	0	0
5. Valuation reserves	-1,567	-1,481
5.1 Financial assets for trading	-401	0
5.2 Financial assets measured at fair value with impact on total profits	-4,366	-3,964
5.3 Financial assets measured at amortized cost	757	0
5.4 Property, plants and equipment	0	0
5.5 Intangible assets	0	0
5.6 Hedging foreign investments	0	0
5.7 Hedging cash flows	0	0
5.8 Exchange rate differences	0	0
5.9 Non current assets in course of divestment	0	0
5.10 Actuarial profit (loss) on defined benefit assets	-855	-816
5.11 Share of valuation reserves of equity investments measured at shareholders' equity	3,298	3,298
5.12 Special revaluation laws	0	0
6. Equity instruments	0	0
7. Fiscal year profit (loss)	3,500	4,500
Total	**165,316**	**240,048**

Line item 3.3 "Reserves - First Time adoption IAS/IFRS" includes the FTA adjustment deriving from the application of the International IFRS9 accounting principle that came into effect on 01/01/2019. The detail of the line item is shown at the bottom of the table regarding variations to shareholders' equity.

12.4 Retained earnings: other information– division and use of fiscal year profit

Line items	Amount	Accounting classification of capital
- Legal reserve (5.00% of profit)	175	Increase of Liabilities line item 160 (Cet1)
- Extraordinary reserve (including the reserve pursuant to article 6 Legislative Decree 368/2005 for 696,437.56 Euro)	3,325	Increase of Liabilities line item 160 (Cet1)
- Shareholders for dividends	0	
Total	**3,500**	

12.6 Other information - Schedule regarding the origin, level of availability and potential distribution of line items of shareholders' equity (art. 2427, sub-section 1 n. 7b Italian Civil Code)

In accordance with article 2427, sub-section 7-bis, of the Italian Civil Code, the table below indicates the breakdown of shareholders' equity according to the origin, level of availability and potential distribution of the various entries.

Line items	Amount	Level of availability	Available share	Summary of uses made in the last three fiscal years	
				To hedge losses	For other purposes
Share capital	232,800	B - C	232,800		0
Share premium reserve	803	B - C	803		0
Valuation reserves:					
- securities AFS revaluation reserve	-4,011	B	-4,011		
- reserve from equity investments	3,298	B	3,298		
Retained earnings:					
- undividable legal/regulatory reserve	7,925	B	7,925		
- reserve from transition to International accounting standards	-78,146	B	-78,146		
Total	**161,816**		**161,816**		
Non distributable share			0		
Residual distributable share			161,816		

Key: A = to increase share capital - B = to cover losses - C = to distributed to shareholders

Other information

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

	Nominal value on commitments and financial guarantees issued			Total at 31/12/2018	Total at 31/12/2017
	First stage	Second stage	Third stage		
1) Commitments to disburse funds	**0**	**0**	**0**	**0**	**0**
a) Central banks	0	0	0	0	**0**
b) Public administrations	0	0	0	0	**0**
c) Banks	0	0	0	0	**0**
d) Other finance companies	0	0	0	0	**0**
e) Non finance companies	0	0	0	0	**0**
f) Families	0	0	0	0	**0**
2) Financial guarantees issued	**0**	**0**	**0**	**0**	**70,903**
a) Central banks	0	0	0	0	**0**
b) Public administrations	0	0	0	0	**0**
c) Banks	0	0	0	0	**220**
d) Other finance companies	0	0	0	0	**0**
e) Non finance companies	0	0	0	0	**0**
f) Families	0	0	0	0	**0**
Customers					**70,683**
Total	**0**	**0**	**0**	**0**	**70,903**

2. Other commitments and other guarantees issued

Portfolios	Nominal value	
	Amount at 31/12/2018	Amount at 31/12/2017
1. Other guarantees issued	**102,478**	**21,068**
of which: impaired	4,960	0
a) Central banks	0	0
b) Public administrations	123	0
c) Banks	6,946	1,912
d) Other finance companies	1,850	0
e) Non finance companies	80,495	0
f) Families	13,064	0
Customers	0	19,155
2. Other commitments	**753,399**	**34,663**
of which: impaired	10,711	0
a) Central banks	0	0

Portfolios	Nominal value	
	Amount at 31/12/2018	Amount at 31/12/2017
b) Public administrations	866	0
c) Banks	2,500	21
d) Other finance companies	9,711	0
e) Non finance companies	671,060	0
f) Families	69,262	0
Customers	0	34,642

3. Assets pledged as collateral for own liabilities and commitments

Portfolios	Amount at 31/12/2018	Amount at 31/12/2017
1. Financial assets measured at fair value with recognition of income effects through profit and loss	41,096	0
2. Financial assets measured at fair value with impact on total profits	238,460	181,848
3. Financial assets measured at amortized cost	183,296	0
4. Property, plants and equipment	0	0
of which property, plants and equipment that constitute inventories	0	0

5. Management and trading on behalf of others

Type of service	Amount
1. Trading financial instruments on behalf of customers	**0**
a) purchases	0
settled	0
not settled	0
b) sales	0
settled	0
not settled	0
2. Asset management	**13,601**
3. Custody and management of securities	**2,174,784**
a) third party securities in deposit: related to bank performance as depository bank (excluding asset management)	0
1. securities issued by the bank that prepares the balance sheet	0
2. other securities	0
b) third party securities on deposit (excluding asset management): other	536,566
1. securities issued by the bank that prepares the balance sheet	386,494
2. other securities	150,071
c) third party securities deposited with third parties	531,878
d) treasury securities deposited with third parties	1,106,340
4. Other transactions	**0**

6. Financial assets subject to on-balance sheet netting or subject to master netting agreements or similar agreements

Technical forms	Gross amount of financial assets (a)	Gross amount of financial liabilities netted on balance sheet (b)	Net amount of financial assets registered in the balance sheet (c = a - b)	Correlated amounts not netted on-balance sheet		Net amount as at 31/12/2018 (f = c - d - e)	Net amount as at 31/12/2017
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivates	105	0	105	0	0	**105**	**246**
2. Repurchase agreements	0	0	0	0	0	**0**	**0**
3. Loan securities	0	0	0	0	0	**0**	**0**
4. Other	0	0	0	0	0	**0**	**0**
Total as at 31/12/2018	**105**	**0**	**105**	**0**	**0**	**105**	**0**
Total as at 31/12/2017	**246**	**0**	**246**	**0**	**0**		**246**

Financial assets – List of transactions subject to netting agreements - Derivates:

Counterparty	Derivate used	Deposit received	Net amount
Banca IMI s.p.a.	105	180	**-75**
Total	**105**	**180**	**-75**

7. Financial liabilities subject to on-balance sheet netting or subject to master netting agreements or similar agreements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial liabilities netted on-balance sheet (b)	Net amount of financial assets registered in the balance sheet (c = a - b)	Correlated amounts not netted on-balance sheet		Net amount as at 31/12/2018 (f = c - d - e)	Net amount as at 31/12/2017
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivates	735	0	735	0	0	**735**	**769**
2. Repurchase agreements	0	0	0	0	0	**0**	**0**
3. Loan securities	0	0	0	0	0	**0**	**0**
4. Other	0	0	0	0	0	**0**	**0**
Total as at 31/12/2018	**735**	**0**	**735**	**0**	**0**	**735**	
Total as at 31/12/2017	**769**	**0**	**769**	**0**	**0**		**769**

Financial liabilities – List of transactions subject to netting agreements - Derivates:

Counterparty	Derivatives used	Deposit received	Net amount
Banca MPS s.p.a.	88	210	**-122**
Iccrea Banca s.p.a.	647	600	**47**
Total	**735**	**810**	**-75**

EXPLANATORY NOTES

PART C – Information on the income statement

Section 1 – Interest - Line items 10 and 20

1.1 Earned interest and similar income: breakdown

Line items/Technical forms	Debt securities	Loans	Other transactions	Total as at 31/12/2018	Total as at 31/12/2017	Var.,	% Var.
1. Financial assets measured at fair value with recognition of income effects through profit and loss:	**813**	**0**	**0**	**813**	**189**	**624**	329.78%
1.1 Assets held for trading	813	0	0	813	189	624	329.78%
1.2 Financial assets measured at fair value	0	0	0	0	0	0	-
1.3 Other financial assets obligatorily measured at fair value	0	0	0	0	0	0	-
2. Financial assets measured at fair value with impact on total profits	**1,133**	**0**	**X**	**1,133**	**2,591**	-1,459	-56.29%
3. Financial assets measured at amortized cost:	**1,686**	**68,146**	**X**	**69,832**	**62,949**	**6,884**	
3.1 Receivables from banks	0	685	X	685	347	339	97.66%
3.2 Receivables from customers	1,686	67,461	X	69,147	62,602	6,545	10.45%
4. Hedges	X	X	0	0	0	0	-
5. Other assets	X	X	0	0	297	-297	-100.00%
6. Financial liabilities	X	X	X	5,462	0	5,462	-
Total	**3,632**	**68,146**	**0**	**77,240**	**66,026**	**11,214**	**16.98%**
of which: earned interest on impaired financial assets	**0**	**6,908**	**0**	**6,908**	**5,723**	**1,186**	**20.72%**

The line item "Earned interest on financial liabilities" includes interest on repurchase agreement transaction liabilities for 585 thousand Euro and interest on the TLTROII transaction accrued as at the date of opening of the deposit on 31/12/2018 for 4,870 thousand Euro.

The Line item "Earned interest on impaired financial assets" includes both interest on non-performing loans, for 3,395 thousand Euro, and interest on other impaired loans for 3,513 thousand Euro. Interest on non-performing loans include interest collected for 281 thousand Euro and interest due on passing of time allocated to this line item in compliance with the IFRS9 accounting principle, for 3,113 thousand Euro.

This component is lower than the previous year's amount in that, as regards impaired financial assets, the IFRS9 accounting principle requires calculating interest on the net value of credit exposures.

1.2 Earned interest e similar income: other information

1.2.1 Earned interest on financial assets in foreign currency

Line items/Values	Total at 31/12/2018	Total at 31/12/2017
Earned interest on financial assets in foreign currency	440	318

1.2.2 Earned interest on financial leasing transactions

Line items/Values	Total at 31/12/2018	Total at 31/12/2017
Earned interest on financial leasing transactions	431	287

1.3 Interest payable and similar expenses: breakdown

Line items/Technical forms	Liabilities	Securities	Other transactions	Total at 31/12/2018	Total at 31/12/2017	Var.	% Var.
1. Financial liabilities measured at amortized cost	-7,559	-6,127	0	-13,686	-17,667	-382	-
1.1 Payables to central banks	-382	X	X	-382	0	188	-100.00%
1.2 Payables to banks	0	X	X	0	-188	2,386	-24.95%
1.3 Payables to customers	-7,177	X	X	-7,177	-9,563	1,790	-22.61%
1.4 Outstanding Securities	X	-6,127	X	-6,127	-7,916	0	-
2. Financial liabilities from trading	0	0	0	0	0	0	-
3. Financial liabilities measured at fair value	0	0	0	0	0	289	-100.00%

Line items/Technical forms	Liabilities	Securities	Other transactions	Total at 31/12/2018	Total at 31/12/2017	Var.	% Var.
4. Other liabilities and funds	X	X	0	0	-289	51	-15.90%
5. Hedges	X	X	-269	-269	-320	**4,040**	-
6. Financial assets	X	X	X	0	0	**0**	-22.11%
Total	**-7,559**	**-6,127**	**-269**	**-13,955**	**-18,276**	**0**	**0.00%**

1.4 Interest payable and similar expenses: other information

1.4.1 Interest payable on liabilities in foreign currency

Line items/Values	Total at 31/12/2018	Total at 31/12/2017
Interest payable on financial liabilities in foreign currency	-403	-74

1.5 Interest payable and similar expenses: differences related to hedges

Line items	Total at 31/12/2018	Total at 31/12/2017
A. Positive difference related to hedges:	40	47
B. Negative differences related to hedges:	310	367
C. Balance (A-B)	**-269**	**-320**

Section 2 – Commissions - Line items 40 and 50

2.1 Commission income: breakdown

Type of services/Values	Total as at 31/12/2018	Total as at 31/12/2017	Var.	% Var.
a) guarantees given	692	439	252	57.47%
b) credit derivatives	0	0	0	
c) management, intermediation and consulting services:	5,591	3,014	2,577	85.49%
1 trading financial instruments	0	0	0	-
2 trading foreign currencies	771	661	110	16.68%
3 asset management	170	164	7	4.16%
4 custody and management of securities	108	86	22	25.63%
5 depository bank	0	0	0	
6 securities placement	555	286	269	93.85%
7 receipt and transmission of orders	146	129	18	13.80%
8 consulting activity	0	0	0	
8.1 on investments	0	0	0	
8.2 on financial structure	0	0	0	
9 distribution of third party services	3,840	1,689	2,151	127.37%
9.1 asset management	0	0	0	
9.1.1 individual	0	0	0	
9.1.2 collective	0	0	0	
9.2 insurance products	2,180	1,361	819	60.20%
9.3 other products	1,660	328	1,332	406.10%
d) collection and payment services	7,018	6,787	231	3.40%
e) servicing for securitizations	169	72	97	136.02%
f) factoring services	0	0	0	
g) fiscal year tax collection and payee services	0	0	0	
h) asset management of multilateral exchange systems	0	0	0	
i) maintenance and management of bank accounts	14,967	15,586	-620	-3.97%
j) other services	1,672	1,382	290	20.97%
Totals	**30,109**	**27,281**	**2,828**	**10.37%**

2.2 Commission income: distribution channels for products and services

Channels/Values	Total at 31/12/2018	Total at 31/12/2017
a) at its own branches:	**4.565**	**2.139**
1. asset management	170	164
2. securities placement	555	286
3. third party services and products	3,840	1,689
b) off-site offer:	**0**	**0**
1. asset management	0	0
2. securities placement	0	0
3. third party services and products	0	0
c) other distribution channels	**0**	**0**
1. asset management	0	0
2. securities placement	0	0
3. third party services and products	0	0

2.3 Commission expenses: breakdown

Services/Values	Total at 31/12/2018	Total at 31/12/2017	Var.	% Var.
a) guarantees received	-630	-358	-272	
b) credit derivatives	0	0	0	
c) management and intermediation services:	-331	-193	-137	70.95%
1. trading financial instruments	-48	-1	-47	
2. trading foreign currency	-199	-115	-84	73.60%
3. asset management	-83	-78	-5	6.71%
3.1 own portfolio	0	0	0	
3.2 delegated by third parties	-83	-78	-5	6.71%
4. custody and management of securities	0	0	0	
5. placement of financial instruments	0	0	0	
6. off-site offer of financial instruments, products and services	0	0	0	
d) collection and payment services	-1,540	-1,518	-22	1.43%
e) other services	0	0	0	
Totals	**-2,501**	**-2,070**	**-431**	**20.83%**

Section 3 - Dividends and similar income – Line item 70

3.1 Dividends and similar income: breakdown

Line items/Income	Total at 31/12/2018		Total at 31/12/2017	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	248	0	0	0
B. Other financial assets obligatorily measured at fair value	10	0	0	0
C. Financial assets measured at fair value with impact on total profits	0	0	2	0
D. Equity investments	60	0	0	0
Total	**318**	**0**	**2**	**0**

Section 4 - Net trading result – Line item 80

4.1 Net trading result: breakdown

Operations/Income components	Capital gains (A)	Trading profits(B)	Capital losses (C)	Trading losses (D)	Net income [(A+B) - (C+D)]
1. Financial assets from trading	**5**	**1.438**	**157**	**1.481**	**-195**
1.1 Debt Securities	0	0	0	1.481	-1.481
1.2 Equity instruments	0	0	0	0	0
1.3 Shares in mutual funds	0	0	0	0	0
1.4 Loans	5	0	157	0	-152

Operations/Income components	Capital gains (A)	Trading profits(B)	Capital losses (C)	Trading losses (D)	Net income [(A+B) - (C+D)]
1.5 Other	0	1.438	0	0	1.438
2. Financial liabilities from trading	**0**	**0**	**0**	**0**	**0**
2.1 Debt securities	0	0	0	0	0
2.2 Liabilities	0	0	0	0	0
2.3 Other	0	0	0	0	0
3. Financial assets and liabilities: exchange rate differences	**0**	**0**	**0**	**0**	**0**
4. Derivative instruments	**0**	**0**	**0**	**141**	**-141**
4.1 Financial derivatives	0	0	0	141	-141
- on debt securities and interest rates	0	0	0	141	-141
- on equity instruments and equity indexes	0	0	0	0	0
- on foreign currencies and gold	0	0	0	0	0
- Other	0	0	0	0	0
4.2 Credit derivatives	0	0	0	0	0
of which: natural hedges connected to the fair value option	X	X	X	X	0.00
Total	**5**	**1.438**	**157**	**1.622**	**-336**

The table indicates the economic result from the portfolio of assets held for trading.

Section 5 - Net hedging result – Line item 90

5.1 Net hedging result: breakdown

Income components/Values	Total at 31/12/2018	Total at 31/12/2017
A. Income related to:		
A.1 Hedges of fair value	0	47
A.2 Hedged financial assets (fair value)	0	0
A.3 Hedged financial liabilities (fair value)	0	0
A.4 Hedges of cash flows	0	0
A.5 Assets and liabilities in foreign currency	0	0
Total income from pledged assets (A)	**0**	**47**
B. Expenses related to:		
B.1 Hedges of fair value	0	0
B.2 Hedged financial assets (fair value)	0	0
B.3 Hedged financial liabilities (fair value)	-11	0
B.4 Hedges of cash flows	0	0
B.5 Assets and liabilities in foreign currency	0	0
Total expenses of hedged assets (B)	**-11**	**0**
C. Net hedging income (A-B)	**-10**	**47**
of which: income from on net positions	0	0

The table indicates the net income from hedges. Therefore, the gross income components recognized in the income statement are indicated that derive from the measurement of the difference between the liabilities that are hedged and the relative hedging contract.

Section 6 - Gains (Losses) from disposal/repurchase- Line item 100

6.1 Gains (Losses) from disposal/repurchase: breakdown

Line items/income components	Total at 31/12/2018			Total at 31/12/2017		
	Gains	Losses	Net income	Gains	Losses	Net income
A. Financial assets						
1. Financial assets measured at amortized cost	0	365	-365	0	0	0
1.1 Receivables from banks	0	0	0	0	0	0
1.2 Receivables from customers	0	365	-365	0	0	0
2. Financial assets measured at fair value with impact on total profits	106	0	106	3,276	0	3,276

Line items/income components	Total at 31/12/2018			Total at 31/12/2017		
	Gains	Losses	Net income	Gains	Losses	Net income
2.1 Debt securities	106	0	106	3,276	0	3,276
2.2 Loans	0	0	0	0	0	0
Total assets	**106**	**365**	**-259**	**3,276**	**0**	**3,276**
B. Financial liabilities measured at amortized cost						
1. Payables to banks	0	0	0	0	0	0
2. Payables to customers	0	0	0	0	0	0
3. Outstanding securities	35	0	35	65	0	65
Total liabilities	**35**	**0**	**35**	**65**	**0**	**65**

The table indicates the economic result deriving from the divestment of financial assets other than those held for trading. Losses amounting to 365 thousand Euro derive from the disposal of impaired receivables included, on FTA of the IFRS9 accounting principle, within the scope of disposal, while financial assets measured at fair value with impact on total profits registered a net income gain of 106 thousand Euro.

Section 8 - Net adjustments/write-backs of value due to impairment – Line item 130

8.1 Net adjustments of value due to credit risk related to financial assets measured at amortized cost: breakdown

Operations/Income components	Value adjustments (1)			Write-backs of value (2)		Total at 31/12/2018	Total at 31/12/2017
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Receivables from banks							
- Loans	-77	0	0	0	0	-77	0
- Debt securities	-132	0	0	0	0	-132	0
of which: impaired receivables purchased or originated	0	0	0	0	0	0	0
B. Receivables from customers	0	0	0	0	0	0	0
- Loans	-318	0	-58,275	894	32,111	-25,589	-13,940
- Debt securities	-174	0	0	0	0	-174	0
of which: impaired receivables purchased or originated	0	0	0	0	0	0	0
Total	**-701**	**0**	**-58,275**	**894**	**32,111**	**-25,971**	**-13,940**

The table summarizes value adjustments and write-backs of value recognized due to the impairment of receivables from customers.

Additional detail of value adjustments/write-backs on receivables – Line item 130 of the income statement

Description of the portfolio	2018 Amount	2017 Amount
RECEIVABLES FROM BANKS:		
Securities HTC - stage 1	0	0
Securities HTC - stage 2	-132	0
Other receivables - stage 1	-77	0
Other receivables- stage 2	0	0
RECEIVABLES FROM CUSTOMERS:		
Non-performing loans – Value adjustments	-58,275	-13,755
Non-performing loans - Write-backs	24,104	0
Probable non-performing loans – Net value of adjustments/write-backs	6,816	-555
Restructured - Net value of adjustments/write-backs	0	0
Overdue - Net value of adjustments/write-backs	1,191	-149
In Bonis - Stage 2	434	0
In Bonis - Stage 1	460	520
Losses without use of fund - Stage 1/2	-222	0
Losses on other operations - Stage 1/2	-97	0
Securities HTC - stage 1	-174	0
Securities HTC - stage 2	0	0
Total - Net value of adjustments/write-backs	**-25,971**	**-13,940**

8.2 Net adjustments of value due to credit risk related to financial assets measured at fair value with impact on total profits: breakdown

Operations/Income components	Adjustments of value (1)			Write-backs of value (2)		Total at 31/12/2018	Total at 31/12/2017
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Debt securities	**-397**	**0**	**0**	**438**	**0**	**41**	**0**
B. Loans							
- to customers	0	0	0	0	0	0	0
- to banks	0	0	0	0	0	0	0
of which: impaired receivables purchased or o originated	0	0	0	0	0	0	0
Total	**-397**	**0**	**0**	**438**	**0**	**41**	**0**

The table summarizes value adjustments and write-backs of value recognized due to the impairment of financial assets measured at fair value with impact on total profits. These are calculated by comparing measurements at 31/12/2018 with measurements made at 1/01/2018, date on which the IFRS9 accounting principle came into effect.

Section 9 – Profits (losses) due to contract modifications without derecognition – Line item 140

9.1 Profits (losses) due to contract modifications: breakdown

Line items/Income components	31/12/2018			31/12/2017		
	Profits	Losses	Net income	Profits	Losses	Net income
A. Financial assets						
1.1 Receivables from customers	0	-21	21	0	0	0
Total	**0**	**-21**	**21**	**0**	**0**	**0**

The table above shows the net income deriving from contractual modifications of financial instruments that do not require derecognition from the balance sheet of the assets in question, but only a different accounting method that entails recognition in the income statement of the difference between the booking value and the current value of the modified cash flow, discounted at the original interest rate.

Section 10 - Administrative costs – Line item 160

10.1 Personnel costs: breakdown

Type of expense/Values	Total at 31/12/2018	Total at 31/12/2017
1) Employees	-25,965	-24,173
a) salaries and wages	-17,883	-16,867
b) social security contributions	-4,718	-4,432
c) severance pay	0	0
d) pension costs	0	0
e) allocation to employee severance pay	-1,188	-1,160
f) allocation to pension fund and similar obligations:	0	0
- to a defined contribution plan	0	0
- to a defined service plan	0	0
g) payments to external complementary pension funds	-723	-686
- to a defined contribution plan	-723	-686
- to a defined service plan	0	0
h) costs deriving from payment agreements based on own equity instruments	0	0
i) other employee benefits	-1,453	-1,028
2) Other personnel	-227	-305
3) Directors and Statutory Auditors	-353	-356
4) Retired personnel	0	0
5) Recovery of expenses for personnel temporarily transferred to other companies	349	105
6) Recovery of expenses for third party personnel temporarily transferred to the company	-14	0
Total	**-26,210**	**-24,728**

The table shows an increase of the aggregate in the amount of 1,482 thousand Euro (5.99%).

10.2 Average number of employees by category

Description	Values at 31/12/2018	Values at 31/12/2017
Employees	**362**	**346**
a) Managers	3	3
b) Middle management	88	78
c) Remaining employees	271	265
Other personnel	**11**	**7**
Total	**373**	**353**

Precise number of personnel by category

Description	Values at 31/12/2018	Values at 31/12/2017
Employees	**377**	**354**
a) Managers	3	3
b) Middle management	87	75
c) Remaining employees	287	276
Other personnel	**11**	**11**
Total	**388**	**365**

10.4 Personnel costs: other employee benefits

Type of expense/Values	Total at 31/12/2018	Total at 31/12/2017
1) Meal vouchers for employees	-539	-558
2) Loyalty bonus for employees	0	0
3) Other employee costs	-913	-470
Total	**-1,453**	**-1,028**

10.5 Other administrative costs: breakdown

Line items/Values	Total at 31/12/2018	Total at 31/12/2017	Var.	% Var.
1. Insurance and security	-1,188	-1,269	81	-6.39%
2. Advertising and entertainment	-1,337	-1,748	411	-23.52%
3. Rent for real property	-2,481	-2,481	0	-0.01%
4. Maintenance, repairs, transformation of real and personal property	-4,306	-4,069	-238	5.84%
5. Electricity, heating and cleaning services	-1,128	-1,083	-46	4.23%
6. Telex, telephone and postage	-1,253	-1,124	-129	11.44%
7. Costs for data processing	-4,757	-3,187	-1,570	49.25%
8. Stamped paper and stationary	-300	-528	227	-43.07%
9. Fees to outside professionals	-3,110	-2,082	-1,027	49.32%
10. Expenses for credit recovery	0	0	0	0.00%
11. Technical assistance and maintenance of software products	-2,951	-2,249	-702	31.21%
12. Information and registry searches	-1,631	-1,985	354	-17.85%
13. Charitable contributions allocated to the income statement	-3	-15	11	
14. Expenses for treasury assets	-29	-50	21	-41.67%
15. Travel and transportation expenses	-456	-765	309	-40.43%
16. Indirect taxes	-4,005	-4,513	508	-11.27%
17. Other costs	-5,263	-4,131	-1,132	27.40%
Total	**-34,198**	**-31,280**	**-2,918**	**9.33%**

The line item "Other costs" includes:

Line items/Values	Total at 31/12/2018	Total at 31/12/2017
Contribution in favor of the Resolution fund – Ordinary	21	18
Contribution in favor of the resolution fund – Extraordinary	0	0

Line items/Values	Total at 31/12/2018	Total at 31/12/2017
Contribution to the DGS fund	1,395	1,195
Expenses for Internal Audit service (Cambiano Group)	915	183
Management and coordination expenses (Cambiano Group)	1,525	1,403
Total	**3,856**	**2,800**

Management and Coordination expenses and Internal Audit expenses refer to the cost invoiced by the parent company (Ente Cambiano s.c.p.a.) for services rendered to Banca di Cambiano S.p.a.

Section 11 - Net allocations to risk and expense funds - Line item 170

11.1 Net allocations for credit risk related to commitments to disburse funds and financial guarantees issued: breakdown

Operations/Income components	Adjustments of value (1)			Write-backs of value (2)		Total at 31/12/2018	Total at 31/12/2017
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Commitments to disburse funds	0	0	0	0	0	0	0
B. Financial guarantees issued	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**

11.2 Net allocations relative to other commitments and other guarantees issued: breakdown

Operations/Income components	Adjustments of value (1)			Write-backs of value (2)		Total at 31/12/2018	Total at 31/12/2017
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Lending	0	0	0	0	0	0	0.00
B. Guarantees issued	0	0	-525	0	683	158	0.00
Total	**0**	**0**	**-525**	**0**	**683**	**158**	**0.00**

11.3 Net allocations to risk and expense funds: breakdown

Line items/Values	Total at 31/12/2018	Total at 31/12/2017
1. Allocations to pending litigation	0	0
2. Allocations to interest expenses on IRES for taxation year 2009	0	0
3. Other allocations	0	0
4. Write-backs of provisions for pending disputes	2	18
Total	**2**	**18**

Section 12 – Net adjustments/write-backs of value on property, plants and equipment - Line item 180

12.1 Net adjustments of value on property, plants and equipment: breakdown

Asset/Income component	Depreciation (a)	Value adjustments due to impairment (b)	Write-backs of value (c)	Net income (a+b-c)
A. Property, plants and equipment				
1. For functional use	-3,009	0	0	**-3,009**
- Owned	-3,009	0	0	**-3,009**
- Purchased in financial leasing	0	0	0	**0**
2. Held for investment	0	0	0	**0**
- Owned	0	0	0	**0**
- Purchased in financial leasing	0	0	0	**0**
3. Inventories	X	0	0	**0**
Total	**-3,009**	**0**	**0**	**-3,009**

Section 13 – Net adjustments/write-backs of value on intangible assets - Line item 190

13.1 Net adjustments of value on intangible assets: breakdown

Asset/Income component	Depreciation (a)	Value adjustments due to impairment (b)	Write-backs of value (c)	Net income (a+b-c)
A. Intangible assets				
A.1 Owned	-164	0	0	**-164**
- Generated internally by the company	0	0	0	**0**
- Other	-164	0	0	**-164**
A.2 Purchased in financial leasing	0	0	0	**0**
Total	**-164**	**0**	**0**	**-164**

Section 14 – Other management income and expenses - Line item 200

14.1 Other management expenses: breakdown

Line items/Values	Total at 31/12/2018	Total at 31/12/2017
1. Contingent liabilities and non-existent assets	-49	-92
2. Use of guarantee funds	0	0
3. Depreciation of third party assets	-226	-407
Total	**-275**	**-499**

14.2 Other management income: breakdown

Line items/Values	Total at 31/12/2018	Total at 31/12/2017
1. Recovery of expense	3.895	4.016
4. Contingent assets and non-existent liabilities	82	346
5. Other income	101	50
Total	**4.077**	**4.413**

Section 15 – Profit (loss) from equity investments - Line item 220

15.1 Profit (loss) from equity investments: breakdown

Income component/Values	Total at 31/12/2018	Total at 31/12/2017
A. Income		
1. Revaluations	766	513
2. Gains from disposal	0	0
3. Write-backs of value	0	0
4. Other income	0	0
B. Expenses		
1. Write-downs	60	0
2. Value adjustments from impairment	0	0
3. Losses from disposals	0	0
4. Other expenses	0	0
Net income	**706**	**513**

Line A.1 "Revaluations" includes the following transactions:
- Revaluation of Cabel Leasing s.p.a. in the amount of 336 thousand Euro for fiscal year profit achieved by the subsidiary;
- Revaluation of Cabel Holding s.p.a. in the amount of 430 thousand Euro for fiscal year profit achieved by the subsidiary.

Line B.2 "Value adjustments from impairment" includes the following transactions:
- Value adjustment of Cabel Industry s.p.a. in the amount of 59 thousand Euro for fiscal year losses incurred by the subsidiary;
- Value adjustment of Immobiliare 1884 s.r.l. for 1 thousand Euro for fiscal year losses incurred by the subsidiary.

Section 17 - Adjustments to value of goodwill - Line item 240

17.1 Adjustments to value of goodwill: breakdown

Income component/Values	Total at 31/12/2018	Total at 31/12/2017
Pistoia branch	-1,692	0
San Giovanni V/A branch	-408	0
Bologna branch	0	0
Turin branch	-50	0
Rom branch	0	0
Total	**-2,150**	**0**

Le value adjustments in the table above show the results of assessments regarding the recoverability of goodwill booked to the balance sheet.
For a detailed description of the impairment tests on goodwill, please consult the contents of Part A "Measurement criteria" in these Explanatory Notes.

Section 18 - Gains (losses) from the disposal of investments - Line item 250

18.1 Gains (losses) from the disposal of investments: breakdown

Income component/ Values	Total at 31/12/2018	Total at 31/12/2017
A. Property, plant and equipment		
- Gains from disposal	0	0
- Losses from disposal	0	0
B. Other assets		
- Gains from disposal	6	2
- Losses from disposal	0	0
Net income	**6**	**2**

Section 19 – Fiscal year income taxes on current operations - Line item 270

19.1 Fiscal year income taxes on current operations: breakdown

Income components/Values	Total at 31/12/2018	Total at 31/12/2017
1. Current taxes (-)	-488	-383
2. Variation of current taxes of previous fiscal years (+/-)	0	0
3. Reduction of current taxes for fiscal year (+)	0	0
3 bis. Reduction of current taxes for fiscal year for tax credits as per Law n. 214/2011 (+)	0	0
4. Variation of pre-paid taxes (+/-)	540	-1,804
5. Variation of deferred taxes (+/-)	96	-56
6. Fiscal year income taxes (-) (1+/-2+3+/-4+/-5)	**148**	**-2,242**

Current taxes are measured in accordance with current tax legislation.

Summary of fiscal year income taxes, by type of tax

Income components/Values	Total at 31/12/2018
- Ires	284
- Irap	-135
- Other taxes	0
Total	**148**

19.2 Reconciliation between theoretical tax burden and effective tax burden on the balance sheet

Line items/Values	Ires	Tax rate	Irap	Tax rate
(A) Gain (Loss) from current operations before taxes	3,352		3,352	
(B) Income taxes – Theoretical burden	922	27.50%	187	5.57%
Reductions of tax base	7,650	27.50%	5,767	5.57%
Additions to tax base	4,299	27.50%	6,303	5.57%
Tax base	0		3,887	
Income taxes – effective tax burden	0	27.50%	217	5.57%

Line items/Values	Ires	Tax rate	Irap	Tax rate
Pre-paid/deferred taxes	-284	27.50%	-81	5.57%
Total taxes	**-284**		**135**	
Overall tax	**-148**			
Effective tax rate	**-4.43%**			

EXPLANATORY NOTES

PART D – Overall Profitability

ANALYTICAL SCHEDUAL OF OVERALL PROFITABILITY

	Line items	31/12/2018	31/12/2017
10	**Fiscal year profit (loss)**	**3,500**	**4,500**
	Other income components without reversal to income statement		
20	Equity investment designated at fair value with impact on total profits:	-41	0
	a) variations of fair value	-41	0
	b) transfer to other components of shareholders' equity	0	0
30	Financial liabilities measured at fair value with impact on the income statement (variations of own creditworthiness)	0	0
	a) variations of fair value	0	0
	b) transfer to other components of shareholders' equity	0	0
40	Hedging equity investments designated at fair value with impact on total profits	0	0
	a) variations of fair value (hedged instrument)	0	0
	b) variations of fair value (hedging instrument)	0	0
50	Property, plants and equipment	0	0
60	Intangible assets	0	0
70	Defined benefit assets	-54	94
80	Noncurrent assets and groups of assets in the course of divestment	0	0
90	Share of valuation reserves from measurement of equity investments measured at shareholders' equity	0	0
100	Income taxes relative to other income components without reversal to income statement	28	-26
	Other income components with reversal to income statement		
110	Hedging foreign investments:	0	0
	a) variations fair value	0	0
	b) reversal to the income statement	0	0
	c) other variations	0	0
120	Exchange rate differences:	0	0
	a) variations of value	0	0
	b) reversal to the income statement	0	0
	c) other variations	0	0
130	Hedging cash flows:	0	0
	a) variations of fair value	0	0
	b) reversal to the income statement	0	0
	c) other variations	0	0
	of which: income of net positions	0	0
140	Hedging instruments (non designated elements)	0	0
	a) variations of fair value	0	0
	b) reversal to the income statement:	0	0
	c) other variations	0	0
150	Financial assets (other than equity investments) measured at fair value with impact on total profits:	-5,162	449
	a) variations of fair value	-5,347	-435
	b) reversal to the income statement:	226	885
	- write-backs due to impairment	0	0
	- gains/losses from use	226	885

	Line items	31/12/2018	31/12/2017
	c) Other variations	-41	0
160	Noncurrent assets and groups of assets in the course of divestment:	0	0
	a) variations of fair value	0	0
	b) reversal to the income statement	0	0
	c) other variations	0	0
170	Share of valuation reserves of equity investment measured at shareholders' equity	0	-1,141
	a) variations of fair value	0	0
	b) reversal to the income statement:	0	0
	- write-backs due to impairment	0	0
	- gains/losses from use	0	0
	c) other variations	0	-1,141
180	Income tax relative to other income components with reversal to the income statement	1,694	-133
190	**Total other income components**	**-3,535**	**-756**
200	**Overall profitability (Line item 10 + 190)**	**-35**	**3,744**

International accounting standards allow allocating financial instruments to different portfolios to which accounting standards are applied that result in the allocation of costs or income directly to special reserves of shareholders' equity without going through the income statement. The chart shows the overall result, considering income items matured and realized in the fiscal year that were recognized directly in shareholders' equity, sterilizing the components that already matured and thus which had been recognized in shareholders' equity in previous fiscal years, but which are the object of a second and definitive allocation to the income statement (reversal) at the time effectively realized.

EXPLANATORY NOTES

PART E – Information on risks and the relative hedging policies

Introduction

The Bank carries out its activities according to sound and prudent management principles, with a moderate risk propensity, in respect of stability requirements connected to the banking business.
Overall risk propensity is measured synthetically by identifying, within the scope of the Bank's asset resources ("own funds"), a capital component that is not eligible for risk assumption (unexpected losses), held for medium-long term to cover capital against impact in the event of unexpected stress events.
The Bank's internal control system ensures implementation of corporate strategies and policies and is composed of all the regulations, procedures and organizational structures aimed at compliance with sound and prudent management principles.
Corporate Bodies have the primary responsibility for ensuring, in line with their respective specific competencies, the completeness, adequacy, efficiency and reliability of the internal control system.
The Bank has implemented a traditional type of governance model that entails a Board of Directors, a Board of Statutory Auditors and General Management.
The Board of Directors is responsible for Bank strategic supervision and management, along with General Management, and the Board of Statutory Auditors is responsible for monitoring activities.
The Board of Directors, within the scope of the guidelines set out by the Parent Company, defines the business model by approving an annual strategic business plan and budget, aware of the risks to which this model exposes the Bank and comprehending the processes by means of which such risks are identified and measured. The Board of Directors, again, following the guidelines decided at Group level, defines and approves strategic policies and periodically reviews them, decides on risk propensity and the relative tolerance levels as well as the risk management policies, ensuring that the Bank's structure is consistent with the business carried out and with the business model adopted.
Risk government policies are set forth in specific regulations/policies that are subject to approval by the Board of Directors.
Uptake of new products and services, launching of new activities, introduction into new markets and, in general, all more significant activities are always subject to approval by the Board of Directors.
Periodically, the Board of Directors verifies that the risks assumed by the Bank in terms of capital adequacy, liquidity and risk-return ratio for management activities are consistent with the risk propensity defined in strategic planning and with regulatory levels.
Furthermore, the Board of Directors verifies compliance with operating limits defined for the assumption of the various types of risk. The Board of Directors ensures consistency between the strategic plan, the business model, the Risk Appetite Framework, the ICAAP process, the budget and the corporate organization and the internal control system, taking in consideration the evolution of the internal and external conditions within which the Bank operates.
The Board of Directors is aided by the Risk Committee, a committee within the Board itself that provides the Board with advisory support and proposal regarding risks and the internal control system.
General Management fully comprehends corporate risks and is responsible for implementing the strategic policies and risk management policies defined by the Board of Directors. In particular, General Management proposes the operating limits with respect to the assumption of the various types of risk, taking into account the stress tests carried out by the various designated function, in accordance with the Bank's internal policies.
For the purpose of facilitating the development and awareness at all company levels, of a risk control culture, General Management plans training programs for Bank personnel, based on the proposals made.
The Board of Statutory Auditors carries out periodical inspections to ascertain the completeness, adequacy, efficiency and reliability of the internal control system.
In carrying out its tasks, the Board of Statutory Auditors is provided with appropriate information from the other Corporate Bodies and control functions. The regular presence of the Board of Statutory Auditors at BoD meetings, which are held twice weekly, represents a guarantee with respect to timely information of the Control Body regarding management issues.
Sound and prudent bank management is censure by an appropriate corporate organization that provides for a complete and functional internal control system.
In particular, the Bank's internal control system is composed of three different levels:

- First level controls (line): aimed at ensuring that operations are carried out correctly. These controls are performed by operating structures or incorporated into the procedures and information technology systems, or carried out during back office activities.
- Second level controls on risks and conformity, also aimed at ensuring, among other things:
    - correct implementation of the risk management process;
    - respect of operating limits assigned to the various functions;
    - conformity of corporate operations to standards, including self-governance regulations.

  Second level controls as assigned to the Risk Management Service, the Compliance Service and the Anti-Money Laundering Service. Given the size and in compliance with the "principle of proportionality", the Compliance function is carried out in co-sourcing with META Srl, a company that meets all the prerequisites in terms of professional qualification and independence. The functions designated to controls are separate from production functions; they contribute to defining the risk management policies and the risk management process.

- Third level controls (internal auditing): aimed at identifying violations of procedures and regulations, and at periodically evaluating the completeness, adequacy, efficiency and reliability of the internal control system and the information technology system.

This activity is carried out by the Internal Audit Service based on the yearly auditing plan approved by the Board of Directors or through spot checks on the operations of the functions involved, requested during the year. Within the larger scope of the reference framework relative to the overall Group Internal Controls System, the Bank has undersigned an outsourcing contract with the Parent Company for the use of the relative Internal Auditing Functions, maintaining only an internal reference function (so-called link auditor). Given the size and in compliance with the "principle of proportionality", the internal auditing function is carried out in co-sourcing with META Srl, a company that meets all the prerequisites in terms of professional qualification and independence.
Corporate control functions in charge of second and third level controls have the authority, resources and competencies required to carry out their tasks.
In conformity with Vigilance provisions, the company organizational structure requires that company control functions report back to the Board of Directors in terms of both hierarchy and functions.
Control functions have access to all the activities carried out by the Bank, both in the central offices and in peripheral offices, as well as to any information relevant to carry out controls.
In accordance with Law 231/01, there is a Vigilance Committee, which is a collective body in charge of assessing the efficiency of organizational measures adopted by the Bank to avoid involvement in sanctionable actions pursuant to Law 231 of 2001.
As set forth in the Organizational Model, the committee periodically reports to the Board of Directors.

Section 1 – Credit risk

Qualitative information

1. General information

The Bank's strategies, the Risk Appetite Framework, and the faculties and rules for loan disbursement and credit management are aimed at:
– meeting the objective of increasing sustainable credit activities, consistently with risk propensity and creation of value;
– portfolio diversification, limiting the concentration of exposures on single counterparties/groups, on single sectors of economic activity;
– an efficient selection of economic groups and individuals borrowers, through an accurate analysis of creditworthiness aimed and limiting the risk of insolvency;
– favoring credit interventions aimed at supporting the real economy and the production system;
– constantly monitoring loan relations, both through IT procedures and by means of the systemic monitoring positions, in order to be able to immediately grasp any symptoms of imbalance and promote corrective actions aimed at preventing possible impairment.
The quality of the credit portfolio is constantly monitored by implementing precise operational methods in each stage of credit management.

2. Credit risk management policies

2.1 Organizational aspects

The factors that generate credit risk are tied to the possibility that an unexpected variation in the creditworthiness of a counterparty, to which the Bank has an exposure, may generate a corresponding unexpected variation of the current value of the respective credit exposure.
Therefore, credit risk is not limited only to the counterparty's insolvency, but also includes the mere deterioration of its creditworthiness.
Taking on credit risk and risk management are governed by formalizing the underlying process, detailing the roles of the corporate bodies involved, defining the first controls and rendering explicit the roles of all control functions. Starting July 2017, a special "NPL Office" was created within General Management and composed of "Legal and Litigation Services Office" and the "Problem Debts Management Office" and "Credit Control Office", which were once a part of the Business Management office. This new organizational set up aims at increasing the separation between work units dedicated to managing impaired loans and those in charge of granting loans, the latter being organizationally within the Credit Area, and simultaneously achieving greater precision in assigning responsibilities for activities aimed at monitoring, identifying signs of impairment and management of non performing loan. The Problem Debts Management Office manages, at a corporate level and according to methods defined by internal regulations, every single problem

debt and loans that present anomalous situations, regardless of their classification as performing or non performing, with the exception of non-performing loans that are managed by the Legal and Litigation Services Office. Problem Debts Management also Supports the Network in carrying out peripheral monitoring activities on single anomalies and problem loans, as well as in defining and implementing corrective actions aimed at ensuring sound administration of the credit process. This activity is aimed at favoring an anticipatory management of credit risk and implementing management strategies aimed at improving the Bank's credit quality. The corporate organization system assigns management of relationships classified as Probable Default and Non-Performing respectively to the Problem Debt Monitoring Office and the Legal and Litigation Services Office. Impaired loans are managed based on Service regulations and in accordance with the specific impaired loan assessment policy. The Credit Control Office oversees the credit risk monitoring process, in order to detect, even in advance, possible critical evolutions; this activity is carried out within the scope of second instance first level controls and with the aim of providing credit manager and the Problem Debt Management function with all the information required to take necessary measures, and the Risk Management function with all the information required to carry out second level control on credit risks.
Within the scope of the risk taking and management procedures adopted, the first safeguard filter takes place in the Branch office, through constant and ongoing dialogue with the customers, by means of both internal and external information sources and with the aid of information technology procedures.
During the credit preliminary assessment and review processes, the Bank analyzes the customer's financial needs and the documents required to carry out an adequate assessment of the creditworthiness. The decision to grant a loan is therefore based both on the analysis of all the information regarding the economic entity, and on the basis of direct knowledge of the customer and of the economic operating context. All preliminary activities regarding the operational process that lead up to disbursement and periodic review of the loan, are developed with the aim of granting a congruous loan to each individual applicant (and/or group), providing for the most appropriate types of loan and a adequate remuneration for the risk taken.
Within the scope of the "Credit Risk Regulations", the Board of Directors has defined the decision-making autonomy of each body delegated to granting loans. Observance of the powers authorized by the Board of Directors is guaranteed by automatic controls provided for in the IT procedure recently implemented with the new "Easy Loans" application used to manage the preliminary process for loan disbursement.

2.2 Management, measurement and control systems

Risk management, measurement and control systems are developed in an organizational framework that involves the entire credit process cycle, from the initial preliminary stage, to the periodical reviews up to revocation and recovery.
The Bank also carries out quantitative and qualitative analyses for periodic Credit Risk measurement and control. In particular, quantitative assessments make use of various instruments that provide economic, financial and capital information regarding the customer.
The Credit Area ensures supervision and coordination of the operative stages of the credit process, carries out the credit application and decision processes within the scope of its powers, and performs the first level controls within its area of competence. Instead, the NPL department monitors and coordinates all the operational stages of the non performing loan process.
In support of these activities, the Bank has adopted specific procedures for the stages regarding credit application/deliberation, renewal of credit lines and monitoring of credit risk.
In these stages, the Bank uses qualitative and quantitative methods to measure creditworthiness, supported by information technology procedures subject to periodic verification and maintenance.
Line of credit application, deliberation and review processes are regulated by a decision-making process supported by the "Electronic Line of Credit Procedure", which allows verifying (on behalf of all the departments involved in credit management) the status of each borrower or potential borrower. This procedure also allows reconstructing the credit deliberation process by tracking the various steps of the process and the types of analyses carried out.
Two review levels are provided for, in order to keep the procedures slim: one is a simplified review, with limited formalities, which is reserved to the renewal of small credit lines with a regular performance; the other is an ordinary review applied to all other situations.
The definition of classification, measurement and management criteria for impaired positions and of the methods to be implemented to monitor loan performance aims also at implementing a systematic control procedure on loan positions by the Risk Control Office, organizationally within the NPL department, in close collaboration with the branch structure. This activity is supported by an electronic procedure that allows for periodic extrapolation of all relations that may show signs of anomalous performance, both internally and externally.
Hence, constant monitoring of the reports provided by the procedure, along with the measurement of other types of events allows for rapid intervention as soon as irregular positions arise, in order to take the necessary measures for problem loans.
All trust positions are also subject to periodic review of each individual counterparty or group of connected customers.

The Risk Manager is responsible for second level controls; this function carries out controls aimed at periodically ascertaining that credit granting, monitoring and classification of credit exposures, the process for recovery and calculation of provisions for impaired loans, are all carried out in compliance with internal and supervisory regulations, and that they are efficacious and reliable as regards the capacity for timely detection and notification of problem loans, and for ensuring the adequacy of value adjustments and the relative writing-off.
Credit risk, like other risks, is mapped in the RAF process, defined by specific objectives and tolerance thresholds. Hence, the Risk Management function monitors credit risk management processes, periodically checking and verifying compliance to risk objectives, operating limits and the risk indicators defined by the Board of Directors, according to the methods and schedules defined in the RAF Regulations and in the risk management processes. Furthermore, this function provides advance opinions regarding RAF compliance of significant credit transactions (so-called OMR), as defined in the specific regulations approved by the BoD, requesting, if necessary and based on the nature of the transactions, the opinion of other functions involved in the risk management process. The entire credit and counterparty risk management process (risk measurement, application, disbursement, performance monitoring, exposure monitoring, review of lines of credit, classification of risk positions, actions in the event of problem loans, classification criteria, assessment and management of impaired loans) is formalized in the internal regulations.
The Bank continues to use an "ordinal" classification management system for creditworthiness which, in a nut-shell, aims at attributing an univocal rating to borrowing customers, on the basis of a series of qualitative and quantitative considerations.
On this matter, please bear in mind that the evaluations resulting from the application constitute a limit to the use of powers associated to loan authorizations.
The Bank adopts standards methods to determine the minimum capital requirement for credit risk.
As regards the internal capital adequacy evaluation process (ICAAP), the Bank uses the so-called Granularity Adjustment simplified algorithm (ref. Annex B, Title III, Chapter 1 Circ. 285/2013) to quantify internal capital vis-à-vis concentration risk for exposure to single counterparties or groups of connected customers.
Within the scope of the ICAAP analysis performed on a quarterly basis, the Bank performs stress tests with reference to credit and concentration risks through sensitivity analyses that evaluate the effects of specific events on the same risks.
The Bank performs the stress test and, with specific reference to credit risk, recalculates the internal capital required against the new risk level of the loan portfolio redefined on the basis of any increase of the incidence of impaired exposures on company lending. The Bank also determines the impact on overall capital (Own Funds) deriving from the reduction of expected income due to the increase in write-downs of receivables.
With reference to operations on securities markets, the Bank's Finance Area implements measurements and controls both during acquisition of the financial instruments and after, when the composition of the fund is periodically analyzed by asset class / IAS/IFRS portfolio, the specific or counterparty risk level is identified and calculated and compliance with the limits and powers assigned is verified. The results of these analyses are discussed periodically by the Finance Committee within the scope of which the Risk Management Office sets forth its valuations in accordance with the Risk Appetite Framework.

2.3 Techniques for mitigating credit risk

Expected loss is the product of exposure, probability of default and Loss Given Default.
IFRS 9 provides for a single impairment model, to be applied to financial assets measured at amortized cost and those measured at fair value with contra-entry in OCI (Other Comprehensive Income 16, which is shareholders' equity) as well as to financial guarantees and other commitments to disburse loans, characterized by a prospective view, which requires immediate recognition of losses on receivables even if they are only expected.
The Bank's stage al location model, based on individual exposures or tranches of exposures in case of debt securities, applies both qualitative and quantitative criteria to measure significant increase of credit risk from the date of initial recognitions of the financial instrument to the evaluation date.
More specifically, a financial instrument may be moved from stage 1 to stage 2 if one of the following variables is observed:

- Variation of the probability of default used for internal management purposes. Therefore, this assessment is made adopting a "relative" criterion;
- The presence of a position that is overdue/overdrawn– without varying the thresholds of significance provided for by regulations – and has been so for at least 30 days. In this case, in other terms, the credit risk of the exposure is presumed to be "significantly increased" and, therefore it is moved to stage 2 (if the previous exposure was classified in 1);
- The presence of forbearance measures, which – again, presumably – entail classification of the exposures among those for which credit risk is "significantly increased" with respect to initial recognition;
- Finally, specific indicators of the credit monitoring system are taken into consideration for the purpose of assessing the movement of exposures from one stage to another. Specifically, this refers to so-called "watch-list" positions, that is, positions subject to monitoring regimes due to individual evidence of criticality.

The Stage Allocation model is a symmetric model, in that it provides for exposures passing from Stage 1 to Stage 2 and vice versa. Specifically, if at the previous balance sheet date a financial instrument was classified in Stage 2, but at the current balance sheet date it no longer meets the requirements for recognition of a fund equal to expected losses for the duration of the instrument, the position is reclassified in Stage 1. Therefore, no specific permanence criteria are applied in Stage 2, other than those inherent to the quantitative and qualitative parameters that determine the staging (for example, as regards forborne exposures). Consequently, if the parameters in question change and the instrument may be reallocated to stage 1, further permanence in stage 2 is not considered necessary, as the sustainability of the improvement if the customer's creditworthiness is already evaluated during the processes required by the reference regulations of each staging parameter.
For the purpose of allocating exposures to the various stages on the date of first application of the principle, performing exposures were classified in stages 1 and 2, unlike non performing exposures that were allocated in stage 3.
As regards these latter exposures, please note that the Bank complies with the definition contained in Bank of Italy Circular n. 262/2005, meaning that they correspond to the total amount of impaired overdue/overdrawn exposures, probable non-performing loans and non-performing loans, such as defined by current Vigilance regulations.
The Bank's overall approach to the quantification of expected credit losses is to ensure alignment with regulatory risk parameters.
Once the exposures have been allocated in the various credit risk stages, expected loss, which is the estimated losses on receivables, weighted for the relative probability of occurrence, is calculated along a 12 month period for Stage 1 financial instruments or for the entire residual life of the financial instrument for those classified in Stage 2.
Therefore, as similar evaluation model is applied to all Stage 1 and Stage 2 exposures, the only distinguishing element being the time frame for estimation of expected loss. The evaluation model takes into consideration the following risk factors:

- PD (Probability of Default) – probability of insolvency, a parameter that represents the probability that a counterparty will pass from a "bonis" condition to an "insolvency" condition within the time frame of 1 year (Stage 1) or during the expected life of the financial instrument (Stage 2). The probability of insolvency is calculated based on parameters decided internally by Banca Cambiano and then subsequently including appropriate corrective factors that allow taking into consideration the effects of so-called forward looking information regarding the macro-economic reference scenarios;
- LGD (Loss Given Default) – rate of loss in case of insolvency, a parameter that expresses the incidence of the loss, net of recovery, as a percent value, with respect to the amount of the exposure that has become insolvent, measured based on specific internal Banca Cambiano models. This parameter also includes the expected direct costs of recovery;
- EAD (Exposure at Default) - EAD is treated differently based on the type of exposure and maturity: exposures with a "deterministic" repayment schedule with a known cash flow and maturity and "stochastic" exposures with an unknown cash flow and/or unknown maturity. For exposures with a deterministic repayment schedule EAD is defined by using the repayment schedule based on the evolution of contractual cash flows. For exposures with an unknown repayment plan (for example, not based on installments, such as bank accounts) EAD is calculated based on special models that take into account both the so-called "on balance" value of the exposure and the "off balance" component considered potentially risky due to the possibility of the counterparty of increasing its borrowing position.

All reasonable and demonstrable information available at the balance sheet date, without incurring excessive cost or effort, are is taken into consideration for the purpose of calculating expected losses. The information used must include past events, current conditions and forecasts regarding future economic conditions.

2.4 Techniques for mitigating credit risk

The main levers for mitigating credit risk are represented by the system of guarantees that accompany loan exposure, by a limited degree of concentration on specific borrowers, as well as an adequate level of diversification of loans by type and by industry.
In particular, with reference to concentration risk, please note that within the scope of its "credit policies", the Bank has set forth a series of limits regarding credit exposure towards single counterparties or groups of connected customers and towards counterparties belonging to the same economic sector. These limits are constantly monitored by the Risk Management Services.
The methods used to manage guarantees and the relative operating processes are set forth in the Bank's internal regulations.
The guaranty management process is incorporated in the IT system, which may be accessed to obtain all related information.
In order to mitigate credit risk, the Bank uses collateral security and personal guarantees. In particular, the main types of real guarantees used are mortgages on property and financial pledges.

The IT management application allows monitoring the entire mortgage guarantee acquisition, assessment, verification and realization efficaciously, identifying all inherent information. The procedure also allows periodically "updating" the current value of the guarantee itself and monitoring the consistency of the value of the guaranty with respect to the risk. The ratio between the loan and the value of the collateral property is monitored constantly in order to intervene appropriately in the event of drops in the real estate market.
Personal guarantees consist mainly of sureties given by individuals or companies, or guarantees issued by specialized bodies (for example, Confidi, a credit guarantee consortium) and by Financial institutes (for example: Government guarantee through Mediocredito Centrale pursuant to Law 662/1996).
To date, the Bank does not use credit derivatives to cover or transfer the risk for credits in portfolio.
The above controls are performed by centralized structures that are separate from those that disburse and review the loan; the Internal Auditing Office ensures that assets are managed properly and prudently by means of periodic controls.
No significant changes were registered with respect to the information provided above during the course of the fiscal year.

3. Impaired financial assets

3.1 Management strategies and policies
On 27 September 2018, the Board of Directors approved the Bank's NPL Plan, made on the base of the Bank of Italy Guidelines for impaired receivables, which was sent to Bank of Italy on 1 October 2018. The 2018-2021 NPL Plan, currently being updated, takes into account the observations and recommendations of the Vigilance Body. The assumptions underlying the NPL Plan and, in particular, the hypotheses for the foreseen disposal of impaired receivables, were used for the purpose of the FTA, according to the IFRS9 accounting principles.
In the 2018-2021 Business Plan, de-risking represents the First Pillar, by means of which the Bank intends to limit the burden of impaired receivables on overall receivables. The aim of the Plan is to reduce the stock of gross impaired receivables with by 35% with respect to the value at beginning of 2018, and to reach a gross incidence of impaired receivables on overall receivables around 10% (from 16.80% at beginning of 2018, after IFRS9 FTA). With the completion, in May 2018, of the operation to dispose of a portfolio of impaired receivables with gross value of 93.5 Mln/€, over 60% of the reduction objective on impaired receivables required by the Business Plan for the entire 2018-21 four-year plan, has already been met.
Impaired receivables, gross of adjustments, diminished by 17.2% over the year, bringing the incidence of impaired receivables (gross of adjustments) on overall receivables to 13.4%.
Impaired receivables include receivables classified as non-performing, probable defaults, and overdue and/or overdrawn for more than ninety days in accordance with Bank of Italy regulations and in accordance with IAS/IFRS and European Vigilance provisions. The definition of impaired receivables, as set forth by Bank of Italy in Circular 272/2008 (and subsequent updates) is also consistent with the definition of impaired financial assets contained in the IFRS9 accounting principle, with consequent classification of all impaired receivables within Stage 3.
During 2015, Bank of Italy issued the 7th Update of Circular n. 272/2008, which revised previous classifications for impaired credits and introduced the so-called forbearance concept, transposing the definitions introduced by the Implementing Technical Standards (abbreviated to ITS) issued by the European Banking Authority (EBA). The update aims to reduce the existing discretionary margins in accounting and prudential definitions applied in the various member countries, and facilitate data comparability at a EU level.
In particular, the regulations requires the identification, as regards both performing and non-performing loans, call for identification of loan disbursement relations respectively defining the categories of "Forborne performing exposures" (performing loans granted) and "Non-performing exposures with forbearance measures" (impaired loans granted).
The regulations define as "forbearance measures" changes to the original contract terms and conditions or total or partial loan refinancing, granted to a debtor who is or is about to enter into difficulty in terms of respecting financial obligations.
In terms of classification of impaired loans, the Bank has also transposed the changes made to definitions introduced by the 7th Update of Bank of Italy Circular n. 272/2008. Specifically, impaired financial assets are divided into the categories "non-performing", "probable default" and "overdue/overdrawn exposures", based on the following criteria:

- **Non-performing loans:** the overall on-balance sheet and off-balance sheet exposures vis-à-vis a customer in a state of insolvency (even if not judicially ascertained) or in essentially comparable situations, regardless of any loss forecasts formulated by the Bank.
- **Probable default watchlist ("unlikely to pay"):** classification in this category is, first of all, the result of the Bank's judgment regarding the unlikelihood that, without recourse to measures such as enforcement of guarantees, the debtor fully pays back the credit (the principal and/or the amount of interest payable). This evaluation must be made aside from the presence of any amounts (or installments) overdue and not paid. Therefore, it is not necessary to wait for an explicit sign of anomaly (failure to pay), if there are elements that imply a situation of probable default on the part of the debtor (for example, a crisis in the debtor's industry sector).

- **Overdue and/or overdrawn exposures:** cash loans, other than those classified as non-performing or probable defaults, which, at the date of reference of the notification have been overdue or overdrawn for over 90 days.

Overdue and/or overdrawn exposures may be determined with reference to either an individual customer or a single transaction; the Bank adopts the "by debtor" approach, as described here below.
Overdue or overdrawn positions must be characterized by the continuity of the condition. In particular, as regards exposures with repayment in installments, the unpaid installment bearing the greatest delay is used for the purpose of the necessary calculations.
If more than one exposure that has been overdue or overdrawn for over 90 days refer to the same customer, the longest overdue position on which calculations are based. As regards the opening of "revocable" current-account credit facilities where the credit ceiling has been exceeded (also due to the capitalization of interest), the days of overdraft are calculated starting from the first day of missed payment of the interest that determines overdraft, or starting from the date of the first request to repay the principal, whichever of the two comes first.
Overall exposure vis-à-vis a debtor must be considered overdue and/or overdrawn if, at the date of reference of the notification, the larger of the two following values is equal to or greater than the 5% threshold:

a) average of the overdue and/or overdrawn amounts on the entire exposure, measured on a daily basis over the last previous quarter;
b) amount overdue and/or overdrawn on the entire exposure referred to the date of reference of the notification.

Within the scope of the three categories of impaired loans, in conformity with the regulations, "Non-performing exposures with forbearance measures" are identified.
Therefore, the classification "forborne non-performing" is not a category of impaired loans in itself, but is instead an additional attribution, applicable to positions in any one of the above-mentioned three categories.
Information regarding impaired loans has been integrated into the information technology system with the aid of specific instruments that support management of irregular exposures and track their conditions.
Based on specific irregularity indicators, monitored by means of both information technology procedures and internal evaluations, and in light of the provisions contained in specific internal regulations that govern exposure classification and variations of the relative exposure "status", the Credit Control Office monitors the risk classification of exposure positions and formulates proposals to the corporate structures of reference for possible status changes or recalculation of expected loss.
With respect to *in bonis* loans, for management purposes, the Bank has defined the sub-class of credits called Bonis C (watch list), Bonis D (forborne performing under probation) and Bonis E (forborne performing under probation, ex cure period), in which exposures showing a not fully regular trend are classified.
L The Problem Debts Management Office is responsible for managing positions classified as probable defaults, promoting initiatives aimed at safeguarding the Bank's credit claims.
Non-performing loans are managed by the Legal and Litigation Services office, which evaluate the actions to be taken to maximize credit recovery, also taking action vis-à-vis any guarantors and realizing any guarantees.
The possibility of payment of impaired loans is calculated based on criteria defined by the Board of Directors and contained in the specific evaluation policy.
Exposures classified in Stage 3 are classified in the various risk conditions and, consequently, subjected to an analytical or flat-rate analysis. The value adjustments on Stage 3 exposures reflect the expected loss calculated over a time frame equal to the entire life of the respective exposure.
Impaired receivables that are considered "in bonis" for an amount that is lower than a pre-set threshold, for which there is no objective evidence of expected loss, are not subjected to the flat-rate analysis, which entails the statistical calculation of expected loss and therefore of the respective value adjustments for homogenous categories of exposures (defined based on the counterparty segment and the technical type of the instrument).
Analytical impairment, however, must still be assessed whenever there is objective evidence of degradation which requires a precise analysis.
Specifically, with respect to the concept of significance expounded in the current accounting principles, impaired overdue exposures and probable default exposures for individual amounts lower than the threshold of significance set at € 300,000 were subjected to impairment using the flat-rate method.
The evaluation of non-performing exposures is updated periodically in order to allow for timely transposition of any events that may modify prospects for credit recovery.

Non-performing loans are evaluated analytically, that is, based on an accurate study of the recoverability of each position, taking into account all elements that may be useful in terms of defining the probability of repayment.
Probable defaults are updated periodically in order to allow for timely transposition of any events that may modify prospects for credit recovery, and ascertain whether they meet the requirements for transfer to impairment.
Value adjustments for this category are evaluated based on the criteria below:

- For exposures greater than the € 300,000 threshold, analytically;

- For exposures less than or equal to the € 300,000 threshold, for which there is no objective evidence of loss, using the flat-rate method in similar types of exposures.

The evaluation is aimed at calculating any expected losses, while taking into account that exposures are classified in this risk class based on the Bank's assessment of the unlikelihood that, without recourse to measures such as the enforcement of guarantees, the debtor will meet payment obligations fully. This assessment must be made aside regardless of any come amounts (or installments) overdue and not paid.
Therefore, is regards cases of positions classified as probable defaults, the presumed value of repayment of the receivable is estimated by evaluating the capacity of the borrower to meet all payment obligations, measured on the basis of all the information available regarding the borrower's financial and economic situation and the value of any existing collateral underlying the receivable/s in question. The salvage value is determined, based on the foreseen recovery strategy (distinguishing between management for "business continuity" and management "for sale") that reflects the overall degree of risk, by evaluating the capacity to generate cash flows sufficient to repay the credit and/or on the mere enforcement of collateral and guarantees.
For exposures less than or equal to the € 300,000 threshold, for which there is no objective evidence of loss, value write-downs are calculated using the flat-rate method for similar types of exposures.
Exposures classified ad overdue/overdrawn, for which there is no objective evidence of loss, are evaluated using the flat-rate method for similar types of exposures.
The flat-rate method estimation entails a statistical calculation of expected loss and, therefore, of the respective write-downs in value.

3.2 Write-off

As regards impaired receivables, the Bank writes off/derecognizes – in whole or in part - uncollectable accounting entries (so-called write-off) and consequently allocates the residual unadjusted amount to losses in the following cases:
a) irrecoverability of the receivable, resulting from certain and specific elements (such as, for example, borrower is untraceable or destitute, failed recovery from enforcement action on movable and immovable property, negative foreclosures, insolvency procedures terminated with incomplete recovery for the Bank, if there are no additional guarantees that may be enforced, etc.);
b) debt waiver, following unilateral remission of the loan or residual amount pursuant to agreements;
c) transfer of receivables.
In some circumstances, it also becomes necessary to partially write off gross receivables in order to adjust them to the Bank's effective interests. This is the case, for example, in the event of measures that are not under appeal, within the scope of insolvency procedures, based on which a receivable amount lower than the book amount is recognized as due.
Furthermore, the Bank has provided for the possibility, on an annual basis, of defining portfolios of impaired receivables to be written off, partially or totally, which collectively have the following macro-characteristics:
– hedging percent > 95%
– average seniority (intended as the period of time passed in a "non-performing" conditions) greater than 6 years.
During 2018, the Bank books 6.9 Mln/€ in write-offs on gross non-performing loans, for the greater part using the allocated provision fund.

3.3 Purchased or originated impaired financial assets

Based on the IFRS9 accounting principle, receivables that are considered already impaired on initial recognition in the balance sheet, due to the respective high risk level, are defined as Purchased or Originated Credit Impaired Asset (POCI). These receivables, if they fall within the scope of application of impairment pursuant to IFRS9, are measured by allocating – starting from initial recognition – a provision to hedge losses for the entire residual life of the credit (so-called Expected Credit Loss Lifetime). As these are impaired receivables, they must be initially classified in Stage 3, although they may be moved, during their lifetime, to Stage 2 if they are considered no longer impaired based on the credit risk analysis.

4. Financial assets subject to commercial renegotiation and exposures covered by forbearance

Regulations implemented by the Bank provide for clear lines being drawn between commercial renegotiation measures and forbearance on existing loans (so-called forbearance measures).
Commercial renegotiations aim to consolidate the relation with the borrower counterparty who, on in-depth assessment, is nonetheless capable of timely fulfillment of all financial obligations originally taken on.
Instead, a forbearance measure is a variation of contract terms in favor of borrower customers who, even if as a result of temporary events, are no longer capable of meeting the financial obligations originally agreed upon. Therefore, ascertained financial difficulty is a decisive requirement to qualify changes in the value, times and terms of credit repayment, as forbearance measures. The subjective assessment (judgmental) of the customer on the part of the credit manager is supported by any objective anomalies in the credit exposure detected by the system. Objective financial difficulty is always subjected to a subsequent subjective assessment, which may result in the confirmation of the

exclusion of the existence of financial difficulties. The subjective evaluation is nonetheless carried out, regardless of the observance of objective anomalies.
Financial difficulty is considered confirmed if the counterparty is classified as non-performing.
Approval of a forbearance measure:
- involves the completion of procedures that implicate an assessment aimed at verifying the efficacy of the measure in question for the purpose of re-establishing the borrower's autonomous compliant conduct, without the need for further, subsequent support, returning the exposure to a situation of sustainable repayment and, as regards non-performing loans, with the key objective of laying the bases for return to in bonis status. The analysis in question is made up of various stages that elaborate both objective and subjective information;
- involves qualifying the position involved in the measure in question as forborne. A performing counterparty that receives forbearance may conserve the administrative conditions. Nevertheless, the obligation must be met for the entire time that the credit exposure to which forbearance has been applied is qualified as forborne.

When the forbearance measure is perfected, a monitoring period begins, which is called, based on the case, Probation Period (two years of forborne performing exposures) and Cure Period (one year for forborne non-performing exposures). At the end of these periods of time, the possibility of improving the classification of the status or, for performing exposures, the cancellation of the qualification as forborne, may be taken into consideration, but only if the borrower's conduct is compliant and all the conditions provided for by the reference regulations are met.
The above being given, please note that if the contract modifications granted to customers are considered "substantial", based on differentiation for commercial modifications and modifications resulting from forbearance measures, they may result in derecognition of the financial asset from the balance sheet and re-recognition of a new asset (so-called "derecognition accounting"). In this situation, and specifically as regards positions that pass the SPPI test, for the purpose of impairment, the Bank considers the date of initial recognition as the date on which the asset is modified. To the contrary, as regards contract modifications that are considered "not substantial", and therefore not subject to "derecognition accounting", for the purpose of impairment, the Bank considers the date of initial recognition as the date on which the instrument is originated.

Quantitative information

Section 1 – Credit risk
A. Credit quality

A.1 Exposure to impaired and in bonis receivables: amounts, value adjustments, dynamics, economic and territorial distribution
A.1.1 Distribution of financial assets by the portfolio to which they belong and by type of credit quality (balance sheet values)

Portfolio/quality	Non-performing loans	Probable default	Impaired overdue positions	In bonis overdue positions	Other in bonis exposures	Total at 31/12/2018
1. Financial assets measured at amortized cost	90,203	96,273	4,462	48,827	2,726,077	2,965,842
2. Financial assets measured at fair value with impact on total profits	0	0	0	0	378,997	378,997
3. Financial assets measured at fair value	0	0	0	0	0	0
4. Financial assets obligatorily measured at fair value	0	0	0	0	54,828	54,828
5. Financial assets in the course of divestment	0	0	0	0	0	0
Total at 31/12/2018	**90,203**	**96,273**	**4,462**	**48,827**	**3,159,902**	**3,399,667**
Total at 31/12/2017	**137,798**	**123,766**	**14,097**	**53,169**	**2,830,487**	**3,159,317**

The table shows the classification by credit quality for the entire portfolio of financial assets, with the exception of equity instruments and of shares in mutual funds, equal to 12,113 thousand Euro.
The values shown are the balance sheet values, net of the relative write-downs.

A.1.2 Distribution of financial assets by the portfolio to which they belong and by credit quality (gross and net values)

Portfolio/quality	Impaired assets				In bonis assets			Total (net exposure)
	Gross exposure	Overall value adjustments	Net exposure	Overall write-off	Gross exposure	Overall value adjustments	Net exposure	
1. Financial assets measured at amortized cost	363,350	172,411	190,938	174	2,783,728	8,825	2,774,903	**2,965,842**
2. Financial assets measured at fair value with impact on total profits	0	0	0	0	379,754	757	378,997	**378,997**
3. Financial assets measured at fair value	0	0	0	0	0	0	0	**0**
4. Financial assets obligatorily measured at fair value	0	0	0	0	55,035	207	54,828	**54,828**
5. Financial assets in the course of divestment	0	0	0	0	0	0	0	**0**
Total at 31/12/2018	**363,350**	**172,411**	**190,938**		**3,218,517**	**9,788**	**3,208,729**	**3,399,667**
Total at 31/12/2017	**439,077**	**163,416**	**275,661**		**2,887,926**	**4,271**	**2,883,656**	**3,159,317**

The table shows classification by type of receivable of the entire portfolio of financial assets, with the exception of equity instruments and shares of mutual funds amounting to 12,113 thousand Euro.

A.1.2 bis Distribution of credit exposure for assets with poor credit quality

Portfolio/quality	Assets with evidently poor credit quality		Other assets
	Cumulative losses	Net exposure	Net exposure
1. Financial assets held for trading	0	0	78,469
2. Hedges	0	0	0
Total	**0**	**0**	**78,469**

A.1.3 Distribution of financial assets by time overdue (balance sheet values)

Portfolio/Risk stages	First stage			Second stage			Third stage		
	From 1 to 30 days	Over 30 days up to 90	Over 90 days	From 1 to 30 days	Over 30 days up to 90	Over 90 days	From 1 to 30 days	Over 30 days up to 90	Over 90 days
1. Financial assets measured at amortized cost	8,643	170	1	8,039	9,036	22,938	1,177	2,827	140,446
2. Financial assets measured at fair value with impact on total profits	0	0	0	0	0	0	0	0	0
TOTAL AT 31/12/2018	**8,643**	**170**	**1**	**8,039**	**9,036**	**22,938**	**1,177**	**2,827**	**140,446**
TOTAL AT 31/12/2017	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: dynamics of the overall value adjustments and total provisions – part 1

Causal factors/risk stages	Overall value adjustments				
	Assets classified in stage one				
	FA measured at amortized cost	FA measured at fair value with impact on total profits	FA in the course of divestment	of which: individual write-downs	of which: collective write-downs
Overall initial adjustments	**6,252**	**195**	**0**	**195**	**6,252**
Value increases from financial assets purchased or originated	0	0	0	0	0
Derecognition other than write-offs	0	0	0	0	0
Net adjustments/write-backs for credit risk (+/-)	-113	176	0	176	-113
Contract modifications without derecognition	0	0	0	0	0

Causal factors/risk stages	Overall value adjustments				
	Assets classified in stage one				
	FA measured at amortized cost	FA measured at fair value with impact on total profits	FA in the course of divestment	of which: individual write-downs	of which: collective write-downs
Changes in the method of estimation	0	0	0	0	0
Write-offs not recognized directly to the Income Statement	0	0	0	0	0
Other variations	-76	0	0	0	-76
Overall final adjustments	**6,063**	**370**	**0**	**370**	**6,063**
Recoveries from collections on financial assets written off	**0**	**0**	**0**	**0**	**0**
Write-offs recognized directly to the Income Statement	**0**	**0**	**0**	**0**	**0**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: dynamics of the overall value adjustments and total provisions – part 2

Causal factors/risk stages	Overall value adjustments				
	Assets classified in stage two				
	FA measured at amortized cost	FA measured at fair value with impact on total profits	FA in the course of divestment	of which: individual write-downs	of which: collective write-downs
Overall initial adjustments	**3.063**	**603**	**0**	**603**	**3.063**
Value increases from financial assets purchased or originated	0	0	0	0	0
Derecognition other than write-offs	0	0	0	0	0
Net adjustments/write-backs for credit risk (+/-)	-80	-216	0	-216	-302
Contract modifications without derecognition	156	0	0	0	156
Changes in the method of estimation	0	0	0	0	0
Write-offs not recognized directly to the Income Statement	0	0	0	0	0
Other variations	-378	0	0	0	-156
Overall final adjustments	**2.761**	**387**	**0**	**387**	**2.761**
Recoveries from collections on financial assets written off	**0**	**0**	**0**	**0**	**0**
Write-offs recognized directly to the Income Statement	**0**	**0**	**0**	**0**	**0**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: dynamics of the overall value adjustments and total provisions – part 3

Causal factors/risk stages	Overall value adjustments					
	Assets classified in stage three					of which: impaired financial assets purchased or originated
	FA measured at amortized cost	FA measured at fair value with impact on total profits	FA in the course of divestment	of which: individual write-downs	of which: collective write-downs	
Overall initial adjustments	**233,006**	**0**	**0**	**224,858**	**8,148**	**0**
Value increases from financial assets purchased or originated	0	0	0	0	0	0
Derecognition other than write-offs	-64,332	0	0	-64,332	0	0
Net adjustments/write-backs for credit risk (+/-)	26,164	0	0	24,120	2,044	0
Contract modifications without derecognition	1,491	0	0	778	713	0
Changes in the method of estimation	0	0	0	0	0	0
Write-offs not recognized directly to the Income Statement	0	0	0	0	0	0
Other variations	-23,918	0	0	-23,918	0	0
Overall final adjustments	**172,411**	**0**	**0**	**161,506**	**10,906**	**0**
Recoveries from collections on financial assets written off	**0**	**0**	**0**	**0**	**0**	**0**
Write-offs recognized directly to the Income Statement	**0**	**0**	**0**	**0**	**0**	**0**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: dynamics of the overall value adjustments and total provisions – part 4

Causal factors/risk stages	Overall provisions on commitments to disburse funds and financial guarantees issued			Total
	First stage	Second stage	Third stage	
Overall initial adjustments	**0**	**0**	**2,406**	**245,525**
Value increases from financial assets purchased or originated	0	0	0	0
Derecognition other than write-offs	0	0	0	-64,332
Net adjustments/write-backs for credit risk (+/-)	0	0	-158	25,772
Contract modifications without derecognition	0	0	0	1,647
Changes in the method of estimation	0	0	0	0
Write-offs not recognized directly to the Income Statement	0	0	0	0
Other variations	0	0	0	-24,372
Overall final adjustments	**0**	**0**	**2,248**	**184,240**
Recoveries from collections on financial assets written off	**0**	**0**	**0**	**0**
Write-offs recognized directly to the Income Statement	**0**	**0**	**0**	**0**

The line item "Overall initial adjustments" includes overall impairment recognized during FTA of IFRS9, for a total of 77,892 thousand Euro.

The table below provides a detailed overview of the above-mentioned impairment.

Description	Impairment from FTA
FINANCIAL ASSETS MEASURED AT AMORTIZED COST	
Impairment on receivables from customers - Stage 1	2,321
Impairment on receivables from banks - Stage 1	0
Impairment on Securities HTC - Stage 1	80
Impairment on receivables from customers - Stage 2	2,699
Impairment on receivables from customers - Stage 3 - Non-performing loans	28,486
Impairment on receivables from customers - Stage 3 - UTP	40,561
Impairment on receivables from customers - Stage 3 - Overdue	543
FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH AN IMPACT ON TOTAL PROFITS	
Impairment on Securities HTCS - Stage 1	195
Impairment on Securities HTCS - Stage 2	603
Impairment on Securities HTCS - Stage 3	0
COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED	
Impairment on guarantees issued	2,406
TOTAL IMPAIRMENT FROM FTA	**77,892**

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the various risk stage (gross and nominal values)

Portfolios/risk stages	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
	From 1st stage to 2nd stage	From 2nd stage to 1st stage	From 2nd stage to 3rd stage	From 3rd stage to 2nd stage	From 1st stage to 3rd stage	From 3rd stage to 2nd stage
1. Financial assets measured at amortized cost	49,972	33,864	27,176	4,397	10,553	572
2. Financial assets measured at fair value with impact on total profits	0	0	0	0	0	0
3. Commitments to disburse funds and financial guarantees issued	269	172	0	0	0	0
Total at 31/12/2018	**50,241**	**34,035**	**27,176**	**4,397**	**10,553**	**126,402**
Total at 31/12/2017	**0**	**0**	**0**	**0**	**0**	**0**

A.1.6 Cash and off balance sheet exposure to banks: gross and net values

Type of exposure/values	Gross exposure		Overall value adjustments and total provisions	Net exposures	Overall partial write-offs (*)
	Impaired	In bonis			
A, Cash exposures					
a) Non-performing loans	0	X	0	0	0
- of which: forbearance	0	X	0	0	0
b) Probable defaults	0	X	0	0	0
- of which: forbearance	0	X	0	0	0
c) Impaired overdue exposures	0	X	0	0	0
- of which: forbearance	0	X	0	0	0
d) In bonis overdue exposures	X	0	0	0	0
- of which: forbearance	X	0	0	0	0
e) other in bonis exposures	X	325,870	601	325,269	0
- of which: forbearance	X	0	0	0	0
TOTAL A	**0**	**325,870**	**601**	**325,269**	**0**
B, OFF BALANCE SHEET POSITIONS					
a) Impaired	0	X	0	0	0
b) In bonis	X	9,446	0	9,446	0
TOTAL B	**0**	**9,446**	**0**	**9,446**	**0**
TOTAL A + B	**0**	**18,892**	**0**	**18,892**	**0**

The table shows the breakdown by credit quality of exposures to banks. Specifically, all financial assets related to exposures with bank from balance sheet line items "20 - Financial assets held for trading", "30 - Financial assets measured at fair value with impact on total profits" and "40 - Financial assets measured at amortized cost a) receivables from banks".
The table does not include equity investments and shares in mutual funds for a total of 10,638 thousand Euro and securities issued by non-bank counterparties for 394,523 thousand Euro.

A.1.7 Cash and off balance sheet exposure to customers: gross and net values

Type of exposure/values	Gross exposure		Overall value adjustments and total provisions	Net exposure	Overall partial write-offs (*)
	Impaired	In bonis			
A. Cash exposures					
a) Non-performing loans	199,881	X	109,679	90,203	174
- of which: forbearance	0	X	0	0	0
b) Probable defaults	158,278	X	62,005	96,273	0
- of which: forbearance	97,734	X	46,638	51,096	0
c) Impaired overdue exposures	5,191	X	728	4,462	0
- of which: forbearance	7	X	2	5	0
d) In bonis overdue exposures	X	49,395	568	48,827	0
- of which: forbearance	X	2,219	42	2,176	0
e) Other in bonis exposures	X	2,921,563	8,619	2,912,944	0
- of which: forbearance	X	52,763	951	51,812	0
TOTAL A	**363,350**	**2,970,958**	**181,599**	**3,152,709**	**174**
B. Off balance sheet exposures					
a) Impaired	15,671	X	2,248	13,423	0
b) In bonis	X	830,760	0	830,760	0
TOTAL B	**15,671**	**830,760**	**2,248**	**844,183**	**0**
TOTAL A + B	**379,020**	**3,801,718**	**183,846**	**3,996,892**	**174**

The table shows the breakdown by credit quality of exposures customers. Specifically, all financial assets related to exposures with bank from balance sheet line items "20 - Financial assets measured at fair value with recognition of income effects through profit and loss", "30 - Financial assets measured at fair value with impact on total profits" and "40 - Financial assets measured at amortized cost a) receivables from customers".
The table does not include equity investments and shares in mutual funds for a total of 53,746 thousand Euro and securities issued by banks 77,806 thousand Euro.

A.1.9 Cash exposure to customers: dynamics of gross impaired accounts

Variables/Categories	Non-performing loans	Probable defaults	Impaired overdue/overdrawn exposures
A. Initial gross exposure	**263,482**	**160,027**	**15,568**
- of which: accounts disposed of but not derecognized	0	0	0
B. Additions			
B.1 entries from receivables in bonis	17,815	22,408	4,248
B.2 entries from impaired financial assets purchased or originated	0	0	0
B.3 transfers from other categories of impaired accounts	20,951	12,468	28
B.4 contract modifications without derecognition	0	3,351	0
B.5 other additions	2,488	2,475	251
C. Reductions	0	0	0
C.1 transfers to receivables in bonis	14	12,724	857
C.2 write-offs	0	0	0
C.3 collections	0	0	0
C.4 income from disposals	28,598	0	0
C.5 losses from disposals	65,245	0	0
C.6 transfers from other categories of impaired accounts	202	20,138	13,107
C.7 contract modifications without derecognition	0	8,760	908
C.8 other reductions	10,797	830	32
D. Final gross exposure	**199,881**	**158,278**	**5,191**
- of which: accounts disposed of but not derecognized	0	0	0

Line items C.4 and C.5 show the *pro-soluto* disposal transaction of a portfolio of impaired receivables perfected by the Bank during the fiscal year. This transaction involved the disposal of gross receivables for a total of 93,843 thousand Euro against payment of 28,598 thousand Euro, as better specified in the Report on Management.

A.1.9 bis Cash exposure to customers: dynamics of gross forbearance exposure subdivided by credit quality

Variables/Categories	Forbearance: impaired	Forbearance: in bonis
A. Initial gross exposure	**110,156**	**80,053**
- of which: accounts disposed of by not derecognized	0	0
B. Additions	**523**	**646**
B.1 entries from receivables in bonis without forbearance	35	221
B.2 entries from receivables in bonis with forbearance	45	0
B.3 entries from impaired receivables with forbearance	0	394
B.4 other additions	443	31
C. Reductions	**12,938**	**25,718**
C.1 transfers to receivables in bonis without forbearance	0	0
C.2 transfers to receivables in bonis with forbearance	0	0
C.3 transfers to impaired receivables with forbearance	0	0
C.4 derecognition	2,073	2,508
C.5 collections	57	15,608
C.6 income from disposals	0	0
C.7 losses from disposals	0	0
C.8 other reductions	10,808	7,602
D. Final gross exposure	**97,740**	**54,981**
- of which: accounts disposed of but not derecognized	0	0

A.1.11 Impaired cash exposures to customers: dynamics of overall value adjustments

Variables/Categories	Non-performing loans		Probable defaults		Impaired overdue/overdrawn exposures	
	Total	of which: forbearance	Total	of which: forbearance	Total	of which: forbearance
A. Initial overall adjustments	154.170	0	76.823	29.216	2.014	71
- of which: accounts disposed of but not derecognized	0	0	0	0	0	0
B. Additions						
B.1 value adjustments from impaired financial assets purchased or originated	0	0	0	0	0	0
B.2 other additions	58.275	0	0	0	0	0
B.3 losses from disposals	0	0	0	0	0	0

Variables/Categories	Non-performing loans		Probable defaults		Impaired overdue/overdrawn exposures	
	Total	of which: forbearance	Total	of which: forbearance	Total	of which: forbearance
B.4 transfers from other categories of impaired accounts	10,859	0	1,192	309	3	0
B.5 contract modifications without derecognition	0	0	3,445	0	0	0
B.6 other additions	37	0	1,809	17,112	1,243	124
C. Reductions	0	0	0	0	0	0
C.1 write-backs of value from measurement	24,104	0	6,816	0	1,191	0
C.2 write-backs of value from collections	0	0	0	0	0	0
C.3 income from disposals	0	0	0	0	0	0
C.4 write-off	0	0	0	0	0	0
C.5 transfers from other categories of impaired accounts	33	0	10,782	0	1,239	1
C.6 contract modifications without derecognition	0	0	1,954	0	0	0
C.7 other reductions	89,525	0	1,712	0	103	192
D. Final overall adjustments	**109,679**	**0**	**62,005**	**46,638**	**728**	**2**
- of which: accounts disposed of but not derecognized	0	0	0	0	0	0

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

A.2.1 Distribution of cash and off balance sheet exposures by class of external ratings

Exposures	Class of external rating						Without rating	Total at 31/12/2018
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortized cost								
- First stage	0	0	227,996	0	1,849	0	2,403,411	2,633,255
- Second stage	0	0	0	0	0	0	150,473	150,473
- Third stage	0	0	0	0	0	0	363,350	363,350
B. Financial assets measured at fair value with impact on total profits								
- First stage	0	0	340,595	0	0	0	0	340,595
- Second stage	0	0	7,215	22,139	9,758	0	47	39,159
- Third stage	0	0	0	0	0	0	0	0
Total (A + B)	**0**	**0**	**575,805**	**22,139**	**11,607**	**0**	**2,917,280**	**3,526,831**
of which: impaired financial assets purchased or originate	0	0	0	0	0	0	0	4,420,408
C. Commitments to disburse funds and financial guarantees issued								
- First stage	0	0	0	0	0	0	840,206	840,206
- Second stage	0	0	0	0	0	0	0	0
- Third stage	0	0	0	0	0	0	15,671	15,671
Total (C)	**0**	**0**	**0**	**0**	**0**	**0**	**855,877**	**855,877**
Total (A + B + C)	**0**	**0**	**575,805**	**22,139**	**11,607**	**0**	**3,773,157**	**4,382,709**

Class 1 = AAA/AA-
Class 2 = A+/A-
Class 3 = BBB+/BBB-
Class 4 = BB+/BB-
Class 5 = B+/B-
Class 6 = Lower than B-

A.3 Distribution of secured exposures by type of guarantee

A.3.1 Secured credit exposure to banks - part 1

Line items	Net exposure value	Collateral (1)			
		Real property for mortgage	Real property for financial leasing	Securities	Other collateral
1. Secured cash credit exposures:					
1.1 totally secured	0	0	0	0	0

Line items	Net exposure value	Collateral (1)			
		Real property for mortgage	Real property for financial leasing	Securities	Other collateral
- of which impaired	0	0	0	0	0
1.2 partially secured	0	0	0	0	0
- of which impaired	0	0	0	0	0
2 Secured off balance sheet credit exposures:					
2.1 totally secured	0	0	0	0	0
- of which impaired	0	0	0	0	0
2.2 partially secured	0	0	0	0	0
- of which impaired	0	0	0	0	0

A.3.1 Secured credit exposure to banks - part 2

Line items	Personal security (2)									Total (1)+(2)
	Derivates on receivables					Endorsement receivables				
	CLN	Other derivatives								
		Governments and central banks	Other public entities	Banks	Other parties	Governments and central banks	Other public entities	Banks	Other parties	
1. Secured cash credit exposures:										
1.1 totally secured	0	0	0	0	0	0	0	0	0	**0**
- of which impaired	0	0	0	0	0	0	0	0	0	**0**
1.2 partially secured	0	0	0	0	0	0	0	0	0	**0**
- of which impaired	0	0	0	0	0	0	0	0	0	**0**
2. Secured off balance sheet credit exposures:										
2.1 totally secured	0	0	0	0	0	0	0	0	0	**0**
- of which impaired	0	0	0	0	0	0	0	0	0	**0**
2.2 partially secured	0	0	0	0	0	0	0	0	0	**0**
- of which impaired	0	0	0	0	0	0	0	0	0	**0**

A.3.2 Secured credit exposure to customers - part - parte 1

Line items	Gross exposure	Net exposure	Collateral (1)			
			Real property for mortgage loans	Real property for financial leasing	Securities	Other collateral
1. Secured cash credit exposures:						
1.1 totally secured	1,826,993	1,718,228	1,306,588	0	5,148	17,692
- of which impaired	267,625	164,076	136,725	0	94	1,083
1.2 partially secured	132,078	124,399	352	0	851	3,084
- of which impaired	13,846	6,840	255	0	5	398
2. Secured off balance sheet credit exposures:						
2.1 totally secured	69,323	69,323	15,358	0	938	7,577
- of which impaired	491	491	314	0	0	0
2.2 partially secured	7,018	7,018	0	0	347	952
- of which impaired	426	426	0	0	0	25

A.3.2 Secured credit exposures to customers - part 2

Line items	Personal guarantees (2)									Total (1)+(2)
	Derivates on receivables					Endorsement receivables				
	CLN	Other derivatives				Public administrations	Banks	Other finance companies	Other parties	
		Central counterparties	Banks	Other finance companies	Other parties					
1. Secured cash credit exposures:										
1.1 totally secured	0	0	0	0	0	45,496	0	10,742	324,232	**1,709,898**
- of which impaired	0	0	0	0	0	4,042	0	760	20,446	**163,150**
1.2 partially secured	0	0	0	0	0	26,683	0	5,122	51,697	**87,790**
- of which impaired	0	0	0	0	0	1,504	0	769	2,087	**5,018**
2. Secured off balance sheet credit exposures:										
2.1 totally secured	0	0	0	0	0	272	0	1,922	42,860	**68,926**
- of which impaired	0	0	0	0	0	0	0	0	177	**491**
2.2 partially secured	0	0	0	0	0	121	0	157	808	**2,385**
- of which impaired	0	0	0	0	0	0	0	0	326	**351**

B. Distribution and concentration of credit exposure

B.1 Sector distribution of cash and “off balance sheet” credit exposure to customers (balance sheet value) - part 1

Exposure/Counterparty	Public administrations		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Cash exposure						
A.1 Non-performing loans	0	0	1,778	1,206	0	0
- of which: forbearance	0	0	0	0	0	0
A.2 Probable defaults	0	0	0	0	0	0
- of which: forbearance	0	0	0	0	0	0
A.3 Impaired overdue exposures	0	0	92	15	0	0
- of which: forbearance	0	0	0	0	0	0
A.4 In bonis exposures	609,514	618	177,003	126	11,619	95
- of which: forbearance	0	0	0	0	0	0
TOTAL A	**609,514**	**618**	**178,872**	**1,347**	**11,619**	**95**
B. "Off balance sheet" exposures						
B.1 Impaired exposures	0	0	0	0	0	0
B.2 In bonis exposures	990	0	11,561	0	20	0
TOTAL B	**990**	**0**	**11,561**	**0**	**20**	**0**
TOTAL (A+B) 31/12/2018	**610,504**	**618**	**190,433**	**1,347**	**11,640**	**95**
TOTAL (A+B) 31/12/2017	**404,260**	**4**	**106,529**	**609**	**13,645**	**27**

B.1 Sector distribution of cash and “off balance sheet” credit exposure to customers (balance sheet value) - part

Exposures/Counterparties	Non finance companies		Families		TOTAL	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Cash exposure						
A.1 Non-performing loans	51,616	84,487	36,809	23,986	90,203	109,679
- of which: forbearance	0	0	0	0	0	0

Exposures/Counterparties	Non finance companies		Families		TOTAL	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A.2 Probable defaults	55,480	51,134	40,793	10,871	96,273	62,005
- of which: forbearance	27,082	38,385	24,014	8,253	51,096	46,638
A.3 Impaired overdue exposures	1,402	301	2,969	412	4,462	728
- of which: forbearance	4	1	1	0	5	2
A.4 In bonis exposures	1,174,271	7,138	1,000,983	1,305	2,961,771	9,187
- of which: forbearance	25,190	857	28,798	136	53,988	993
TOTAL A	**1,282,769**	**143,060**	**1,081,554**	**36,573**	**3,152,709**	**181,599**
B. "Off balance sheet" exposures						
B.1 Impaired exposures	14,784	2,246	887	1	15,671	2,248
B.2 In bonis exposures	736,724	0	81,466	0	830,760	0
TOTAL B	**751,508**	**2,246**	**82,352**	**1**	**846,431**	**2,248**
TOTAL (A+B) 31/12/2018	**2,034,277**	**145,307**	**1,163,906**	**36,574**	**3,999,140**	**183,846**
TOTAL (A+B) 31/12/2017	**1,526,856**	**143,310**	**920,678**	**23,737**	**2,971,967**	**167,687**

Exposure/Geographical area	TOTAL	
	Net exposure	Overall value adjustments
A. Cash exposures		
A.1 Non-performing loans	90,203	109,679
A.2 Probable defaults	96,273	62,005
A.3 Impaired overdue exposures	4,462	728
A.4 in bonis exposures	2,961,771	9,187
TOTAL (A)	**3,152,709**	**181,599**
B. "Off balance sheet" exposures		
B.1 Impaired exposures	15,671	2,248
B.2 In bonis exposures	830,760	0
TOTAL (B)	**846,431**	**2,248**
TOTAL (A + B) 31/12/2018	**3,999,140**	**183,846**
TOTAL (A + B) 31/12/2017	**2,971,967**	**167,687**

The cash exposures shown in the table (3,152,709 thousand Euro) are those measured in the financial statements net of impaired receivables and with evidence of overall value adjustments. Specifically, the table shows all financial assets regarding customers taken from line items "20 - Financial assets measured at fair value with recognition of income effects through profit and loss", "30 - Financial assets measured at fair value with impact on total profits" and "40 Financial assets measured at amortized cost b) receivables from customers". Equity investments and shares in mutual funds, for a total of 53,746 thousand Euro, and bank securities for 77,806 thousand Euro are not included.

B.2 Territorial distribution of cash and "off balance sheet" exposure to customers (balance sheet value) - part 1

Exposure/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Cash exposures										
A.1 Non-performing loans	90,181	109,622	21	56	0	0	0	0	0	0
A.2 Probable defaults	96,273	62,005	0	0	0	0	0	0	0	0
A.3 Impaired overdue exposures	4,453	725	7	2	2	1	0	0	0	0
A.4 In bonis assets	2,953,335	9,175	7,685	13	394	0	195	0	162	0
TOTAL (A)	**3,144,242**	**181,527**	**7,714**	**71**	**396**	**1**	**195**	**0**	**162**	**0**
B. "Off balance sheet" exposures										
B.1 Impaired exposures	15,671	2,248	0	0	0	0	0	0	0	0
B.2 In bonis exposures	830,710	0	50	0	0	0	0	0	0	0

Exposure/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
TOTAL (B)	**846,381**	**2,248**	**50**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL (A + B) 31/12/2018	**3,990,623**	**183,774**	**7,764**	**71**	**396**	**1**	**195**	**0**	**162**	**0**
TOTAL (A + B) 31/12/2017	**2,953,267**	**167,143**	**5,373**	**516**	**12,935**	**27**	**223**	**0**	**168**	**0**

Exposure/Geographical areas	TOTAL	
	Net exposure	Overall value adjustments
A. Cash exposures		
A.1 Non-performing loans	90,203	109,679
A.2 Probable defaults	96,273	62,005
A.3 Impaired overdue exposures	4,462	728
A.4 In bonis assets	2,961,771	9,187
TOTAL (A)	**3,152,709**	**181,599**
B. "Off balance sheet" exposures		
B.1 Impaired exposures	15,671	2,248
B.2 In bonis exposures	830,760	0
TOTAL (B)	**846,431**	**2,248**
TOTAL (A + B) 31/12/2018	**3,999,140**	**183,846**
TOTAL (A + B) 31/12/2017	**2,971,967**	**167,687**

The cash exposures for receivables shown in the table (3,152,709 thousand Euro) are those measured in the financial statements net of impaired receivables and with evidence of overall value adjustments. Specifically, the table shows financial assets regarding customers taken from line items "20 - Financial assets measured at fair value with recognition of income effects through profit and loss", "30 - Financial assets measured at fair value with impact on total profits" and "40 Financial assets measured at amortized cost b) receivables from customers". Equity investments and shares in mutual funds, for a total of 53,746 thousand Euro, and bank securities for 77,806 thousand Euro are not included.

B.3 Territorial distribution of cash and "off balance sheet" exposure to banks (balance sheet value) - part 2

Exposure/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Cash exposures										
A.1 Non-performing loans	0	0	0	0	0	0	0	0	0	0
A.2 Probable defaults	0	0	0	0	0	0	0	0	0	0
A.3 Impaired overdue exposures	0	0	0	0	0	0	0	0	0	0
A.4 In bonis assets	278,184	577	46,949	23	62	0	75	0	0	0
TOTAL (A)	**278,184**	**577**	**46,949**	**23**	**62**	**0**	**75**	**0**	**0**	**0**
B. "Off balance sheet" exposures										
B.1 Impaired exposures	0	0	0	0	0	0	0	0	0	0
B.2 In bonis exposures	7,497	0	1,949	0	0	0	0	0	0	0
TOTAL (B)	**7,497**	**0**	**1,949**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL (A + B) 31/12/2018	**285,682**	**577**	**48,898**	**23**	**62**	**0**	**75**	**0**	**0**	**0**
TOTAL (A + B) 31/12/2017	**299,529**	**0**	**19,665**	**0**	**3,845**	**0**	**41**	**0**	**0**	**0**

Exposure/Geographical areas	TOTAL	
	Net exposure	Overall value adjustments
A. Cash exposures		
A.1 Non-performing loans	0	0
A.2 Probable defaults	0	0
A.3 Impaired overdue exposures	0	0
A.4 In bonis assets	325,269	601

Exposure/Geographical areas	TOTAL	
	Net exposure	Overall value adjustments
TOTAL (A)	**325,269**	**601**
B. "Off balance sheet" exposures		
B.1 Impaired exposures	0	0
B.2 In bonis exposures	9,446	0
TOTAL (B)	**9,446**	**0**
TOTAL (A + B) 31/12/2018	**334,715**	**601**
TOTAL (A + B) 31/12/2017	**323,081**	**0**

The cash exposures to banks shown in the table (325,269thousand Euro) are those measured in the financial statements net of impaired receivables. Specifically, the table shows financial assets regarding banks taken from line items "20 - Financial assets measured at fair value with recognition of income effects through profit and loss", "30 - Financial assets measured at fair value with impact on total profits" and "40 Financial assets measured at amortized cost b) receivables from banks". Equity investments and shares in mutual funds, for a total of 10,638 thousand Euro, and securities issued by non banking counterparties for 394,523 thousand Euro are not included. Data are distributed territorially based on the counterparty's country of residence.

B.4 Large risks (according to regulatory legislation)

Line items/Values	31/12/2018			31/12/2017		
	Number	Balance sheet value	Weighted value	Number	Balance sheet value	Weighted value
a. Large risks	12	1,597,841	335,436	8	826,385	106,630
b. Zero weighted risks	2	242,519	0	3	204,577	0
Total Large risks (A-B)	**10**	**1,355,322**	**335,436**	**5**	**621,808**	**106,630**

INFORMATION ON SELF-SECURITIZATION TRANSACTIONS– PONTORMO RMBS 2017

Since end of November 2017, Banca Cambiano has been involved as Originator, Servicer and Noteholder in the "Pontormo RMBS 2017" self-securitization transaction with the special purpose vehicle company Pontormo RMBS s.r.l. The exclusive corporate purpose of the latter, registered at n. 35038.9 in the list of securitization vehicles, is the realization of more various securitizations of receivables. The objectives of the Pontormo RMBS 2017 transactions (hereinafter "the Transaction"), the main characteristics of the issued Notes, a selection of quantitative information regarding the 2018 fiscal year and the description of the booking methods in the Bank balance sheet are illustrated below.

Objectives and structure of the Pontormo RMBS 2017 transactions

The Bank's objective, in initiating Transaction was to transform part of the assets used (mortgage loans) in an asset backed security type of note (Pontormo RMBS Class A) to be used in a series of activities aimed at further facilitating any needs for liquidity, and specifically

- Short/medium term liquidity through transactions with the Eurosystem;
- Medium term liquidity through Private REPOs (at 2-3 years);
- Refinancing transactions on the New Collateralized Interbank Market (New Mic);
- If the market opportunity arises, and consistently with the average weighted cost of the Bank's funding, the sale of the ABS on the market.

The Transaction was concluded obtaining an ABS instrument (with underlying loans issued by the Bank) with a high credit rating: in fact, on issue, the Note had a rating of AA for S&P and AA- for FITCH, higher than the Italian sovereign debt rating (which was, at the same moment, Baa2 for Moody's, BBB for S&P and BBB for Fitch)). Therefore, it was possible to transform part of the Bank's assets, which were otherwise not liquid (the real estate mortgage portfolio), into a financial instrument that is rated, transparent, held by the Central Bank and potentially tradable. This transactions stands out due to its "multi-originator" nature, in that it involves the participation of Banca di Pisa e Fornacette Credito Cooperativo ("Banca di Pisa e Fornacette") along with Banca Cambiano. Each Bank, by means of a sales contract stipulated on 14 November 2017, sold a portfolio of loans (each of which was separate and independent with respect to the other) consisting of receivables, in accordance with the Securitization Law, classified as *"in bonis"* in conformity with current supervisory regulations, and deriving from mortgage loans secured by voluntary mortgages on real property.

Below are some of the principal general criteria for eligibility of the loans:

- loans must be in Euro;
- Loans issued to physical persons residing in Italy who, in conformity with the classification criteria adopted by Bank of Italy with Circular. n 140 dated 11 February 1991 (as subsequently amended), fall under one of the following categories for sector of economic activity: n. 600 ("consumer families "); n, 614 ("artisans") or n. 615 ("producer families");
- Mortgage loans secured by voluntary mortgage on one or more real properties located on the Italian territory and with respect to which the real property on which the mortgage is secured (or, in case of one or more mortgages on more than one real property as guarantee for the same loan, the principal real property) is a residential property used as a dwelling;
- None of the borrowers is an employee, manager, statutory auditor or director of the Bank;
- None of the borrowers is a public administration or similar entity, nor a company that is directly or indirectly controlled by a public administration, nor a religious or ecclesiastic entity.

The above-mentioned banks acts as Servicer of their own portfolios transferred to the Vehicle Company. The SPV paid the selling banks the price of 428,519.593.37, as consideration for the purchase of the receivables, corresponding to the total of the individual purchase prices for the receivables, as specified below:

- Banca di Pisa e Fornacette: € 232,893,077.48;
- **Banca Cambiano: € 462,725,141.81.**

On 27 November 2017, in compliance with articles 1 and 5 of the Securitization Law, the SPV financed the purchase of the portfolio by issuing the classes of Notes specified below:

Senior – (Class "A" Notes)

- € 181,656,000 Class A1;
- **€ 360,925,000 Class A2**;

Junior – (Class "B" Notes)

- € 54,137,000 Class B1;
- **€ 107,562,000 Class B2**.

Subscriber	Isin	Class	Tranching Senior	Rating at issue	Rating at 31.12.2018	Nominal	Amount outstanding at 31.12.2018	Amount outstanding after repayment 25.01.2019
Banca di Pisa e Fornacette	IT0005315210	Class A1	78.00%	AA / AA-	AA / AA	181,656,000	139,576,992	137,212,679
Banca Cambiano	**IT0005315228**	**Class A2**	**78.00%**	**AA / AA-**	**AA / AA**	**360,925,000**	**287,983,249**	**283,235,919**
		Class A Notes	**78.00%**			**438,700,000**	**427,560,240**	**420,448,598**
Banca di Pisa e Fornacette	IT0005315236	Class B1				54,137,000	54,137,000	54,137,000
Banca Cambiano	**IT0005315244**	**Class B2**				**107,562,000**	**107,562,000**	**107,562,000**
		Class B Notes				**137,961,000**	**137,961,000**	**137,961,000**

Class "A" Notes were listed on the Irish Stock Exchange, while class "B" Notes were neither listed nor given a rating. On 23 October 2018. Fitch reviewed the rating of Class "A" notes upwards, from AA- (rating at issue) to AA, the highest possible rating for Italian structured finance transactions. Senior Notes generate interest at a Euribor-linked floating interest rate at 1 month (with a 0% floor) increased by a spread equal to 0.45%. Instead, Junior Notes, that do not have a coupon, receive flows other than capital that are due based on the order of priority for each period of reference. Interest and revenue on Notes are paid monthly on the 25th of each month.

The Notes subscribed by Banca Cambiano are Class A2 (senior) and Class B2 (junior) Notes with the following characteristics:

Class A2
Currency: Euro
Amount at issue: 360,925,000
Rate: Euribor 1M (floor at 0%) + spread 0.45%
Coupon: monthly
Legal Duration: May 2060
Redemption: amortization linked to recovery of underlying receivables
Rating at issue: "AA-" by Fitch and "AA" by S&P
Listing: Irish Stock Exchange
ISIN: IT0005315228
Applicable law: Italian law
Subscriber: Banca Cambiano

Class B2
Currency: Euro
Amount at issue: 107,562,000
Rate: N.A.
Coupon: monthly
Legal duration: May 2060
Redemption: amortization linked to recovery of underlying receivables
Rating: Unrated
Listing: Not listed on a stock exchange
ISIN: IT0005315244
Applicable law: Italian law
Subscriber: Banca Cambiano

The Notes are all managed in dematerialized form by Monte Titoli S.p.a.

The Junior Notes include:

- A cash reserve ("Cash Reserve Amount") equal to 1.50% of the par value of the Senior Note issued (€ 5,413,875 for Banca Cambiano).

Cash Reserve Amount (1.50% of the par value of the issued Senior Note)		
	% of total	€
Banca di Pisa e Fornacette Cash Reserve Amount	33.48%	2,724,840
Banca Cambiano Cash Reserve Amount	66.52%	5,413,875
Total Reserve	**100.00%**	**8,138,715**

- The amount required to fund the reserve for expenses (Retention Amount) which, at the time of issue, corresponded to a share of € 53,216 for Banca Cambiano out of a total amount of € 80,000.00 Euro.

Retention Amount (reserve for expenses at issue)		
	% of total	€
Banca di Pisa e Fornacette	33.48%	26,784
Banca Cambiano	66.52%	53,216
Total	**100.00%**	**80,000**

- The transaction structuring expenses (294,727.31 Euro for Banca Cambiano).

The cash reserve, which corresponds to 1.50% of the issued Senior Notes, is a guarantee for Senior Noteholders (who in this case are the same as the originators and therefore there is also an implicit guarantee in favor of Banca Cambiano, which holds the Class "A2" Notes). An amortization of the cash reserve is also provided for (based on the amount of funds available), which is gradually repaid to the respective bank based on the amortization of the respective Senior Notes, up to a set minimum level (0.8% of the issued nominal value of the Senior Notes). At the moment, it is not possible to use the cash reserve in any way and it is provided that such a reserve remain available to the vehicle in the form of cash, contributing to the amount of available funds, if necessary.

Cash Reserve Amount	Reserve at issue	Outstanding reserve at 31.12.2018	Outstanding reserve post repyament25.01.2019
Banca di Pisa e Fornacette Cash Reserve Amount	2,724,840	2,130,461	2,093,655
Banca Cambiano Cash Reserve Amount	5,413,875	4,377,193	4,319,749
Total Reserve	**8,138,715**	**6,507,655**	**6,413,404**

The Retention Amount is an expense fund available to the vehicle, used by the structure for the vehicle's management costs. At each monthly settlement, on the basis of the documented costs sustained, this expense account/fund is replenished until it is the equivalent of the pre-established total amount of 80,000.00 Euro, of which the € 53,216 mentioned above represent the share for which Banca Cambiano was responsible at the time of subscription. The Notes are repaid on the same date as the payment of interest, in accordance with recovery of the underlying receivables, available funds and the order of priority of payments (illustrated below). The *interest period* becomes effective starting from a payment date (inclusive) through the following payment date (exclusive) and interest is calculated on the basis of the actual number of days that have passed, divided by 360. The characteristics of the class "A" notes allow them to be used for loan transactions with the European Central Bank.

Selected qualitative information at 31/12/2018

A selection of some of the principal information of a quantitative nature regarding the operation in review is set forth below. The values, unless otherwise specified, are in Euro and refer to 31 December 2018.

Securitized assets

At the close of 2018 self-securitized assets were equivalent to their purchase price, net of the amounts received as at transfer date of 31 December 2018, and the amounts to be received for collections during the fiscal year but not yet transferred by the Servicers and increased by accrued interest due as at 31 December 2018.

	31/12/2018
Securitized receivables in bonis	573,485,779
Receivables for interest accrued but not yet received	19,407
Total	**573,505,186**

At 31/12/2018, no accounts were classified as "impaired", while those classified as "probable defaults" amounted to 502,413 Euro. Assets disposed of by Banca Cambiano had the following characteristics:

	31/12/2018
Residual capital	385,036,036
Number of loans	4,934
Average residual life (years)	15,99
Weighted average rate	1.99%
Average amount of the loan	78,037
Current LTV	0.64696

The table below indicates the outstanding securitized assets as at 31 December 2018, classified on the basis of their residual life.

	Total Portfolio		Banca Cambiano Portfolio	
	Balance at 31/12/2018	Impact %	Balance at 31/12/2018	Impact %
Up to 3 months	46,459	0,01%	27,261	0.01%
From 3 to 6 months	178,573	0,03%	137,279	0.04%
From 6 to 12 months	816,388	0,14%	588,554	0.15%
From 12 to 60 months	19,922,454	3,47%	14,132,142	3.67%
Over 60 months	552,521,906	96,34%	370,150,780	96.13%
Total	**573,485,780**	**100,00%**	**385,036,036**	**100.00%**

Finally, the table below shows the breakdown of the portfolio subdivided by category, as at 31 December 2018.

	Total Portfolio		Banca Cambiano Portfolio	
	Number of position	Balance at 31/12/2018	Number of positions	Balance at 31/12/2018
Up to 25,000	1,108	14,729,729	775	10,383,037
From 25,000 to 75,000	2,820	138,272,746	2,010	97,673,643
From 75,000 to 250,000	3,141	381,007,346	2,076	249,339,735
Over 250,000	106	39,475,959	73	27,639,621
Total	**7,175**	**573,485,780**	**4,934**	**385,036,036**

Use of available funds

Description	31/12/2018
Liquidity in BNY bank account n. 6983879780 (Expenses Acc.)	80,000
Liquidity in BNY bank account n. 6983899780 (Banca Cambiano Transitory CR Acc.)	0
Liquidity in BNY bank account n. 6983919780 (BCC Pisa e Fornacette Transitory CR Acc.)	0
Liquidity in BNY c/c n. 6983989780 (General Acc.)	7,382,391
Liquidity in BNY bank account n. 6983999780 (Banca Cambiano Cash Reserve Acc.)	4,377,193
Liquidity in BNY bank account n. 6984009780 (BCC Pisa e Fornacette Cash Reserve Acc.)	2,130,461
Liquidity in BNY c/c n. 6983929780 (Payment Acc.)	35
Liquidity in BNY c/c n. 6983939780 (Banca Cambiano Suspension Acc.)	55,057
Liquidity in BNY c/c n. 6983949780 (BCC Pisa e Fornacette Suspension Acc.)	0
Receivables from Servicers for collections to be received	633,076
Receivables for operation income	39,856
Accrued interest income on securitized receivables	1,174,121
Prepaid expenses	12,413
Total	**15,884,603**

Interest on issued notes (economic competence)

	31/12/2018
Interest expenses on Class A Notes	2.188.816
Interest expenses on Class B Notes	10.497.889

Fees and commissions charged to the transaction

During the 2018 fiscal year, fees and commissions charged to the transaction are composed of the line items detailed in the table below.

Description	31/12/2018
Servicing fees (Banca Pisa)	103,119
Servicing gees (Banca Cambiano)	**168,780**
Computation Agent fee	24,400
Sub Computation Agent fee	1,212
Listing Agent fee	181
Representative of the Noteholders fee	8,489
Account Bank, Cash Manager, Principal Paying Agent fees	10,500
Other	123,832
Total	**440,513**

The line item “Other” includes fees charged by the Bank of New York for negative cash flows, for 103,882 Euro.

Interest generated by securitized assets

As at 31 December 2018, the total portfolio of self-securitized mortgage loans generated the following interest amounts:

	31/12/2018
Interest on securitized receivables	13.078.646
Interest on early settlement	84.005
Other revenue	12.428
Total	**13.175.079**

E. Sales transactions

A. Financial assets sold but not fully derecognized

Qualitative and quantitative information

E.1 Sold financial assets recognized in full and connected financial liabilities: balance sheet value

Technical forms /Portfolio	Sold financial assets recognized in full				Connected financial liabilities		
	Balance sheet value	of which: subject of securitization transactions	of which: subject to sale contracts with agreement to repurchase	of which impaired	Balance sheet value	of which: subject of securitization transactions	of which: subject of sales contracts with agreement to repurchase
A. Financial assets held for trading				**X**			
1. Debt securities	39,947	0	39,947	X	0	0	0
2. Equity investments	0	0	0	X	0	0	0
3. Loans	0	0	0	X	0	0	0
4. Derivatives	0	0	0	X	0	0	0
B. Financial assets obligatorily measured at fair value							
1. Debt securities	0	0	0	0	0	0	0
2. Equity investments	0	0	0	X	0	0	0
3. Loans	0	0	0	0	0	0	0
C. Financial assets measured at fair value							
1. Debt securities	0	0	0	0	0	0	0
2. Loans	0	0	0	0	0	0	0
D. Financial assets measured at fair value with impact on total profits							
1. Debt securities	200,328	0	200,328	0	0	0	0
2. Equity investments	0	0	0	X	0	0	0
3. Loans	0	0	0	0	0	0	0
C. Financial assets measured at amortized cost							
1. Debt securities	104,424	0	104,424	0	0	0	0
2. Loans	0	0	0	0	0	0	0
Total at 31/12/2018	**344,699**	**0**	**344,699**	**0**	**0**	**0**	**0**
Total at 31/12/2017	**40,120**	**0**	**40,120**	**0**	**0**	**0**	**0**

E.3 Sales with liabilities that have recourse exclusively on the transferred assets and not fully derecognized: fair value

Technical forms/Portfolio	Recognized in full	Partially recognized	Total	
			31/12/2018	31/12/2017
A. Financial assets held for trading				
1. Debt securities	39,947	0	39,947	0
2. Equity investments	0	0	0	0
3. Loans	0	0	0	0
4. Derivatives	0	0	0	0
B. Financial assets obligatorily measured at fair value				
1. Debt securities	0	0	0	0
2. Capital securities	0	0	0	0
3. Loans	0	0	0	0
C. Financial assets measured at fair value				
1. Debt securities	0	0	0	0
2. Loans	0	0	0	0

Technical forms/Portfolio	Recognized in full	Partially recognized	Total	
			31/12/2018	31/12/2017
D. Financial assets measured at fair value with impact on total profits				
1. Debt securities	200,328	0	200,328	40,120
2. Equity investments	0	0	0	0
3. Loans	0	0	0	0
C. Financial assets measured at amortized cost (fair value)				
1. Debt securities	104,424	0	104,424	0
2. Loans	0	0	0	0
Total financial assets	**344,699**	**0**	**344,699**	**40,120**
Total connected financial liabilities	**337,316**	**0**	**X**	**X**
Net value at 31/12/2018	**7,384**	**0**	**7,384**	**X**
Net value at 31/12/2017	**0**	**0**	**X**	**184**

As regards receivables from customers and payables to customers, the "fair value" used in the table is equivalent to the amortized cost.

Section 2 – Market risk

2.1 Interest rate risk and price risk – regulatory trading portfolio
Qualitative information

A. General information

The primary activity of the Bank is trading financial instruments exposed to interest rate risk.

The strategy underlying its trading activity corresponds both to treasury needs and to the objective of enhancing the risk/yield profile of portfolio investments in terms of the interest rate risk and the counterparty's credit risk.

Trading regards exclusively operations involving bonds.

B. Management procedures and measurement methods for interest rate risk and price risk

The Finance Area Regulations establish both operating limits (both in terms of portfolio value as well as the breakdown by type of security) and limits for exposure to interest rate risk (in terms of financial duration).

Quantitative information

2.1.1 Regulatory trading portfolio: distribution by residual duration (re-pricing date) of cash financial assets and liabilities and financial derivatives - All currencies

Type/Residual duration	On demand	Up to 3 months	Beyond 3 months through 6 months	Beyond 6 months through 1 year	Beyond 1 year through 5 years	Beyond 5 years through 10 years	Beyond 10 years	Indefinite duration	Total
1. Cash assets									
1.1 Debt securities									
- with early repayment option	0	0	0	0	0	0	0	0	**0**
- other	0	6,254	12,145	54,517	5,395	0	0	0	**78,311**
1.2 Other assets	0	0	0	0	0	0	0	0	**0**
2. Cash liabilities									
2.1 Repurchase agreements on debt	0	0	0	0	0	0	0	0	**0**
2.2 Other liabilities	0	0	0	0	0	0	0	0	**0**
3. Financial derivatives									
3.1 with underlying security									
- options									
+ long-term positions	0	0	0	0	0	0	0	0	**0**
+ short-term positions	0	0	0	0	0	0	0	0	**0**
- Other derivatives									
+ long-term positions	0	0	0	0	0	0	0	0	**0**
+ short-term positions	0	0	0	0	0	0	0	0	**0**

Type/Residual duration	On demand	Up to 3 months	Beyond 3 months through 6 months	Beyond 6 months through 1 year	Beyond 1 year through 5 years	Beyond 5 years through 10 years	Beyond 10 years	Indefinite duration	Total
3.2 Without underlying security									
- Options									
+ long-term positions	0	0	0	0	0	0	0	0	**0**
+ short-term positions	0	0	0	0	0	0	0	0	**0**
- Other derivatives									
+ long-term positions	0	0	0	0	0	105	0	0	**105**
+ short-term positions	0	0	0	0	0	105	0	0	**105**

2.2 Interest rate risk and price risk – bank portfolio

Qualitative information

Interest rate risk is created by an imbalance between the due dates (re-pricing) of asset and liability items belonging to the bank portfolio. This latter is composed of all the financial instruments, assets and liabilities, not included in the trading portfolio in accordance with current regulatory provisions.
General Management is responsible for setting forth the guidelines for banking book management, in compliance with the strategic policies defined by the Board of Directors, and monitoring banking book management trends.
The Risk Management office proposes possible banking book interest rate risk management and mitigation measures to General Management.
Interest rate risk mitigation is pursued by means of integrated management of bank assets and liabilities and is aimed at stabilizing interest income and safeguarding the economic value of the bank portfolio.
In particular, management of the securities portfolio is based principally on maintaining the Banks liquidity reserves.
The main sources of interest rate risk consist in fixed rate items. Assets are principally represented by securities in the AFS sector (BTP) and mortgage loans.
The interest rate risk inherent in the bank portfolio is monitored by the Bank on a quarterly basis.

Quantitative information

1 Bank portfolio: distribution by residual duration (by re-pricing date) of financial assets and liabilities – All currencies

Type/Residual duration	On demand	Up to 3 months	Beyond 3 months through 6 months	Beyond 6 months through 1 year	Beyond 1 year through 5 years	Beyond 5 years through 10 years	Beyond 10 years	Indefinite duration	Total
1. Cash assets									
1.1 Debt securities									
- with early repayment option	0	0	0	0	0	0	0	0	**0**
- other	0	7,175	77,843	124,633	385,193	13,134	13,392	0	**621,369**
1.2 Loans to banks	153,062	95,003	0	0	0	0	0	0	**248,065**
1.3 Loans to customers									
- c/c	1,021,839	9,919	12,957	9,177	25,119	51	0	0	**1,079,061**
- Other loans									
- with early repayment option	32,723	115,899	19,540	27	0	0	0	0	**168,189**
- other	600,670	202,648	91,874	76,870	186,465	53,071	71,382	0	**1,282,982**
2. Cash liabilities									
2.1 Payables to customers									
- c/c	1,980,206	19,803	27,166	41,161	227,042	0	0	0	**2,295,379**
- other liabilities									
- with early repayment option	0	0	0	0	0	0	0	0	**0**
- other	55,935	126,891	91,226	34,720	44,868	0	0	0	**353,640**

Type/Residual duration	On demand	Up to 3 months	Beyond 3 months through 6 months	Beyond 6 months through 1 year	Beyond 1 year through 5 years	Beyond 5 years through 10 years	Beyond 10 years	Indefinite duration	Total
2.2 Payables to banks									
- c/c	89,653	0	0	0	0	0	0	0	**89,653**
- other liabilities	0	45,272	0	0	474,130	0	0	0	**519,402**
2.3 Debt Securities									
- with early repayment option	0	0	0	0	0	0	0	0	**0**
- other	498	10,170	33,352	30,739	52,481	64,289	0	0	**191,529**
2.4 Other liabilities									
- with early repayment option	0	0	0	0	0	0	0	0	**0**
- other	0	0	0	0	0	0	0	0	**0**
3. Financial derivatives									
3.1 With underlying security									
- Options									
+ long-term positions	0	0	0	0	0	0	0	0	**0**
+ short-term positions	0	0	0	0	0	0	0	0	**0**
- Other derivatives									
+ long-term positions	0	0	0	0	0	0	0	0	**0**
+ short-term positions	0	0	0	0	0	0	0	0	**0**
3.2 Without underlying security									
- Options									
+ long-term positions	0	0	0	0	0	0	0	0	**0**
+ short-term positions	0	0	0	0	0	0	0	0	**0**
- Other derivatives									
+ long-term positions	0	0	20,000	0	5,000	0	0	0	**25,000**
+ short-term positions	0	7,385	5,694	0	20,000	0	0	0	**33,079**
4. Other off balance sheet transactions									
+ long-term positions	6,326	1,379	1,611	3,709	10,523	0	1,034	0	**24,582**
+ short-term positions	24,582	0	0	0	0	0	0	0	**24,582**

Note: Long-term positions and short-term positions in “other derivatives” at point 3.2 are expressed in notional values.

2.3 Exchange rate risk

Qualitative information

A. General information, management procedures and methods to measure the exchange rate risk

The exchange rate risk represents the risk of suffering losses on operations in foreign currency, due to the effect of negative variations to foreign currencies.

This type of transaction constitutes a profit component; the Bank’s policy is to continuously maintain a foreign currency position that is substantially neutral, in order to minimize the exchange rate risk. The Bank is marginally exposed to the exchange rate risk due to assets used to serve customers.

Exposure to exchange rate risk is measured using a methodology that faithfully follows what is provided by the Supervisory Regulations.

Measurement is based on the calculation of the “net position in foreign exchanges”, i.e. the balance of all assets and liabilities (in financial statements and “off balance sheet”) related to each foreign currency, including operations in Euro indexed to the exchange rate trend of foreign currency.

The organizational structure provides that the management of the exchange rate risk is delegated to the Foreign Office for assets used to service customers and to the Securities Treasury Office for financial instruments, whereas the measurement of exposure is attributed to the Risk Management Office based on the data provided by the Management Control Office.

B. Hedging of exchange rate risk

Considering the very limited exposure to exchange rate risk, no particular hedging operations have been implemented. In fact, cash exposures and foreign exchange transactions and forward foreign exchange transactions with customers are balanced by opposite transactions with banks.
Furthermore, limits are set by corporate regulations on unmatched foreign currency positions.

Quantitative information

2.3.1 Distribution by denominated currency of assets, liabilities and derivatives

1 Distribution by denominated currency of assets, liabilities and derivatives

Line items	Currency					
	USA dollars	British pound sterling	Japanese yen	Canadian dollar	Swiss franc	Other currencies
A. Financial assets						
A.1 Debt Securities	0	0	0	0	0	0
A.2 Equity investments	0	0	0	0	0	0
A.3 Loans to banks	11,982	423	21	21	59	94
A.4 Loans to customers	46,450	0	0	0	0	0
A.5 Other financial assets	0	0	0	0	0	0
B. Other assets	**201**	**23**	**156**	**26**	**24**	**110**
C. Financial liabilities						
C.1 Payables to banks	44,864	0	37	159	0	14
C.2 Payables to customers	14,046	455	140	0	81	95
C.3 Debt securities	0	0	0	0	0	0
C.4 Other financial liabilities	0	0	0	0	0	0
D. Other liabilities	**0**	**0**	**0**	**0**	**0**	**0**
E. Financial derivatives						
- Options						
+ Long-term positions	0	0	0	0	0	109
+ Short-term positions	0	0	0	0	0	0
- Other derivatives						
+ Long-term positions	4,028	0	0	0	0	0
+ Short-term positions	4,052	0	0	0	0	0
Total assets	**62,661**	**446**	**177**	**47**	**83**	**313**
Total liabilities	**62,962**	**455**	**177**	**159**	**81**	**109**
Imbalance (+/-)	**-301**	**-9**	**0**	**-112**	**2**	**203**

Section 3 - Derivative instruments and hedging policies

3.1 Derivative trading instruments
A. Financial derivatives

A.1 Trading derivatives: notional end period values

Underlying assets / Type of derivative	Total at 31/12/2018				Total at 31/12/2017			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	without central counterparties			Central counterparties	without central counterparties		
		with netting agreements	Without netting agreements			with netting agreements	without netting agreements	
1. Debt securities and interest rates								
a) Options		40,000	0	0	0	40,000	0	0
b) Swap	0	0	0	0	0	0	0	0
c) Forward	0	0	0	0	0	0	0	0
d) Futures	0	0	0	0	0	0	0	0
e) Other	0	0	0	0	0	0	0	0
2. Equity instruments and equity indexes								
a) Options	0	0	0	0	0	0	0	0
b) Swap	0	0	0	0	0	0	0	0
c) Forward	0	0	0	0	0	0	0	0

Underlying assets / Type of derivative	Total at 31/12/2018				Total at 31/12/2017			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	without central counterparties			Central counterparties	without central counterparties		
		with netting agreements	Without netting agreements			with netting agreements	without netting agreements	
d) Futures	0	0	0	0	0	0	0	0
e) Other	0	0	0	0	0	0	0	0
3. Foreign currencies and gold								
a) Options	0	0	0	0	0	0	0	0
b) Swap	0	0	0	0	0	0	0	0
c) Forward	0	0	8,079	0	0	0	0	0
d) Futures	0	0	0	0	0	0	0	0
e) Other	0	0	0	0	0	0	0	0
4. Goods	0	0	0	0	0	0	0	0
5. Other underlying assets	0	0	0	0	0	0	0	0
Total	**0**	**40,000**	**8,079**	**0**	**0**	**40,000**	**0**	**0**
Average values	**0**	**40,000**	**4,040**	**0**	**0**	**40,000**	**0**	**0**

A.2 Trading derivatives: positive and negative gross fair value – subdivided by product

Underlying assets/Type of derivative	Total at 31/12/2018				Total at 31/12/2017			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	without central counterparties			Central counterparties	without central counterparties		
		with netting agreements	Without netting agreements			with netting agreements	without netting agreements	
1. Positive fair value								
a) Options	0	0	0	0	0	0	0	0
b) Interest rate swap	0	105		0	0	246		0
c) Cross currency swap	0	0	0	0	0	0	0	0
d) Equity swap	0	0	0	0	0	0	0	0
e) Forward	0	0	53	0	0	0	86	0
f) Futures	0	0	0	0	0	0	0	0
g) Other	0	0	0	0	0	0	0	0
Total	**0**	**105**	**53**	**0**	**0**	**246**	**86**	**0**
2. Negative fair value								
a) Options	0	0	0	0	0	0	0	0
b) Interest rate swap	0	0	0	0	0	0	0	0
c) Cross currency swap	0	0	0	0	0	0	0	0
d) Equity swap	0	0	0	0	0	0	0	0
e) Forward	0	0	46	0	0	0	80	0
f) Futures	0	0	0	0	0	0	0	0
g) Other	0	0	0	0	0	0	0	0
Total	**0**	**0**	**46**	**0**	**0**	**0**	**80**	**0**

A.3 Over the counter trading derivatives: notional values, positive and negative gross fair value, by counterparty

Underlying assets	Central counterparties	Banks	Other finance companies	Other parties
Contracts that are not part of netting agreements				
1) Debt securities and interest rates				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
2) Equity instruments and equity indexes				
- notional value	0	0	0	0

Underlying assets	Central counterparties	Banks	Other finance companies	Other parties
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
3) Foreign currencies and gold				
- notional value	0	4,026	0	4,053
- positive fair value	0	49	0	4
- negative fair value	0	2	0	45
4) Goods				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
5) Other				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
Contracts a part of netting agreements				
1) Debt securities and interest rates				
- notional value	0	40,000	0	0
- positive fair value	0	105	0	0
- negative fair value	0	0	0	0
2) Equity instruments and equity indexes				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
3) Foreign currencies and gold				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
4) Goods				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
5) Other				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0

A.4 Residual life of over the counter trading derivatives: notional values

Underlying assets/Residual life	Up to 1 year	Beyond 1 year and up to 5 years	Beyond 5 years	Total at 31/12/2018
A.1 Financial derivatives on debt securities and interest rates	0	0	40,000	**40,000**
A.2 Financial derivatives on equity instruments and equity indexes	0	0	0	**0**
A.3 Financial derivatives on exchange rates and gold	8,079	0	0	**8,079**
A.4 Financial derivatives on goods	0	0	0	**0**
A.5 other financial derivatives	0	0	0	**0**
Total at 31/12/2018	**8,079**	**0**	**40,000**	**48,079**
Total at 31/12/2017	**11,777**	**0**	**40,000**	**51,777**

3.2 Recognized hedges

Qualitative information

On first time application of the IFRS9 accounting principle, Banca Cambiano exercised the option provided for by the principle to continue to fully apply the regulations of IAS 39 to all types of hedges.

Therefore, the provisions of IFRS 9 regarding hedges are not applied.

A. Hedging of fair value

The Bank's hedging activity is aimed at protecting the bank portfolio from variations of fair value on deposits and lending caused by fluctuations of the interest rate curve (interest rate risk). The Bank adopts specific hedges (micro fair value hedge) and has no generic hedges (macro fair value hedge). The micro fair value hedges include two hedging operations for bond issues and securities.

The type of derivative used is plain interest rate swaps (IRS) with third parties.

The derivatives are not listed on regulated markets, but traded on the over-the-counter circuit.

B. Hedging of cash flows.

The Bank has no current operations for hedging of cash flows.

C. Hedging of foreign investments

The Bank has no current operations for hedging of foreign investments.

D. Hedging instruments

In order for a transaction to be recognized as a "hedge", it is necessary that the following conditions be satisfied: a) the hedge relationship must be formally documented; b) the hedge must be effective from the time it initiates and prospectively for its entire duration. Effectiveness is controlled by means of specific instruments and is considered to exist when variations of fair value of the hedged financial instrument almost entirely sterilize the variations of risk of the hedged instrument. A hedge is considered to be highly effective between a range of 80% through 125%. An effectiveness test is conducted at each close of the financial statements or at the time of any six-month interim financial statements. If the effectiveness test indicates an insufficient hedge and the misalignment is considered not to be temporary, the hedged instrument is allocated to the trading portfolio. Hedges are measured according to the principle of "negotiation date".

Hedge instruments (two IRS) are measured at fair value.

The fair value of hedges listed in active markets is taken from the quotations at the close of the markets (fair value hierarchy - level 1), whereas instruments not listed in an active market (over the counter) are measured discounting future cash flows on the basis of the yield curve (fair value hierarchy - level 3). Since they are unlisted, the latter method is used to measure the fair value of all of the Bank's hedges. The hedged accounts are also measured at fair value, limited to variations of value produced by the risks that are the object of the hedge, thus "sterilizing" the risk components that are not directly related to such hedge.

E. Hedged assets

The two types of hedged assets are:

– asset securities;

– bond issues.

E.1 Asset securities

This is a micro fair value hedge type of operation that uses an interest rate swap (IRS) as a hedging instrument for Treasury bonds with maturity at 15/04/2022 and ISIN code IT0005086886. The interest rate risk i hedged for the entire duration of the security.

The derivative entails that the Bank receives, six-monthly and on the notional value of € 20,000,000 Euribor 6M+0.47% against payment of a fixed 1.35% interest rate.

E.2 Bond issue

This is a micro fair value hedge type of operations that uses an interest rate swap (IRS) as a hedging instrument. The interest rate risk is covered for the duration of the bond.

The derivative entails that the Bank pays, six-monthly and on the notional value of € 5.000000, Euribor 6M+1.05% to receive, on maturity, 50% of the cash flow relative to the Asian call option on a basket of four equity bonds. The derivate covers the bond issued by the Bank with ISIN code IT0005138232.

Quantitative information

A. Hedges of fair value

A.1 Hedging financial derivatives: notional and end of period values

Underlying assets / Type of derivative	Total at 31/12/2018				Total at 31/12/2017			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	without central counterparties			Central counterparties	without central counterparties		
		with netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rate								
a) Options	0	0	0	0	0	0	0	0
b) Swap	0	25,000	0	0	0	25,000	0	0
c) Forward	0	0	0	0	0	0	0	0
d) Futures	0	0	0	0	0	0	0	0
e) Other	0	0	0	0	0	0	0	0
2. Equity investments and equity indexes								
a) Options	0	0	0	0	0	0	0	0
b) Swap	0	0	0	0	0	0	0	0
c) Forward	0	0	0	0	0	0	0	0
d) Futures	0	0	0	0	0	0	0	0
e) Other	0	0	0	0	0	0	0	0
3. Foreign currencies and gold								
a) Options	0	0	0	0	0	0	0	0
b) Swap	0	0	0	0	0	0	0	0
c) Forward	0	0	0	0	0	0	0	0
d) Futures	0	0	0	0	0	0	0	0
e) Other	0	0	0	0	0	0	0	0
4. Goods	0	0	0	0	0	0	0	0
5. Other	0	0	0	0	0	0	0	0
Total	**0**	**25,000**	**0**	**0**	**0**	**25,000**	**0**	**0**

A.2 Hedging financial derivatives: positive and negative gross fair value – subdivision by product

Underlying assets / Type of derivative	Total at 31/12/2018				Total at 31/12/2017			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	without central counterparties			Central counterparties	without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	0	0	0	0	0	0	0	0
b) Interest rate swap	0	0	0	0	0	0	0	0
c) Cross currency swap	0	0	0	0	0	0	0	0
d) Equity swap	0	0	0	0	0	0	0	0
e) Forward	0	0	0	0	0	0	0	0
f) Futures	0	0	0	0	0	0	0	0
g) Other	0	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
2. Negative fair value								
a) Options	0	0	0	0	0	0	0	0
b) Interest rate swap	0	735	0	0	0	769	0	0
c) Cross currency swap	0	0	0	0	0	0	0	0

Underlying assets / Type of derivative	Total at 31/12/2018				Total at 31/12/2017			
	Over the counter			Organized markets	Over the counter			Organized markets
	Central counterparties	without central counterparties			Central counterparties	without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
d) Equity swap	0	0	0	0	0	0	0	0
e) Forward	0	0	0	0	0	0	0	0
f) Futures	0	0	0	0	0	0	0	0
g) Other	0	0	0	0	0	0	0	0
Total	**0**	**735**	**0**	**0**	**0**	**769**	**0**	**0**

A.3 OTC hedging financial derivatives: notional values, gross positive and negative fair value by counterparty

Contracts that are not a part of netting agreements	Central counterparties	Banks	Other finance companies	Other counterparties
Contracts that are not a part of netting agreements				
1) Debt securities and interest rates				
- notional value	0	25,000	0	0
- positive fair value	0	0	0	0
- negative fair value	0	735	0	0
2) Equity instruments and equity indexes				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
3) Foreign currencies and gold				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
4) Goods				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
5) Other				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
Contracts that are a part of netting agreements				
1) Debt securities and interest rates				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
2) Equity instruments and equity indexes				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
3) Foreign currencies and gold				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
4) Goods				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0
5) Other				
- notional value	0	0	0	0
- positive fair value	0	0	0	0
- negative fair value	0	0	0	0

A.4 Residual life of OTC hedging financial derivatives: notional values

Underlying asset/Residual life	Up to 1 year	Beyond 1 year and up to 5 years	Beyond 5 years	Total at 31/12/2018
A.1 Financial derivatives on debt securities and interest rates	0	25,000	0	**25,000**
A.2 Financial derivatives on equity instruments and equity indexes	0	0	0	**0**
A.3 Financial derivatives on exchange rates and gold	0	0	0	**0**
A.4 Financial derivatives on other values	0	0	0	**0**
Total at 31/12/2018	**0**	**25,000**	**0**	**25,000**
Total at 31/12/2017	**0**	**25,000**	**0**	**25,000**

3.3 Other information on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

Contracts that are not a part of netting agreements	Central counterparties	Banks	Other finance companies	Other counterparties
A. Financial derivatives				
1) Debt securities and interest rate				
- notional value	0	65,000	0	0
- net positive fair value	0	0	0	0
- net negative fair value	0	629	0	0
2) Equity instruments and equity indexes				
- notional value	0	0	0	0
- net positive fair value	0	0	0	0
- net negative fair value	0	0	0	0
3) Foreign currencies and gold				
- notional value	0	4,026	0	4,053
- net positive fair value	0	49	0	4
- net negative fair value	0	2	0	45
4) Goods				
- notional value	0	0	0	0
- net positive fair value	0	0	0	0
- net negative fair value	0	0	0	0
5) Other				
- notional value	0	0	0	0
- net positive fair value	0	0	0	0
- net negative fair value	0	0	0	0
B. Credit derivatives				
1) Purchase hedging				
- notional value	0	0	0	0
- net positive fair value	0	0	0	0
- net negative fair value	0	0	0	0
2) Sale hedging				
- notional value	0	0	0	0
- net positive fair value	0	0	0	0
- net negative fair value	0	0	0	0

Section 4 – Liquidity risk

Qualitative information

A. General information, management procedures and methods to measure liquidity risk

Liquidity risk is managed principally by the Treasury and Own Portfolio Office, the Management Control Office and Risk Management, with the aim of verifying the Bank's capacity to efficiently face liquidity requirements and avoid situations of excessive and/or insufficient liquidity, with the consequent need to invest and/or find funds at unfavorable rates with respect to market rates.
The overall model implemented by the Bank to manage and monitor liquidity risk is divided into three separate sectors, according to the perimeter of reference, the time span and the frequency analysis:

- management of intraday liquidity, that is management of daily adjustment of liabilities and receivables on various settlement, payment and compensations systems in which the Bank participates;
- management of operating funds, that is the management of decidedly unstable events that impact the Bank's liquidity standing, principally with the objective of maintaining the Bank's capacity to meet ordinary and extraordinary payment obligations, in a cost-effective manner;
- management of structural liquidity, that is, management of all the bank portfolio events that impact the Bank's overall liquidity position on the medium-term, aiming primarily to maintain an appropriate balance between assets and liabilities on the medium and long-term.

Significant support for liquidity risk management is provided by the monitoring activities carried out by the Risk Management Office, based on a management model that measures the effect of investment/financing operations based on the distribution by transaction expiry. Operations are measured using Asset and Liability Management methods, which allow evaluating and assessing both Bank cash flow requirements/surplus generated by unbalances between cash inflow and cash outflow, and the structural balance deriving from the correct composition by maturity of cash sources and lending.
In line with domestic and International best practices and in compliance with vigilance provisions, the model adopted by the Bank to manage operating liquidity is based on the "Maturity Mismatch" approach, which presupposes the construction of a "maturity ladder" (a timeframe of maturity dates) and the allocation of sure and estimated flows over the various periods of the ladder, in order to calculate the cumulative gap for each maturity bracket.
Within the scope of its liquidity policy and in accordance with the tolerance threshold decided by the Board of Directors, the Bank has defined a series of alerts to manage both operating liquidity and structural liquidity.
As regards operating liquidity management, the limits are defined in terms of the absolute cumulative gap values on the various maturities.
The Bank continuously monitors the Counterbalancing Capacity (CBC) value, intended as the availability of assets that may be reimbursed, sold or used in refinancing transactions with the interbanking system and that therefore allow generating cash funds rapidly and efficiently.
The limit adopted by the Bank to monitor structural liquidity is instead defined in terms of the ratio between liabilities and assets with maturities in excess of one year. The aim of using this limit is that of guaranteeing a structural liquidity profile that is consistent with the strategy of financing medium/long-term assets with liabilities that have the same duration.
The Bank has also prepared and implemented a "Liquidity Risk Management and Governance Manual" and a "Contingency Liquidity Plan", which are instruments used to mitigate liquidity risks.
The document details the persons and structures responsible for implementing extraordinary funding policies, as required, as well as any actions to be taken to remedy the extraordinary event situation, in compliance with the regulatory requirements provided for by vigilance regulations.
In the Contingency Liquidity Plan, the Bank has defined a series of risk indicators that are constantly monitored in order to anticipate possible stress or liquidity crisis situations.
The Bank has further implemented the Liquidity Coverage Ratio (LCR) indicator, in accordance with Commission Delegated Regulation (EU) n. 575 dated 26 June 2013 of the European Parliament (CRR Regulations), as well as the additional indications and recommendations of the European Banking Authority on this subject.
As regards the Net Stable Funding Ratio (NSFR), the Bank has implemented a management-type measurement, according to the provisions of the Basel 3 Framework.
During 2017, the Bank extinguished the old "Pontormo RMBS 2012" self-securitization transaction and set up a new self-securitization transactions called "Pontormo RMBS 2017". This transaction was perfected with the intent of obtaining securities that could be lodged with the European Central Bank for refinancing operations. The operation was finalized with the sale of a portfolio of performing real estate mortgage loans by the Bank, and undersigning by the same Bank of the Senior and Junior Notes issued by the special purpose vehicle.
For the sake of completeness of the information provided, the details of the transaction are set forth in the respective section.

Quantitative information

A.1 Time period distribution by residual contract life of financial assets and liabilities - All currencies

Line items/Time brackets	On demand	Beyond 1 day through 7 days	Beyond 7 days through 15 days	Beyond 15 days through 1 month	Beyond 1 month up to 3 months	Beyond 3 months through 6 months	Beyond 6 months through 1 year	Beyond 1 year through 5 years	Beyond 5 years	Indefinite duration	Totals
Cash assets											
A.1 Government bonds	0	0	0	0	0	39,966	151,355	365,526	51,072	0	607,919
A.2 Other debt securities	0	0	0	1,147	12,281	10,203	14,617	52,272	1,242	0	91,761

Line items/Time brackets	On demand	Beyond 1 day through 7 days	Beyond 7 days through 15 days	Beyond 15 days through 1 month	Beyond 1 month up to 3 months	Beyond 3 months through 6 months	Beyond 6 months through 1 year	Beyond 1 year through 5 years	Beyond 5 years	Indefinite duration	Totals
A.3 Shares of mutual funds	43,737	0	0	0	0	0	0	0	0	0	43,737
A.4 Loans	619,076	14,476	20,836	30,285	183,730	124,441	138,480	797,199	872,434	116,967	2,917,925
- Banks	86,210	0	0	352	32,000	5,500	14,000	15,000	0	95,771	248,833
- Customers	532,866	14,476	20,836	29,932	151,730	118,941	124,480	782,199	872,434	21,196	2,669,091
Cash liabilities											
B.1 Deposits and bank accounts	2,079,395	188	20,867	26,400	17,428	27,104	41,104	226,478	0	0	2,438,964
- Banks	89,658	0	20,000	25,159	0	0	0	0	0	0	134,817
- Customers	1,989,737	188	867	1,241	17,428	27,104	41,104	226,478	0	0	2,304,147
B.2 Debt securities	520	0	0	100	9,730	27,914	30,339	58,620	63,556	0	190,779
B.3 Other liabilities	626	0	0	57,570	95,953	91,419	49,605	523,937	0	0	819,110
"Off balance sheet" transactions											
C.1 Financial derivatives with an exchange of principal	0	0	1	0	4	1	0	0	0	0	6
- Long-term positions	0	0	193	351	6,798	695	0	0	0	0	8,037
- Short-term positions	0	0	193	350	6,794	694	0	0	0	0	8,031
C.2 Financial derivatives without an exchange of principal	0	0	0	0	0	-134	-134	-612	0	0	-880
- Long-term positions	0	0	0	0	0	0	0	0	0	0	0
- Short-term positions	0	0	0	0	0	134	134	612	0	0	880
C.3 Deposits and loans to be received	0	0	0	0	0	0	0	0	0	0	0
- Long-term positions	0	0	0	0	0	0	0	0	0	0	0
- Short-term positions	0	0	0	0	0	0	0	0	0	0	0
C.4 Irrevocable commitments to issue funds	-2	0	0	0	0	-15	-4	0	0	0	-21
- Long-term positions	620	0	0	88	8	618	1,050	8,195	13,981	0	24,561
- Short-term positions	622	0	0	88	8	633	1,054	8,195	13,981	0	24,582
C.5 Financial guarantees issued	3	0	0	11	139	741	2,626	29,398	31,547	0	64,465
C.6 Financial guarantees received	0	0	0	0	0	0	0	0	0	0	0
C.7 Credit derivatives with exchange of principal	0	0	0	0	0	0	0	0	0	0	0
- Long-term positions	0	0	0	0	0	0	0	0	0	0	0
- Short-term positions	0	0	0	0	0	0	0	0	0	0	0
C.8 Credit derivatives without exchange of principal	0	0	0	0	0	0	0	0	0	0	0
- Long-term positions	0	0	0	0	0	0	0	0	0	0	0
- Short-term positions	0	0	0	0	0	0	0	0	0	0	0

List of guarantees – Situation with Eurosystem as at 31/12/2018

Isin	Security	Par value	Balance sheet value	ECB Assessment	ECB Differences	Specifics
IT0004009673	BTP 1/08/2021 3.75%	5,500	5,901	5,511	-391	HTC
IT0004594930	BTP 01/09/2020 4%	4,000	4,217	3,959	-258	HTC
IT0004634132	BTP 2010-2021 3.75%	5,000	5,303	4,980	-323	HTC
IT0004695075	BTP 2011-2021 4.75%	3,730	4,125	3,831	-293	HTC
IT0004759673	BTP 01.03.2022 5%	300	330	307	-23	HTC
IT0004801541	BTP 1.09.2022 5.50%	2,300	2,606	2,415	-191	HTC
IT0004966401	BTP 01.05.2021 3.75	9,000	9,524	8,953	-571	HTC
IT0005094088	BTP 01.03.2032 1.65	12,500	13,407	9,450	-3,957	HTC

Isin	Security	Par value	Balance sheet value	ECB Assessment	ECB Differences	Specifics
IT0005107708	BTP 1.05.2020 0.70	5,000	4,970	4,670	-300	HTC
IT0005135840	BTP 15.09.2022 1.45	1,056	1,036	963	-73	HTC
IT0005170839	BTP 01.06.2026 1.6%	4,200	4,216	3,543	-673	HTC
IT0005210650	BTP 01.12.2026 1.25%	3,500	3,407	2,861	-546	HTC
IT0005215246	BTP 15.10.2023 0.65	15,000	14,907	12,999	-1,908	HTC
IT0005323032	BTP 01.02.2028 2%	5,000	4,923	4,249	-674	HTC
XS1044894944	BANCO POPOLARE 14-19 3.5	5,200	5,376	4,666	-710	HTCS
IT0005144677	BANCO POPOLARE 15-20 TV	11,849	11,405	8,834	-2,571	HTCS
IT0005158677	BANCO BPM 15-21 TV	5,125	4,923	3,811	-1,112	HTCS
IT0005028003	BTP 15.12.2021 2.15%	7,000	7,241	6,720	-521	HTCS
IT0005175598	BTP 01.06.2021 0.45%	2,000	1,988	1,846	-142	HTCS
IT0005331878	CCTS EU 15.09.2025 TV	8,000	7,200	6,677	-523	HTCS
XS1024830819	BP MILANO 14-19 4.25	1,100	1,149	996	-153	Trading
0	COLLATERALIZED RECEIVABLES C/O EUROSYSTEM	187,229	187,229	74,892	-112,337	HTC
0	COLLATERALIZED RECEIVABLES C/O EUROSYSTEM	135,066	135,066	55,377	-79,689	HTC
IT0005315228	PONTORMO RMBS	287,983	287,983	256,078	-31,905	Off balance sheet
	Totals	**726,639**	**728,432**	**488,588**	**-239,844**	
	Financing with c/o Eurosystem – Use	479,000		-474,130		
	Credit line			**14,458**		

List of deposits with Eurosystem as at 31/12/2018

Amount	Rate	Maturity
479,000	-0.40000	24/06/2020
479,000	**-0.40000**	**Total**

List of guarantees – Situation with Cassa Compensazione e Garanzia and other parties as at 31/12/2018

Isin	Security	Par value	Balance sheet value
IT0005289274	CTZ 30.10.2019	40,000	39,947
IT0005028003	BTP 15.12.2021 2.15%	14,597	15,099
IT0005030504	BTP 01.08.2019 1.5	30,000	30,420
IT0005086886	BTP 15.04.2022 1.35	22,000	22,136
IT0005107708	BTP 1.05.2020 0.70	8,000	8,046
IT0005256471	CTZ 30.05.2019	40,000	39,966
IT0005329336	CTZ 30.03.2020	85,000	84,662
IT0005215246	BTP 15.10.2023 0.65	70,000	69,571
IT0005341109	BOT 14.08.2019 365GG	35,000	34,853
	Totals	**344,597**	**344,699**

Section 5 – Operational risks

Qualitative information

A. General information, management procedures and methods to measure operational risk

Operational risk is defined as the possibility of suffering losses deriving from the inadequacy or dysfunction of procedures, human resources and internal systems, or from external factors. This risk is inherent to banking activity and therefore may be generated by and exist in all company processes. In general, the main sources of operational risk derive from internal fraud, external fraud, employment relationships and on the job safety, professional obligations towards customers, damage from external events, malfunctioning of information technology system and the execution, delivery and management of processes.

The Bank has defined a series of organizational processes aimed at monitoring and management operational risks, with the aid of the following specific organizational functions:

- Internal Audit, whose activities are aimed, on the one hand, at controlling the regularity of operations and risks trends, and on the other at assessing the overall efficiency of the internal controls system;
- The Control Body, pursuant to Italian Legislative Decree 231/2001, whose composition and functions are defined in specific regulations, within the scope of the organization, management and control model adopted;
- the Risk Management office, which fulfils the requirement of indentifying and measuring the risks typical of the banking business through the constant monitoring of risks taken and of those potentially generated by investment, lending and service policies;
- the Compliance Office, with the role of monitoring and controlling observance of regulations, and providing support for prevention and management of the risk of incurring judicial or administrative sanctions and/or of incurring significant losses as a consequence of violation of external or internal regulations.

Furthermore, the following documents have been prepared and are constantly updated, to safeguard against the insurgence of operational risks:

- the "Operational Continuity Plan", aimed at protecting the Bank from critical events that may harm operations;
- mapping of the main operating processes (credit, finance and teller), with the aim of leveling operator behavior thereby facilitating the integration of controls.

Particular attention was focused on information technology risks, which are, by definition, included among operational risks, by setting forth regulations and processes for the identification, assessment and limitation of events originating from, or that could originate from, malfunctioning information technology procedures and/or electronic equipment, such as, for example, network crashes, unavailability of internet banking, and imprecise applications for branch operations. Finally, within the scope of actions implemented in order to ensure full compliance with the new Bank of Italy regulations provided for in Circular 285, the Bank has undertaken important initiatives connected to completing transposition within organizational profiles and internal regulations of the references contained in Chapter IV – Corporate government, internal controls, management risks, Chapter 4 (information system) and 9 (business continuity) of the aforementioned new regulations. Within this scope, the Bank, acknowledging the importance of managing information technology risks as a tool to guaranty the efficacy and efficiency of measures aimed at safeguarding the Bank's own information technology systems, has defined, in accordance with the results of the project elaborated within the Cable network and in compliance regulatory principles and provisions currently in force, a method for the analysis of information technology risks and the relative management process that hinges on the Bank's broader risk management system. In order to calculate capital requirements for operational risks, the Bank has adopted the Basic Indicator Approach (BIA), which entails that capital hedging this type of risk is equal to 15% of the average of the "relevant indicator" over the previous three years, calculated in accordance with articles 315 and 316 of CRR regulations. Capital absorption for this type of risk at 31 December 2018 was € 12,179,543.

Quantitative information

The amount of losses actually verified during the past two fiscal years is set forth below, classified according to the categories provided by regulatory provisions. Their amount, consequent also to the risk assessments conducted on the specific type of risk in review, is not significant; in any event there is specific documentation regarding events that resulted in losses.

Type of event resulting in loss			
Categories of the event (level 1)	**Definition**	**2018**	**2017**
1. Internal fraud	Losses due to unauthorized activities, fraud, embezzlement or violation of laws, regulations or company policy that involve at least one of the Bank's internal resources.	0	0
2. External fraud	Losses due to fraud, embezzlement or the violation of laws by parties not employed by the Bank.	3,792	41,042
3. Employment and workplace safety	Losses deriving from acts that violate laws or agreements with respect to employment or workplace health or safety, from the payment of damages for personal injuries or episodes of discrimination or the failure to apply equal treatment.	0	0
4. Customers, products and professional practice	Losses due to breaches of professional obligations to customers or from the nature or characteristics of the product or service supplied.	0	545
5. Damage to property, plants and equipment	Losses deriving from external events, such as natural catastrophes, terrorism, or acts of vandalism.	0	0
6. Interruptions of operations and system malfunctions	Losses due to interruptions of operations, to malfunctions or the unavailability of systems.	0	0

Type of event resulting in loss			
Categories of the event (level 1)	**Definition**	**2018**	**2017**
7. Performance, delivery and management procedures	Losses due to the failure to complete operations or manage procedures, as well as losses due to relations with commercial counterparties, sellers or suppliers.	43,485	46,780
TOTAL		**47,277**	**88,367**

EXPLANATORY NOTES

PART F – Information on capital

SECTION 1- SHAREHOLDERS' EQUITY

A. Qualitative information

The Board of Directors is responsible for managing corporate equity and defining the optimal volume of share capital based on corporate policies and strategic choices. In accordance with the strategic guidelines for development, the Bank has adopted all the measures necessary to ensure capital current and prospective capital adequacy, in consideration of current Bank of Italy regulations, the new Basel 3 regulatory framework and the targets required by the Supervisory Authority. Capital monitoring, with at least quarterly assessments, is aimed at preventing possible stress situations.

B. Quantitative information

B.1 Shareholders' equity: breakdown

Line items\Values	31/12/2018 amount	31/12/2017 amount
1. Capital	232,800	232,800
2. Premiums on issue of new shares	803	803
3. Reserves	-70,220	3,425
- earnings	-70,220	3,425
a) legal	225	0
b) statutory	0	0
c) treasury shares	0	0
d) other	-70,445	3,425
- other	0	0
4. Equity instruments	0	0
5. (Treasury shares)	0	0
6. Valuation reserves	-1,567	-1,481
-Capital securities designated at fair value with impact on total profits	-616	0
- Hedging of capital securities designated at fair value with impact on total profits	0	0
- Financial assets (other than capital securities) measured at fair value with impact on total profits	-3,395	0
- Property, plants and equipment	0	0
- Intangible assets	0	0
- Hedging foreign investments	0	0
- Cash flow hedges	0	0
- Exchange rate difference	0	0
- Non current assets in course of divestment	0	0
- Financial liabilities measured at fair value with recognition of income effects through profit and loss (variations of own creditworthiness)	0	0
- Actuarial profit (loss) related to defined benefit plans	-855	-816
- Shares of valuation reserves related to subsidiaries measured at shareholders' equity	3,298	3,298
- Special revaluation laws	0	0
- Financial assets available for sale (ex IAS 39)	0	-3,964
7. Fiscal year profit (loss)	3,500	4,500
Total	**165,316**	**240,048**

B.2 Valuation reserves of financial assets measured at fair value with impact on total profits: breakdown

Assets/Values	Total at 31/12/2018		Total at 31/12/2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	765	4,159	152	3,514
2. Equity investments	137	753	0	589
3. Loans	0	0	0	0
Shares in mutual funds (ex IAS 39)	0	0	4	17
Total	**901**	**4,912**	**156**	**4,121**

B.3 Valuation reserves of financial assets measured at fair value with impact on total profits: annual variations

Line items	Debt securities	Equity investments	Loans
1. Initial values	**-3,362**	**-602**	**0**
2. Additions	**3,035**	**154**	**0**
2.1 Increases of fair value	62	137	0
2.2 Values adjustments due to credit risk	0	0	0

Line items	Debt securities	Equity investments	Loans
2.3 Reversal to the income statement of negative reserves from use	320	0	0
2.4 Transfer to other components of shareholders' equity (equity investments)	2,653	17	0
2.5 Other additions	0	0	0
3. Reductions	**3,824**	**168**	**0**
3.1 Decreases of fair value	3,716	164	0
3.2 Write-backs due to credit risk	0	0	0
3.3 Reversal to the income statement from positive reserves: from use	94	X	0
3.4 Transfers to other components of shareholders' equity (equity investments)	14	4	0
3.5 Other reductions	0	0	0
4. Final values	**-4,151**	**-616**	**0**

SECTION 2 - OWN FUNDS AND REGULATORY RATIOS

2.1 Own funds

Qualitative information

The new harmonized laws for banks and investment companies contained in the CRR regulation and in the CRD IV directives of 26 June 2013 that transpose the European Union standards regarding banking vigilance defined by the Basil Committee (Basil III frame work), have been applicable since 1 January 2014.

The CRR regulation is directly applicable in national laws, without requiring trans position, and constitute the so-called *Single Rulebook*; instead, the provisions contained in the CRD IV directive require trans position into national law source.

In order to implement and facilitate the application of the new European Community regulations and directive, and in order to review and simplify the whole of supervisory regulations for banks, on 19 December 2013, Bank of Italy issued Circular 285 "Supervisory provisions for banks", which:

- transposes the provisions contained in the CRD IV regulation, which Bank of Italy is responsible for implementing, in accordance with the Consolidated Banking Act;
- indicates the methods used to exercise national discretions attributed by Community regulations to national authorities;
- outlines a complete regulatory framework that is coherent, rational and integrated with directly applicable Community regulations, in order to facilitate use by sector operators.

Own funds (that in the previous regulations constituted "regulatory capital") represent the first bulwark against risks connected to complex banking activities and constitute the main parameter of reference for assessments regarding banking solidity.

Own funds are composed of:

1. Common Equity Tier 1 capital (or "CET1");
2. Additional Tier 1 capital (or "AT1");
3. Tier 2 capital (or "T2").

Regulatory provisions regarding own funds provide for a gradual implementation of the new regulatory framework, through a transitory period during which some elements that, on full application of the regulations, will fully qualify for inclusion in or reduction from Common Equity, impact for only a percent; starting from 2018, the application of the transitory benefit ended, as regards our "own funds", as a whole.

Following the application, starting 1 January 2018, of the new IFRS 9 accounting principle (replacing the previously effective IAS 39), unrealized gains and losses relative to exposures towards central administrations that impact overall profits are also included in "own funds".

This initial application (so-called First Time Adoption – FTA) has required the reclassification of financial instruments in observance of the new classification criteria and recalculation, where necessary, of the respective values – with entry of the relative effects, only for this one time as first adoption, as contra-entry in shareholders' equity.

As regards the introduction of IFRS 9, on 12 December 2017, the European Parliament issued (EU) Regulation 2017/2395, which updates the CRR, introducing new article 473b "Introduction of IFRS 9", which offers banks the possibility of mitigating the impact on own funds deriving from the introduction of the new accounting principle.

Within the deadline provided for, which is 1 February 2018, the Bank informed Bank of Italy of the intention to exercise the option permitted by article 473b of (EU) Regulation n. 575/2013 (CRR) based on the static approach. This approach allows adding back into Common Equity a progressively smaller quota (95% in 2018, 85% in 2019, 70% in 2020, 50% in

2021 and 25% in 2022) of the impact of IFRS 9, calculated net of taxation, up until 2022; starting 1 January 2023 the impact will be fully reflected in the computation of own funds.

1. Common Equity Tier 1 capital – (CET1)

Common equity tier 1 capital includes equity instruments that fulfill the requirements set forth in article 28 of the CRR, premiums on issue of new shares relative to the equity instruments, retained earnings, other accumulated components of the income statement accumulate, other reserves, and funds for general banking risks. The following items, set forth in article 36 of the CRR, must be deducted from common equity tier 1 capital: losses for the fiscal year under way, intangible assets, deferred tax assets, common equity tier 1 capital instruments held directly and indirectly by the entity, assets of defined benefit pensions funds in the balance sheet, etc.

2. Additional tier 1 capital (AT1)

Elements that qualify for inclusion in additional tier 1 capital are equity instruments not included in common equity tier one capital that fulfill the requirements set forth in article 52 of the CRR and the relative issue premiums, net of the elements specified in article 56 (including additional tier 1 equity instruments held directly or directly by the company or by other subjects in the financial sector with whom the company has cross-shareholdings.
The Bank does not include any elements within this category of Own funds.

3. Tier 2 capital (T2)

Elements that qualify for inclusion in tier 2 capital are (art. 62): equity instruments non included in tier 1 capital subordinated liabilities that fulfill the requirements of article 63, premiums on issue of new shares of tier 2 equity instruments, net of tier 2 equity instruments held by the company directly or indirectly.
In particular, 44.3 million Euro in subordinate bonds issued by the Bank are included in tier 2 capital. For greater details, please consult table 1.4 of the balance sheet.
The restrictive EBA interpretation n.1226 dated 29/08/2014 regarding regulatory eligibility for inclusion of subordinate liabilities issued after 31 December 2011, with contractual repayment plan that runs before 5 years from the issue, has totally excluded them from the calculation.

B. Quantitative information

Line items	Total at 31/12/2018	Total at 31/12/2017
1. Common Equity Tier 1 capital (CET1)	230,882	232,247
2. Additional Tier 1 capital (AT1)	0	0
3. Tier 2 capital (T2)	44,399	0
Total regulatory own funds	**275,281**	**232,247**

Line items	Total at 31/12/2018	Total at 31/12/2017
A. Common Equity Tier 1 capital - CET1 before application of prudential filters	156,884	229,540
of which CET1 instruments subject to transitional measures	73,998	2,708
B. CET1 prudential filters (+/-)	0	0
C. CET1 gross of deductions and effects of transitional measures (A +/- B)	156,884	229,540
D. Deductions from CET1	0	0
E. Transitional measures – Impact on CET1 (+/-)	73,998	2,708
F. Total Common Equity Tier 1 capital (CET1) (C - D +/- E)	230,882	232,247
G. Additional Tier 1 capital (AT1) gross of deductions and effects of transitional measures	0	0
of which AT1 instruments subject to transitional measures	0	0
H. Deductions from AT1	0	0
I. Transitional measures – Impact on AT1 (+/-)	0	0
L. Total Additional Tier 1 capital (AT1) (G - H +/- I)	0	0
M. Tier 2 capital (T2) gross of deductions and effects of transitional measures	45,000	0
of which T2 instruments subject to transitional measures	0	0
N. Deductions from T2	601	0
O. Transitional measures – Impact on T2 (+/-)	0	0
P. Total Tier 2 capital (T2) (M - N +/- O)	44,399	0
Q. Total own funds (F + L + P)	**275,281**	**232,247**

2.2 Capital adequacy – quantitative information

Categories/Values	Non weighted amounts		Weighted amounts/requisites	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
A. RISK ASSETS				
A.1 Credit risk and counterparty credit risk	3,795,870	3,424,771	1,900,234	1.759.951
1. Standard methodology	3,795,870	3,424,771	1,900,234	1.759.951
2. Methodology based on internal ratings	0	0	0	0
2.1 Base	0	0	0	0
2.2 Advanced	0	0	0	0
3. Securitizations	0	0	0	0
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			152,019	140,796
B.2 Credit value adjustment risk			18	11
B.3 Settlement risk			0	0
B.4 Market risk			5,184	2,158
1. Standard methodology			5,184	2,158
2. Internal models			0	0
3. Concentration risk			0	0
B.5 Operational risk			12,180	10,918
1. Base method			12,180	10,918
2. Standard method			0	0
3. Advanced method			0	0
B.6 Other calculation items			0	0
B.7 Total prudential requirements			**169,400**	**153,884**
C. RISK ASSETS AND REGULATORY RATIOS				
C.1 Risk weighted assets			**2,117,497**	**1,923,548**
C.2 Common equity tier 1 capital/ Risk weighted assets (CET1 capital ratio)			**10.904%**	**12.074%**
C.3 Tier 1 capital / Risk weighted assets (Tier 1 capital ratio)			**10.904%**	**12.074%**
C.4 Total own funds/ Risk weighted assets (Total capital ratio)			**13.000%**	**12.074%**

In line items C.1, C.2, C.3 e C.4 the amounts for weighted risk assets is always calculated as the product of prudential requirements (line item B.7) and 12.5 (inverse of the minimum regulatory coefficient, equal to 8%).
For more information, please consult the information for the public (third pillar) available on the Bank's web site, www.bancacambiano.it

EXPLANATORY NOTES

PART H – Transactions with related parties

Introduction

At 31 December 2018, the Bank belongs to the Gruppo Bancario Cambiano, composed of:
• Ente Cambiano Scpa, parent company of the Gruppo Bancario Cambiano;
• Banca Cambiano 1884 Spa;
• Cabel Leasing Spa
• Società Immobiliare 1884 Srl.

The types of related parties, as defined by IAS 24, that are significant to the Bank include:

- parent company;
- subsidiaries;
- executives having strategic responsibilities;
- close relations of executives having strategic responsibilities or companies controlled by (or associated to) the same or by (to) close relations.

The information regarding compensation for executives having strategic responsibilities and that regarding transactions with related parties are provided here following.

1. Information on compensation for executives having strategic responsibilities
The definition of executives having strategic responsibilities, according to IAS 24, includes those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including the Bank directors.
In conformity with the provisions of Bank of Italy Circular n. 262 of 22 December 2005 (5th update of 22 December 2017) the members of the Board of Statutory Auditors are also included among executives having strategic responsibilities.
The table below shows the compensation in 2018 for directors, statutory auditors and executives having strategic responsibilities.

1. Information regarding compensation for executives having strategic responsibility (gross amounts)

Line items	31/12/2018	31/12/2017	Var.	% Var.
a) Compensation for directors	258	260	-2	-0.70%
b) Compensation for statutory auditors	95	96	-1	-0.99%
c) Compensation for executives	1.194	1.260	-66	-5.27%
Total	**1.547**	**1.616**	**-69**	**-4.28%**

2. Information on transactions with related parties

Directors	31/12/2018	31/12/2017	Var.	% Var.
a) Receivables	3,787	3,938	-151	-3.85%
b) Issued guarantees	58	58	0	0.00%
Total	**3,845**	**3,997**	**-151**	**-3.79%**

Statutory Auditors	31/12/2018	31/12/2017	Var.	% Var.
a) Receivables	0	0	0	
b) Issued guarantees	5	5	0	0.00%
Total	**5**	**5**	**0**	**0.00%**

2. Information on transactions with related parties
The schedule below shows the assets, liabilities, guarantees and commitments as at 31 December 2018, subdivided by the various types of related party, in accordance with IAS 24.

Balance sheet line items	Parent company	Subsidiaries	Directors	Auditors	Managers with strategic responsibility	Other related parties	Total	% on balance sheet line item
Line item 40 - Financial assets measured at amortized cost - a) receivables from banks	0	0	0	0	0	0	0	0.00%

Balance sheet line items	Parent company	Subsidiaries	Directors	Auditors	Managers with strategic responsibility	Other related parties	Total	% on balance sheet line item
Line item 40 - Financial assets measured at amortized cost - b) receivables from customers	10,965	94,989	144	0	112	0	106,210	3.91%
Line item 120 – Other assets	0	0	0	0	0	0	0	0.00%
Total assets	**10,965**	**94,989**	**144**	**0**	**112**	**0**	**106,210**	**2.82%**
Line item 10 - Financial liabilities measured at amortized cost - a) payables to banks	0	0	0	0	0	0	0	0.00%
Line item 10 - Financial liabilities measured at amortized cost -b) payables to customers	0	2,836	377	2	1,773	918	5,906	0.22%
Line item 50 - Other liabilities	0	0	0	0	0	0	0	0.00%
Total liabilities	**0**	**2,836**	**377**	**2**	**1,773**	**918**	**5,906**	**0.16%**

As regards transactions with parties that exercise administrative, management and control functions vis-à-vis the Bank, article 136 of Legislative Decree 385/1993 and article 2391 of the Italian Civil Code apply.
More in general, as regards transactions with related parties, as defined by IAS 24, the provisions for prudential supervision contained in Title V, chapter 5 of the Bank of Italy Circular n. 263/2006 ("Risk activities and conflicts of interest with related parties"), also apply, save for a few cases due to the imperfect coincidence between the fields of application of the two regulations.
Transactions with related parties are regularly carried out at market conditions and always on the basis of evaluations of economic convenience and in compliance with current regulations, appropriately explanation of the convenience in concluding the transaction.
Among the various valid intergroup contracts existing at the close of the fiscal year, please note those:
i. that centralize all governance, planning, control administration and internal audit activities with the Parent Company;
ii. Inherent to financing contracts:
a. financing for cash flow flexibility related to the financial needs of the Parent Company, for 20 million Euro, granted in the technical form of opening credit in bank accounts, at a rate of %;
b. financing for cash flow flexibility related to the financial needs of Cabel Leasing for 100 million Euro, granted in the technical form of opening credit in bank accounts, at a rate of 1%.

ANNEXES

BANCA CAMBIANO 1884
SOCIETÀ PER AZIONI

Schedules to the Financial Statements of Cabel Leasing S.p.A.

BALANCE SHEET FINANCIAL INTERMEDIARIES

	Asset line items	2018	2017
10.	Cash and cash equivalents	1,331	3,669
20.	Financial assets measured at fair value with impact on profit and loss account		
	a) financial assets held for trading		
	b) financial assets designated at fair value		
	c) other financial assets obligatorily measured at fair value		
30.	Financial assets with impact on total profits	18,402	18,402
40.	Financial assets measured at amortized cost	165,772,611	146,792,539
	a) receivables from banks	*12,478*	*11,413*
	b) receivables from finance companies	*1,252,536*	
	c) receivables from customers	*164,507,598*	*146,781,126*
50.	Hedge derivatives		
60.	Adjustments of value of financial assets subject of generic hedges (+/-)		
70.	Equity investments		
80.	Property, plants and equipment	4,722,964	6,037,642
90.	Intangible assets of which: - goodwill		
100.	Tax receivables	862,062	209,182
	a) current	*831,944*	*193,147*
	b) pre-paid	*30,118*	*16,035*
110.	Non current assets and groups of assets in the cousrse of divestment		
120.	Other assets	806,808	446,155
	Total assets	**172,184,178**	**153,507,589**

	Liabilities line items and shareholders' equity	2018	2017
10.	Financial liabilities measured at amortized cost	144,948,830	128,892,685
	a) payables	*144,948,830*	*128,892,685*
	c) out standing securities		
20.	Financial liabilities from trading		
30.	Financial liabilities designated at fair value		
40.	Hedge derivatives		
50.	Ajdustment of value of financial liabilities subject of generic hedges (+/-)		
60.	Tax liabilities	479,287	594,585
	a) current	*115,763*	*269,535*
	b) deferred	*363,524*	*325,050*
70.	Liabilities associated to assets in the course of divestment		
80.	Other liabilities	6,893,181	4,401,322
90.	Employee severance pay	166,799	164,171
100.	Risk and expense funds	3,165	
	a) commitments and issued guarantees	*3,165*	
	b) pensions and similar commitments		
	c) other risk and expense funds		
110.	Share capital	10,000,000	10,000,000
120.	Treasury shares(-)		
130.	Equity instruments		
140.	Premiums on issue of new shares		
150.	Reserves	9,452,344	8,688,964
160.	Valuation reserves		
170.	Fiscal year profit (loss) (+/-)	240,572	765,862
	Total liabilities and shareholders' equity	172,184,178	153,507,589

INCOME STATEMENT

	Line items	2018	2017
10.	Earned interest and similar income	3,447,298	4,436,063
	Of which earned interst calculated using the actual interest method		
20.	Interest expenses and similar expenses	(1,423,472)	(1,572,824)
30.	**Interest income**	**2,023,826**	**2,863,239**
40.	Commission income	69,006	19,424
50.	Commission expenses	-215,862	-212,66
60.	**Net commission income**	**-146,856**	**-193,236**
70.	Dividends and similar income	144	259
80.	Net trading result		
90.	Net hedging result		
100.	Gains/losses from the disposal or repurchase of:	17	-53,836
	a) financial assets measured at amortized cost	17	-53,836
	b) financial assets measured at fair value with impact on total profits		
	b) financial liabilities		
110.	Net income of other financial assets and liabilities measured at fair value with recognition of income effects in the profit and loss account		
	a) financial assets and liablities designated at fair value		
	b) other financial assets and liabilities obligatorily measured at fair value		
120.	**Operating income**	**1,877,130**	**2,616,426**
130.	Net adjustments/write-backs of value due to the impairment of:		
	a) financial assets measured at amortized cost	*-154,674*	*-395,257*
	b) financial assets measured at fair value with impact on total profits		
140.	Profit/loss from contractual modifications without derecognition		
150.	**NET INCOME FROM FINANCIAL ASSETS**	**1,722,457**	**2,221,169**
160.	Adminstrative costs:		
	a) personnel costs	*-994,048*	*-956,681*
	b) other administrative costs	*-681,615*	*-517,571*
170.	Net allocations to risk and expense funds		
	a) commitments and issued guarantees	-3,165	
	b) other net allocations		
180.	Net adjustments/write-backs of value to property, plants and equipment	-86,887	-200,077
190.	Net adjustments/write-backs of value to intangibile assets	0	
200.	Other operating costs and income	515,076	454,612
210.	**OPERATING COSTS**	**471,818**	**1,001,452**
220.	Profit (loss) from equity investments		
230.	Net result of fair value imeasurement of property, plants and equipment and intangibile assets	-91,092	
240.	Adjustments to value of goodwill		
250.	Gains (losses) from the disposal of investments		
260.	**Gains (losses) from current operations before taxes**	**380,726**	**1,001,452**
270.	Fiscal year income tax on current operations	-140,154	-235,59
280.	**Gains (losses) from current operations after taxes**	**240,572**	**765,862**
290.	Gains (losses) from groups of assets in the course of divestment after taxes		
300.	Fiscal year profit (loss)	240,572	765,862

	SCHEDULE OF OVERALL PROFITABILITY		
	Line items	**2018**	**2017**
10.	**Fiscal year profit (loss)**	240,572	765,862
	Other income components net of tax without reversal to the income statement		
20.	Capital securities measured at fair value with impact on total profits		
30.	Financial liabilities measured at fair value with impact on the income statement (variations to own creditworthiniess)		
40.	Hedges on capital securities measured at fair value with impact on total profits		
50.	Property, plants and equipment		
60.	Intangible assets		
70.	Defined benefit assets		
80.	Non current assets and groups of assets in the course of divestment		
90.	Share of valuation reserves of equity investments measured on basis of shareholders' equity		
	Other income components net of tax with reversal to the income statement		
100.	Hedging foreign investments		
110.	Exchange rate differences		
120.	Hedging cash flows		
130.	Hedging instruments (unmeasured elements)		
140.	Financial assets (other than capital securities) measured at fair value with impact on total profits		
150.	Non current assets and groups of assets in the course of divestment		
160.	Share of valuation reserves of equity invstments measured on basis of shareholders' equity		
170.	**Total other income components net of tax**		
180.	**Overall profitability (line items 10+170)**	**240,572**	**765,862**

SCHEDULE OF VARIATIONS TO SHAREHOLDERS' EQUITY FINANCIAL INTERMEDIARIES

				Allocation of prior fiscal year result		Fiscal year variations							
							Transactions involving shareholders' equity						
	Amounts as at 31/12/2017	Modification of opening balance	Amounts as at 01/01/2018	Reserves	Dividends and other allocations	Variations of reserves	Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Variations of equity instruments	Other variations	Profit (loss) 2018 fiscal year	Shareholders' equity at 31/12/2018
Share capital	10,000,000		10,000,000										10,000,000
Premiums on issue of new shares													
Reserves:													
a) from gains	6,890,955		6,890,955	765,862									7,656,817
b) other	1,798,009		1,798,009										1,798,009
Valuation reserves		-2,482	-2,482										-2,482
Equity instruments													
Treasury shares													
Profit (loss) 2017 fiscal year	765,862		765,862	-765,862									
Profit (loss) 2018 fiscal year												240,572	240,572
Shareholders' equity	19,454,826	(2,482)	19,452,344									240,572	19,692,916

Schedules to the financial statements of Immobiliare 1884 S.r.l.

IMMOBILIARE 1884
SOCIETÀ A RESPONSABILITÀ LIMITATA

IMMOBILIARE 1884 S.R.L. – Single-member company

FINANCIAL STATEMENTS AT 31/12/2018

(amounts shown in whole Euro)

Name and identification data	
Head offices in	VIALE ANTONIO GRAMSCI 34- 50132 FLORENCE
Tax code	06780730484
Company registration number	FI 000000655716
VAT code	06780730484
Share Capital in Euro	10,000,000 fully paid-in
Legal form	Limited liability company
Activity Code (ATECO)	682001
Company being wound up	no
Company with a single shareholder	yes
Company subject to management and coordination by others	yes
Name of the company or body exercising management and coordination	Ente Cambiano S.c.p.A.
Member of a group of companies	yes
Name of the parent company	Ente Cambiano S.c.p.A.
Country of the parent company	ITALY

BALANCE SHEET - ASSETS	31/12/2018	31/12/2017
B) FIXED ASSETS		
I) INTANGIBLE FIXED ASSETS		
1) Start-up and expansion costs	19,727	6,386
7) Other intangible fixed assets	3,666	0
I TOTAL INTANGIBLE FIXED ASSETS	**23,393**	**6,386**
II) TANGIBLE FIXED ASSETS		
1) Land and buildings	5,378,137	0
5) Fixed assets under development and advances	59,576	0
II TOTAL TANGIBLE FIXED ASSETS	**5,437,713**	**0**
III) FINANCIAL FIXED ASSETS	**0**	**0**
B TOTAL FIXED ASSETS	**5,461,106**	**6,386**
C) CURRENT ASSETS		
I) INVENTORIES:		
4) finished products and goods	2,091,099	0
I TOTAL INVENTORIES	**2,091,099**	**0**
II) RECEIVABLES:		
5-bis) Tax receivables		
a) due within the next financial year	698,277	71
5-bis TOTAL tax receivables	698,277	71
5-ter) Pre-paid tax	47,798	0
5-quater) from others		
a) due within the next financial year	200,232	0
5-quater TOTAL due from others	200,232	0
II TOTAL RECEIVABLES:	946,307	71
IV) CASH AND CASH EQUIVALENTS		
1) Bank and post office deposits	2,834,165	4,999,309
IV TOTAL CASH AND CASH EQUIVALENTS	2,834,165	4,999,309
C TOTAL CURRENT ASSETS	**5,871,571**	**4,999,380**
D) ACCRUED INCOME AND PRE-PAYMENTS	**1,582**	**147**
TOTAL - ASSETS	**11.334.259**	**5.005.913**

BALANCE SHEET - LIABILITIES	31/12/2018	31/12/2017
A) SHAREHOLDERS' EQUITY		
I) Share capital	10,000,000	5,000,000
VI) Other reserves:		
ag) Merger surplus reserve	162,951 -	0
VI TOTAL Other reserves	162,951 -	0
VIII) Profit (loss) brought forward	473 -	0
IX) Profit (loss) for the fiscal year	**84,874**	**473 -**
A TOTAL SHAREHOLDERS' EQUITY	**9,921,450**	**4,999,527**
D) PAYABLES		
4) Due to banks		
a) due within the next financial year	53,289	0
b) due beyond the next financial year	953,532	0
4 TOTAL due to banks	1,006,821	0
7) Due to suppliers		
a) due within the next financial year	401,290	6,386
7 TOTAL due to suppliers	401,290	6,386
12) Tax payables		
a) due within the next financial year	3,020	0
12 TOTAL tax payables	3,020	0
D TOTAL PAYABLES	**1,411,131**	**6,386**
E) ACCRUED EXPENSES AND DEFERRED INCOME	**1.678**	**0**
TOTAL LIABILITIES	**11,334,259**	**5,005,913**

INCOME STATEMENT	31/12/2018	31/12/2017
A) VALUE OF PRODUCTION		
1) Revenue from sales and services	242,160	0
A TOTAL VALUE OF PRODUCTION	**242,160**	**0**
B) COST OF PRODUCTION		
6) raw materials, auxiliary materials, consumables and goods	2,091,099	0
7) for services	50,541	150
10) amortization, depreciation and write-downs:		
a) amortization of intangible fixed assets	5,179	0
b) depreciation of tangible fixed assets	35,359	0
10 TOTAL amortization and depreciation:	40,538	0
11) var. of inventories of raw mat, aux. mat., consumables and goods	2,091,099 -	0
14) other operating expenses	20,172	597
B TOTAL COST OF PRODUCTION	**111,251**	**747**
A-B DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION	**130,909**	**747 -**
C) FINANCIAL INCOME AND CHARGES:		
16) Other financial income:		
d) financial income other than the above		
d5) others	11,202	274
d TOTAL financial income other than the above	11,202	274
16 TOTAL other financial income:	11,202	274
17) interest and other financial charges:		
e)others	51,481	0
17 TOTAL interest and other financial charges:	51,481	0
15+16-17±17bis TOTAL FINANCIAL INCOME AND CHARGES	**40,279 -**	**274**
A-B±C±D PROFIT (LOSS) BEFORE TAX	**90,630**	**473 -**
20) Income tax for the fiscal year, current, deferred, pre-paid		
a) current	5,756	0
20 TOTAL Income tax for the fiscal year, current, deferred, pre-paid	**5,756**	**0**
21) Profit (loss) for the year	**84,874**	**473 -**

FINANCIAL STATEMENT – INDIRECT METHOD

	2018/0	2017/0
Financial statement, indirect method		
A) Cash flows from operations (indirect method)		
Fiscal year profit (loss)	84,874	(473)
Income tax	5,756	-
Interest expenses/income	48,838	(274)
1) Fiscal year profit (loss) before income tax, interest, dividends and capital gains/losses from conveyances	139,468	(747)
Adjustments for non-monetary items monetary with no impact on net working capital		
Amortization of fixed assets	40,538	-
Total adjustments for non-monetary items with no impact on net working capital	40,538	-
2) Cash flows before variations of net working capital	180,006	(747)
Variations of net working capital		
Decrease/(Increase) of inventories	(2,091,099)	-
Increase/(Decrease) of payables to suppliers	394,904	6,386
Decrease/(Increase) from accrued income and pre-payments	(1,582)	(147)
Increase/(Decrease) from accrued expenses and deferred income	1,825	-
Other decrease/(increases) of net working capital	(945,521)	(71)
Total variations of net working capital	(2,641,473)	6,168
3) Cash flow after variations of net working capital	(2,461,467)	5,421
Other adjustments		
Interest received /(paid)	(48,838)	274
(Income tax paid)	(5,756)	-
Total other adjustments	(54,594)	274
Cash flow from operations (A)	(2,516,061)	5,695
B) Cash flow from investments		
Tangible fixed assets		
(Investments)	(5,473,072)	-
Intangible fixed assets		
(Investments)	(22,186)	(6,386)
Fixed financial assets		
Non fixed financial assets		
Cash flow from investments (B)	(5,495,258)	(6,386)
C) Cash flow from financing activities		
Third party funds		
Increase/(Decrease) short-term payables to banks	1,006,821	-
Loans	2,309	-
Own funds		
Capital increase payments	4,837,045	5,000,000
Cash flow from financing activities (C)	5,846,175	5,000,000
Increase (decrease) of cash and cash equivalents (A ± B ± C)	(2,165,144)	4,999,309
Cash and cash equivalents at the start of the financial year		
Bank and post office deposits	4,999,309	-
Total cash and cash equivalents at the start of the financial year	4,999,309	-
Cash and cash equivalents at the end of the financial year		
Bank and post office deposits	2,834,165	4,999,309
Total cash and cash equivalents at the end of the financial year	2,834,165	4,999,309

Analytical list of real property with indication of revaluation – Law n. 72 of 19/03/1983, art. 10

Description	Historical cost	Rev. Law 576/75	Rev. Law 72/83	Rev. Law 413/91	Rev. From first time adoption IAS 01/01/2005	Total real property at 31/12/2018	Of which land value at 31/12/2018	Of which value of buildings at 31/12/2018	Amortization fund at 31/12/2018	Balance sheet value at 31/12/2018
Barberino V.E. P.za Capocchini, 21/23 - Branch	74,026	0	0	0	475,968	**549,993**	0	549,993	272,190	**277,804**
Castelfiorentino – Loc. Cambiano - Mailing address	1,336	156	12,452	4,523	182,046	**200,513**	0	200,513	167,871	**32,642**
Castelfiorentino – Via Carducci 4 - Head office – Not operative	557,166	0	0	0	0	**557,166**	0	557,166	0	**557,166**
Castelfiorentino – Via Carducci, 8/9 - Head office	1,190,430	0	480,305	63,974	2,409,822	**4,144,530**	1,800,000	2,344,530	1,735,134	**2,409,396**
Castelfiorentino – Via Cerbioni - Archive 1	617,658	0	0	0	227,844	**845,502**	185,000	660,502	379,947	**465,555**
Castelfiorentino – Via Cerbioni - Archive 2	503,164	0	0	0	98,101	**601,265**	150,000	451,265	210,126	**391,138**
Castelfiorentino – Via Gozzoli, 45 - Branch	1,007,905	0	0	0	1,013	**1,008,917**	250,000	758,917	331,547	**677,371**
Castelfiorentino – Via Piave, 10 - Head office – Not operative	239,743	0	0	0	0	**239,743**	0	239,743	0	**239,743**
Castelfiorentino – Via Piave, 6 (Garage) – Head office –Not operative	138,468	0	0	0	0	**138,468**	0	138,468	0	**138,468**
Castelfiorentino – Via Piave, 8 - Head office	30,196	10,641	179,368	42,042	1,258,394	**1,520,641**	480,000	1,040,641	944,357	**576,284**
Castelfiorentino – Via Veneto/Via Piave – Head office – Not operative	9,305,707	0	0	0	-70,200	**9,235,507**	755,020	8,480,486	0	**9,235,507**
Cerreto Guidi – Via V. Veneto, 59 - Branch	472,442	0	0	0	216,286	**688,728**	0	688,728	293,754	**394,974**
Colle Val d'Elsa – Piazza Arnolfo – Branch – Not operative	1,822,857	0	0	0	0	**1,822,857**	774,000	1,048,857	0	**1,822,857**
Empoli - Via Cappuccini, 4 – Branch	44,547	0	0	0	156,468	**201,015**	0	201,015	100,699	**100,316**
Empoli - Via Chiarugi, 4 – Branch	4,224,838	0	0	0	2,747,576	**6,972,415**	2,000,000	4,972,415	3,322,010	**3,650,404**
Firenze - Via Maggio - Branch	1,558,533	0	0	0	0	**1,558,533**	0	1,558,533	309,181	**1,249,352**
Firenze – Viale Gramsci 34 – Head office	12,100,228	0	0	0	0	**12,100,228**	1,222,000	10,878,228	1,296,649	**10,803,580**
Fucecchio – Piazza Montanelli - Branch	4,853,742	0	0	0	0	**4,853,742**	900,000	3,953,742	723,009	**4,130,733**
Gambassi Terme – Via Garibaldi, 16 - Branch	37,565	0	0	0	182,506	**220,071**	0	220,071	109,463	**110,608**
Gambassi Terme – Via Garibaldi, 18 - Branch	26,830	1,033	23,241	3,352	153,497	**207,952**	0	207,952	136,998	**70,955**
Gambassi Terme – Via Volta, 19/21 – Archive 3	1,691,075	0	0	0	0	**1,691,075**	552,655	1,138,420	332,927	**1,358,147**
Greve in Chianti – Piazza Santa Croce - Branch	845,729	0	0	0	0	**845,729**	73,200	772,529	64,335	**781,395**
Montespertoli – Via Romita 105 - Branch	252,244	0	0	0	0	**252,244**	0	252,244	45,129	**207,115**
Poggibonsi – Via S.Gimignano, 24/26 – Branch	2,284,777	0	0	0	710,082	**2,994,859**	935,000	2,059,859	1,390,649	**1,604,210**
San Gimignano – Via dei Fossi - Branch – Not operative	1,364,777	0	0	0	0	**1,364,777**	1,000,000	364,777	0	**1,364,777**
San Miniato – Via Tosco Romagnola - Branch	271,697	0	0	0	0	**271,697**	50,193	221,504	26,613	**245,084**
Total	**45,517,681**	**11,830**	**695,366**	**113,890**	**8,749,401**	**55,088,168**	**11,127,069**	**43,961,099**	**12,192,587**	**42,895,581**

Fees for statutory audit – sub-section 1, n. 16-b, article 2427 of the Italian Civil Code

In compliance with the provisions of article 2427, sub-section 1, n. 16-bis of the Italian Civil Code, below is a detail of the fees for the 2018 fiscal year set forth in the contract with the Auditing Company for the statutory accounting audit and for the performance of other services rendered to the Bank.

Amounts are net of VAT and expenses.

Type of service	Subject performing the service: auditing company / statutory auditor	Total amount of fees (in Euro)
A) Statutory audit	Baker Tilly Revisa s.p.a.	27,445
B) Certification services	Baker Tilly Revisa s.p.a.	5,000
C) Tax consulting services		0
D) Other services	Baker Tilly Revisa s.p.a.	5,022
Total fees		**37,467**

Banca Cambiano 1884 Società per Azioni
Registered head office and general management: Viale Antonio Gramsci, 34 – 50132 Firenze
Administrative head office: Piazza Giovanni XXIII, 6 – 50051 Castelfiorentino (Fi)
Registered with the Bank of Italy Register of Banks at n. 5667
Share Capital € 232,800,000.00 fully paid-in
Registration number in the Company Register of Florence,
Fiscal code and VAT code: 02599341209
Member of the Gruppo Bancario Cambiano
Subject to management and coordination activities by Ente Cambiano scpa