Cassa Centrale Banca
Gruppo Bancario

CASSA CENTRALE BANCA BANKING GROUP

2018 financial statements

CASSA CENTRALE BANCA BANKING GROUP

2018 Consolidated Financial Statements

CONTENTS

COMPOSITION OF THE BANKING GROUP

Composition of the Banking Group — page 8

DIRECTORS' REPORT ON CONSOLIDATED OPERATIONS

Subsidiaries of Cassa Centrale Banca — page 12

Associates of Cassa Centrale Banca — page 26

Management activity of the Cassa Centrale Banca Group — page 30

Other information on operations — page 42

BOARD OF STATUTORY AUDITORS' REPORT

Board of Statutory Auditors' Report — page 55

INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report page 68

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

Consolidated statement of financial position and Consolidated Income Statement page 81

Statement of Consolidated Comprehensive Income page 84

Statement of changes in Consolidated Equity page 85

Consolidated Cash Flow Statement page 87

CONSOLIDATED EXPLANATORY NOTES

Part A
Accounting policies page 92

Part B
Information on the Consolidated Statement of financial position page 152

Part C
Information on the Consolidated Income Statement page 202

Part D
Consolidated Comprehensive Income page 226

Part E
Information on risks and related hedging policies page 228

Part F
Information on Consolidated Equity page 292

Part G
Business combinations regarding companies or branches page 300

Part H
Transactions with related parties page 304

Part I
Payment agreements based on own equity instruments page 308

Part L
Segment reporting page 308

COMPOSITION OF THE BANKING GROUP

COMPOSITION OF THE BANKING GROUP

Our company, in its role of parent company of the Cassa Centrale Banca Cooperative Banking Group entered at no. 20026 in the appropriate Register, is responsible for the report on the consolidated financial statements. The consolidated financial statements summarise the management results of the Cassa Centrale Group for the 2018 financial year. The configuration of the Group as at 31 December 2018 is as follows:

Cassa Centrale Banca Gruppo Bancario

Cassa Centrale Banca Credito Cooperativo del Nord Est

Subsidiaries

- Assicura Group and subsidiaries
- Centrale Casa
- Centrale Credit & Real Estate Solutions
- Centrale Soluzioni Immobiliari
- CE.SVE
- Claris Leasing
- Informatica Bancaria Finanziaria (I.B.Fin) and subsidiaries
- NEAM
- Phoenix Informatica Bancaria
- Servizi Bancari Associati (S.B.A.)
- Prestipay
- Bologna Servizi Bancari
- Casse Rurali Raiffeisen Finanziaria*

Associates

- Centrale Trading
- Centro Sistemi Direzionali (C.S.D.)
- Assicura Cooperazione Trentina
- Formazione Lavoro

* Equity investment in jointly controlled companies

DIRECTORS' REPORT ON CONSOLIDATED OPERATIONS

SUBSIDIARIES OF CASSA CENTRALE BANCA

PHOENIX INFORMATICA BANCARIA S.p.A.

As in the previous year, 2018 was characterised by the continuation of important projects. The progressive availability of products to the member and customer Banks led to the implementation of training and support activities for the new procedures and/or new ICT services, ensuring an adequate monitoring of the functional and technological evolution of IT systems.

The Board of Directors constantly worked on and developed the project for the establishment of the Cassa Centrale Banca Cooperative Banking Group and the role that Phoenix Informatica Bancaria will have within the group. In addition, some significant projects were tackled to reorganise and streamline Phoenix's production chain. Supply relationships were redefined with long-standing partners such as Auriga Informatica and Dedagroup. In late December, the acquisition from Dedagroup Business Solutions S.p.A. of the 'SIB2000 Assistance' business unit was formalised, effective as of 1 January 2019.

In November, the Company Bologna Servizi Bancari S.r.l. was also established with a view to transferring to it the IT business unit of the Company Cedecra di Bologna, another one of Phoenix's long-standing partners. This transaction was postponed to the early months of 2019.

The objective to make the SIB2000 information system available not only to the Cooperative Credit Banks remains a priority, as it is essential to operate within the broadest market possible, also in order to compete effectively.

IB.FIN GROUP

The activity of the IB.Fin Group is focused essentially around the activity of the Group companies Informatica Bancaria Trentina (IBT) and Servizi Informatici Bancari Trentini (SIBT).

INFORMATICA BANCARIA TRENTINA S.r.l.

In the course of 2018, financial management relating to Informatica Bancaria Trentina was positive with revenues of EUR 7,917,174, a decline of EUR 386,004 compared to the previous year. The net profit for the year came to EUR 3,395,014, marking an increase of EUR 2,046,731 compared to the previous year due to extraordinary income of EUR 2,159,588.

During 2018 IBT was involved in a series of activities aimed at enriching the Gesbank Evolution information system with essential functionalities which were welcomed by the user Banks. A number of developments were linked to new regulations concerning supervisory reporting and the support necessary for the new Parent Company and Cooperative Credit Banks using the information system with specialised extractions in the various areas.

Below are some of the most significant activities and some major projects developed in the course of 2018:

- attribution of a fixed 'public relationship ID' to all Gesbank accounts used for communications with third parties;
- data extractions for consolidated Puma reporting;
- online current account with the implementation of remote identification and digital signature;
- management of related parties and associated parties;
- account data import relating to Prestipay loans to make them usable in interrogating the customer's risk profile;
- intercompany identification for consolidated financial statements;
- INPS pensions, adjustment to SEPA-SCT regulations;
- new advanced customer contact management module, for the centralised processing of all contacts with customers irrespective of their use;
- MiFID II category project;
- IFRS 9 and creation of the transition report;
- new form for the management of transfer to non performing status of existing loan positions;
- Parent Company Suspicious Transaction Reporting;
- management of electronic invoices, implementation activities necessary for the adaptation of the Gesbank system following the entry into force of electronic invoicing;
- IFRS 9 project - Management of and accounting for FTA;
- CCB - stress test;
- CCB - DWH project, regarding the implementation of specific extractors to provide data for the group's data warehouse for the initial areas (Loans, database, NPLs).

SERVIZI INFORMATICI BANCARI TRENTINI S.r.l.

In the course of 2018, financial management relating to Servizi Informatici Bancari Trentini recorded revenues of EUR 2,909,891, a decline of EUR 190,468 compared to the previous year. The net profit for the year came to EUR 459,614, marking a decrease of EUR 59,981 compared to the previous year.

During 2018, aside from ordinary outsourcing activities, various activities were carried out by SIBT for its user Banks, for regulatory as well as operating adaptations.

In particular, some of the significant activities involving SIBT personnel included:

- supervision: following the continuous issue of new regulations by the Supervisory bodies, SIBT personnel were involved in checking and generating new reporting, for the Banks in outsourcing with the service, and operating support for others;
- activities developed following the introduction for all Banks of new accounting standards (IFRS 9) to replace other accounting standards (IAS 39);
- spot and periodic extractions for the Parent Company (AQR data - Group database - risk profiles, etc.);
- preparation of Bank and operator training environments for new electronic invoicing as of 1 January 2019;
- new CIT (Check Image Truncation) procedure;
- preparation of the system, testing and training of Bank workers following the change in the Central Credit Bureau transmission channel;
- all services from the SIBT server farm to that of SBA in Cuneo in preparation for the centralisation of all outsourced activities of the Parent Company Cassa Centrale Banca.

ASSICURA GROUP

Assicura Group is the holding company - 100.00% owned by Cassa Centrale Banca - with a 100.00% interest in the companies Assicura Agenzia (multi-firm company registered in section A of the Insurance Brokers Register specialised in the distribution of standard products for retail customers) and Assicura Broker (registered in section B of the Insurance Brokers Register, which offers brokerage services for Banks and their corporate customers), defining their guidelines and development strategies.

This Company is entrusted with the task of supporting the Banks participating in the Cooperative Banking Group in the development of bancassurance, taking advantage of the considerable opportunities provided by a segment experiencing significant growth while also making it possible to boost customer retention by offering social security, protection and investment solutions, as well as earning revenues from services.

At the end of 2018, Assicura Agenzia activated its collaboration with 81 BCC-CR-RAIKAs - joined by 4 industrial cooperative banks - extending its activities to central and southern Italy, with the opening of the Rome office to provide more effective assistance to the Banks located in these regions.

On behalf of the participating Banks, the Company has managed more than 300 thousand customers underwriting almost 450 thousand policies for a total of more than EUR 145 million in premiums with regard to protection - including the TCM and CPI cover sectors - to which EUR 3 billion in volume was added for insurance investment products and more than EUR 400 million for supplementary pension policies, exceeding 3.5 billion in premiums, with an increase of more than 86.00% compared to the volumes brokered in the previous year.

Portfolio management, alongside new business - which rose by 77.00% to EUR 356 million compared to 2017 thanks especially to the significant appreciation for class I investment solutions and CPI and TCM policies, the volumes of which rose by 52.00% and 103.00%, respectively - generated total fees of EUR 33 million (up by 52.80% compared to 2017), of which more than 28.3 million - against the average retrocession which rose from 84.30% to 85.90% - accrued by Banks which increased their revenues by more than EUR 10 million (+55.67%).

The focus on making processes more efficient and limiting costs, despite the investments made for regulatory compliance imposed by the entry into force of the IDD and for the activation of relationships with new companies indispensable to acquire the management of specific portfolios, made it possible to achieve a net profit for the year in excess of EUR 955 thousand, up by more than 50.00% compared to the result in the previous year.

In 2018, Assicura Broker developed its brokerage business with the Cassa Centrale Banca Cooperative Banking Group companies as well as other types of companies. At the end of 2018, its customers exceeded the threshold of 800, 705 of which are businesses. Credit institutions and the associated companies that engaged Assicura Broker totalled 141 and of these, 61 granted it an exclusive engagement, relying on it to manage their entire insurance portfolio. Aside from lending, 564 corporate customers work in other sectors.

With regard to the development of the insurance brokerage business with the corporate customers of Group Banks, despite the impact in 2018 of the new insurance distribution directive, the number of collaboration agreements with Cooperative Credit Banks reached 26.

Overall, Assicura Broker brokers a portfolio of more than EUR 13 million in insurance premiums, of which 40.00% derives from companies that are not part of its Banking Group. In 2018, it collected fees of EUR 2,111,334, up by 3.70% compared to 2017. The profit amounted to EUR 271 thousand, in line with 2017.

CENTRALE CREDIT & REAL ESTATE SOLUTIONS S.r.l.

2018 was the ninth year of operations for Centrale Credit & Real Estate Solutions (CCRES in abbreviated form). Since 2012, the company has been committed primarily to providing advisory services for Banks on the management and sale of impaired loans, accruing significant experience in structuring multi-originator disposals and securitisations, also operating through a stable network of partners built up over years of business with top industry players. All of this, between 2012 and 2017, made it possible to complete six disposals and one securitisation for a total of more than two billion in impaired loans transferred and 153 Banks involved in the processes.

The activity carried out in 2018 was primarily aimed at achieving the objectives defined by the Parent Company to reduce the Group's impaired credit. In January and February 2018, CCRES as a result contributed to the first time adoption (FTA); this option enabled the Group Banks to boost provisions on impaired loans intended for disposal, taking advantage of the opportunity not to directly expense adjustments in the income statement, but rather to set up a negative reserve directly in the statement of financial position.

In the months immediately following, the Company was involved in structuring the CCRES VII disposal, with the participation of 53 credit institutions and loans totalling EUR 1.4 billion. Four Banks not belonging to the Cassa Centrale Banca Cooperative Banking Group also participated in this transaction. The disposal agreement was signed on 5 July in London, with a portion of the payment required on signing and a portion deferred to the beginning of December 2018.

Over the last four months of the year, work was concentrated on the preliminary phases in preparation for the structuring of a new securitisation transaction (Buonconsiglio II), again with non performing loans.It is expected to be completed in two separate steps: the first (disposal and entering into the investment agreement) in March 2019 and the second (issue of securities and settlement of the transaction in the accounts) in early December 2019.

Considering the intense activities carried out, the Company closed the year 2018 with turnover significantly higher than that of the previous year, rising from EUR 1 million to EUR 6 million. The profit for the year also increased from EUR 299,612 in 2017 to EUR 3,128,272 in 2018. The company's equity now amounts to EUR 4.3 million.

During the year, CCRES' operations were not limited only to the NPL advisory service, although this was the predominant service, but it also worked in the following business areas:

- due diligence and non-financial consulting for companies involved in project financing operations and the renewable energy sector;
- due diligence and consulting in the real estate sector;
- marketing the platform - established in co-operation with a primary company of the sector - for the outsourced management of the non performing loans of CR-BCCs;
- provision of services for Centrale Soluzioni Immobiliari and for the first real estate company established as part of the 'real estate project' of Cassa Centrale Banca.

After the drop in recent years, the due diligence and business advisory activities did not show signs of recovery. There are two reasons for this. On one hand, CCRES, as noted above, concentrated its core business on the structuring of impaired loan disposal transactions. On the other hand, the economic situation which showed a certain recovery in the first half of 2018 weakened considerably in the second part of the year, entailing a slowdown in investments and, as a result, a decrease in the need for business advisory services. Particularly in the energy sector, which was very important for the operations of CCRES in the past, the weak economy and the end of the incentive system have almost eliminated all opportunities.

CENTRALE CASA S.r.l.

Centrale Casa carries out brokerage activities to find the best solutions for the shareholders and customers of BCC-CR-RAIKAs that need to purchase or sell residential, commercial, industrial, agricultural, etc. real estate, but also commercial activities and licences. It consists of a team of professionals who work alongside customers to make the sale of real estate simple and fast, at the right time and with no setbacks.

It also offers services such as: appraisals and estimates, compliance checks, and technical, tax and contractual consultancy.

At the moment, the Agency is structured with 3 Agents with an exclusive contract and 2 resources for secretarial and back office activities.

The activity carried out is linked to the activation of multiple 'channels' which enable 'contact' with potential customers (roughly 2,000), with roughly 200 contacts linked to the personal acquaintances of the Agents, obtaining many 'generic' requests (around 3,800), especially from the internet portals, 460 'specific' requests from the specialised portals and from the company website and 450 reports (SEA - SEV) from the Banks. After an initial necessary trial stage and phase of refinement in the local province, the project will be extended over time to the rest of the areas where the affiliated Banks operate, always in close collaboration with them.

The summary data relating to the activity carried out in 2018 includes: roughly 2,000 contacts with potential new customers; 450 inspections; 212 contracts concluded; 300 assessments for the assignment of the sale engagement; more than EUR 180,000 as the average sale value, sale engagements 100.00% exclusive, 14 sales, several rental agreements as well as appraisal reports.

In the start-up phase, Centrale Casa had a negative income statement, due primarily to:

- the difficult context in the real estate market;
- start-up and project costs;
- the need to concentrate part of the work on creating and refining the necessary management and control supports, thus taking time away from purely commercial activities;
- operations with a reduced number of Agents due to the difficulty encountered in recruiting professionals with suitable backgrounds.

In February 2018, Centrale Casa received an important recognition from AIFIn - the Italian Financial Innovation Association - which out of 95 projects presented in Milan, gave it an honourable mention due to its 'capacity to anticipate and lead market changes'.

In the course of 2018, Agents and Agencies were also selected and then became affiliated, to define effective local collaboration models, so as to provide space to professionals and companies already in the business.

During the year, new activities were activated with several pilot Banks which will be able to take a good deal of space, with development possibilities in favour of multiple Banks. In particular, these are activities for appraising and estimating the values of the real estate owned by the Banks which may be disposed of, with subsequent initiatives aimed at quick sales. In addition, consulting was provided to the Banks to give them an opinion on sale possibilities and the relative hypothetical timing for the disposal of properties linked to anomalous credit situations.

The activity of Centrale Casa will not result in the abandonment of the 'Property Showcase', launched in 2014 in close synergy with CesVe. The two activities may be reciprocally advantageous, and the best methods to continue will need to be evaluated, to enable interested customers to provide visibility to their properties, while autonomously handling the sale. This is so to safeguard the objective of the BCC-CR-RAIKAs to finance, ensure and manage the resources linked to any purchase and sale method used by customers.

CENTRALE SOLUZIONI IMMOBILIARI S.r.l.

The activities of Centrale Soluzioni Immobiliari, a wholly owned subsidiary of Cassa Centrale Banca, are ancillary with respect to the activities of the parent company and are predominantly carried out in its favour, with the main objective of safeguarding the credit obligations deriving from impaired loans secured by collateral.
In 2018 the Company consolidated its activity, which started in 2016, closing its first financial statements with a significantly positive net result. The profit for the year net of taxes was EUR 484,000; equity, which was EUR 2,032,000 in 2017, rose to 2,516,000 in 2018, also considering the share capital of EUR 2 million paid in by the shareholder. Revenues reached EUR 4.2 million, compared to EUR 700 thousand last year. This income statement item rose due basically to the sale of:

- owned land located in the Municipality of Ala (TN);
- a portion of a property of the former Agraria in Riva del Garda (TN);
- an apartment with garage in the 'Aceri' residential complex in Rovigo.

Due to these sales, inventories recognised in the financial statements declined from EUR 8.8 million in 2017 to EUR 5.9 million in 2018. Tangible fixed assets totalled 1.081 million and reduced only due to depreciation for the period. Nearly all of the sales during the year were subject to VAT, allowing for a reduction in the pro-rata which at year end came to 3.00%, providing the Company with a considerable recovery in economic margins compared to the previous two years, when instead the VAT pro-rata penalised the final result.

CLARIS LEASING S.p.A.

On 10 August 2018, after obtaining the go-ahead from the Authorities, Cassa Centrale Banca completed the purchase of the entire share capital of Claris Leasing S.p.A.

Therefore, since that date, Claris Leasing has been part of the Cassa Centrale Banking Group with a single shareholder and subject to the management and coordination of the Parent Company Cassa Centrale Banca.

The amount of the 2018 values referring to new lease agreements entered into reflects the transitional period experienced by Claris Leasing starting back in 2017, with the placement in compulsory administrative liquidation of the previous Parent company. In the first half of 2018, the company was limited to credit management and maintaining customer relationships. Indeed, activities consisted of managing and maintaining existing contracts with a view to protecting the high asset quality that was in part undermined by ordinary and early redemptions. Its entry into the new Cassa Centrale Banca Group in August 2018 marked the turning point, generating significant interest on the part of customers for the business's recovery.

The final value of contracts entered into by the Company in 2018 was EUR 31,785,901.03, understandably marking a 54.90% decline compared to the previous year, but there was an excellent recovery starting in the last two months of the year. As a result, the number of contracts entered into during the year (183) also decreased by 61.20% compared to the previous year.

Following the acquisition of full control over Claris Leasing by Cassa Centrale Banca, an extraordinary credit policy was enacted which, on a prudent basis, generated further new completely extraordinary provisions against impaired loans. Impaired loan cover percentages were raised further to 72.00% for non performing loans and 52.00% for unlikely to pay, compared to the already high levels of cover applied by Claris Leasing which were amongst the highest in the market.

In 2015, the Company carried out a securitisation transaction on loans named 'Claris Lease 2015'. The value of loans shown in the financial statements also includes the amount of the assets transferred relating to the transaction mentioned above, as they are not eligible for derecognition.

Following the annual review, the rating agency DBRS recognised an upgrade on the loans of Claris Leasing, as had already taken place for the previous securitisation, raising the rating of its securities. Specifically:

- Senior security from A to A+;
- Mezzanine security from BBB to BBB+.

This gratifying result is linked to the excellent performance of the securitised portfolio placed on the market.

For the year 2018, the interest margin was EUR 11.7 million, marking a decrease of 22.40% compared to the previous year due to the natural *decalage* that was not replaced; the net balance of fees, at EUR 154 thousand, declined by EUR 419 thousand (-73.12%).

Due to the trends noted above, the net interest and other banking income amounted to EUR 11.9 million.

Value adjustments on loans recognised during the year amounting to EUR 19 million rose by EUR 12.4 million due to the rigorous policy followed by the Parent Company.

Operating costs for the year 2018, of EUR 6.7 million, also marked an increase compared to the previous year of EUR 3.7 million, linked to the rigorous policy of the Parent Company and nearly entirely attributable to net provisions for risks and charges.

In light of the extraordinary manoeuvre carried out on provisions for loans and risks, which had an impact of roughly EUR 17 million, the year 2018 closed with a loss of EUR 9.9 million net of taxes.

SERVIZI BANCARI ASSOCIATI S.p.A.

Servizi Bancari Associati (SBA) was acquired by the Parent Company Cassa Centrale Banca, which took over its management and control, in 2018. It provides fully outsourced bank operations support services to Cooperative Credit Banks, joint stock Credit Institutions and Savings Banks located throughout the country, with in excess of 450 bank branches, for funds administered (direct and indirect funding as well as loans) of more than EUR 32.4 billion.

A consortium company, in 2018 it provided services to more than 30 Partner Banks using the Gesbank operating system, and at the end of the year it expanded the group of partners/users to all Cooperative Credit Banks belonging to the CCB Group and to the Banks using its services, providing Group services for the production and sending of customer correspondence (more than 17 million envelopes/year) and running the fleet of ATMs (more than 2,000 ATMs managed).

The Company operates throughout the country providing all advisory and back office services, ranging from centralised administration services to tax consultancy, from supervisory reporting to the e-money segment, from centralised Entity Treasury management on behalf of Associates to full human resources management (administration, payroll, labour law, contractual, social security and tax consulting), from contractual documents to process organisation. The applications are supported by a data centre which connects more than 50 Banks either in full outsourcing or hosting mode, with roughly 4,000 interconnected workspaces.

The Company is also a 'procurement centre', obtaining significant economies of scale. These items (databases, telecommunications, postal services, etc.) amounted to more than EUR 8.3 million in 2018.

In 2018, the company's value of production totalled more than EUR 27.5 million, with the use of 125 resources.

CE.SVE S.p.A. CONSORTILE

Ce.Sve S.p.A. Consortile, strong from its professional experience gained over more than 30 years alongside Cooperative Credit Banks, offers administrative, assistance, consulting and training services to support Banks and their customers throughout the country.

The administrative, management support, organisational and marketing services provided are integrated with the specific functions of the Bank and are subject to constant monitoring to effectively improve business processes.

Ce.Sve is specialised in the outsourcing of banking and company organisational processes, particularly also for Important Operating Departments ("FOI"), in line with the numerous regulatory provisions that accompany banking activity within the Cassa Centrale Banca Cooperative Banking Group.

In agreement with the Cassa Centrale Banca Group and the partner and client Banks, Ce.Sve pursues those improvements, updates and new processes that are useful for their activities; attention is also directed towards customers other than cooperative credit banks, for which the services complement and improve upon the SIB2000 information system offer.

At the end of 2018, Ce.Sve's services were provided to more than 140 Banks, of which 79 in the CCB Group.

Turnover in 2018 and the costs of production, down slightly compared to the previous year, both came to roughly EUR 20 million, due to the nature of the company as a consortium.

Equity in 2018 amounted to EUR 24,671,723, with capitalisation in the reserve of the profit for the year of EUR 1,676,426.

Ce.Sve has 3 operating offices: registered office in Padua and branches in Vicenza and Bari.

NEAM S.A.

The year 2018 was a much more challenging year than expected for the global financial markets. The stock indexes, bond markets and currency markets were impacted by increasing volatility which culminated in the last quarter of the year: it is difficult to find an asset class with a positive return in 2018 due to disappointing performance.

In the US, in the first part of the year the tax cuts approved by Trump allowed for vigorous growth in corporate earnings which, coinciding with the strengthening of the dollar, made US assets relatively attractive, generating a transfer of cash flows to the detriment primarily of emerging markets.

At global level, an important deterrent for investments was certainly the concern caused by the intensification of trade tensions between the US and China. The back-and-forth negotiations slowly undermined consumer and business confidence, with the effect that the former put off high value purchases while companies postponed decisions relating to capital expenditure. Another detrimental element was the reduction of debt in China, which while positive from the structural perspective, caused a decline in investments in fixed assets by the second largest economy in the world.

In general, the effects of the management of monetary policy by the Central Banks, with the gradual normalisation followed by the Federal Reserve in 2018 and the correlated decision of the ECB to end its quantitative easing programme starting at the beginning of 2019, generated a context of increasing financial imbalance and an expected decline in liquidity at global level: the consequence was a considerable increase in volatility in the financial markets, which especially characterised the second half of the summer period, resulting in a prevalent downward trend.

In the autumn, with the emergence of positive economic data and an unemployment rate below 4.00%, but core inflation still above 2.00%, the US Fed decided to continue with its plans, with a further official rate hike by a quarter point. On the other hand, in Europe, while the ECB reaffirmed the end of quantitative easing, it provided considerable reassurances concerning its desire to adopt conduct intended to guarantee the necessary support to the economy, possibly by providing additional liquidity to the market.

The most critical phase for the financial markets coincided with the last quarter of the year, marked by a series of factors that highlighted the increasing risk of a generalised slowdown in the economic cycle at global level.

A possible deterioration of the trade dispute between the US and China; the constant decline in the Eurozone's IFO and PMI index; the stagnation in the relationship between the European Commission and the Italian government, with the possible re-igniting of fears linked to the integrity of the single currency; political confusion regarding the outcome of Brexit; weakening growth in China and uncertainty as to the monetary policy that the Central Banks may adopt, have had negative effects on an economic cycle that is already quite worn out, with the consequence that global growth outlooks have been revised downward.

All of this has triggered concerns of an upcoming recession, with the ongoing downturn in the main financial markets acting as a further stimulus. The consequence has been an accentuation of the negative phase under way, which led the main international Stock Exchanges to close the year with negative performance.

The following changes were registered in the main developed markets: -6.24% for the S&P 500, -12.08% for the Nikkei 225 and -14.34% for the EuroStoxx 50; 'international' performance was not very different, with the MSCI EU at -13.10% and the MSCI EM at -16.64%.

Increasing volatility at the end of the year caused many investors to exit from their investments, thus contributing towards a decisive downturn in assets compared to previous quarters. Assets under management therefore came to EUR 2,905,412,870, up 5.34%, while the amounts fuelled by PACs reached EUR 217,473,510, marking growth of 11.47%.
Assets under management rose by EUR 147,248,453, against net inflows of EUR 356,598,000 and a negative contribution due to negative market growth of EUR 209,349,547.
The significant fact from the commercial perspective was the launch of the new NEF Target 2025 bond sub-fund, open to subscriptions until March 2021, to subsequently become a closed sub-fund until 31 December 2025, and with an annual distribution of proceeds; the sub-fund has a balance of 75.5 million.
There was also a significant increase in the PIR segment, which marked growth of 66.00%, reaching more than 140 million in assets managed.

	31.12.2018	31.12.2017	%
NEF Assets	2,905,412,870	2,758,164,417	5.34%
NEF amounts	217,473,510	195,098,132	11.47%
Retail Class Assets	2,455,791,517	2,429,876,560	1.07%
Institutional Class Assets	449,621,353	328,287,857	36.96%

ASSETS BY SUB-FUND

SUB-FUNDS	31.12.2018	31.12.2017	%
NEF - Global Equity	136,943,699	113,270,331	20.90%
NEF - Euro Equity	375,921,712	318,930,492	17.87%
NEF - U.S. Equity	121,642,554	101,908,147	19.36%
NEF - Pacific Equity	90,317,942	88,761,850	1.75%
NEF - EE.ME.A. Equity	66,492,454	64,924,451	2.42%
NEF - Emerging Market Equity	247,427,869	248,350,935	-0.37%
NEF - Global Property	64,056,719	69,018,709	-7.19%
NEF - Ethical Balanced Conservative	105,795,295	80,594,373	31.27%
NEF - Ethical Balanced Dynamic	217,090,085	205,809,001	5.48%
NEF - Ethical Total Return Bond	167,504,919	264,324,586	-36.63%
NEF - Euro Short Term Bond	291,841,251	300,924,457	-3.02%
NEF - Global Bond	203,058,237	192,865,093	5.29%
NEF - Euro Bond	154,166,984	159,569,544	-3.39%
NEF - Euro Corporate Bond	224,473,746	260,760,477	-13.92%
NEF - Emerging Market Bond	222,311,801	203,405,241	9.30%
NEF - Risparmio Italia	140,820,757	84,746,730	66.17%
NEF - Target 2025	75,546,847		

ASSOCIATES OF CASSA CENTRALE BANCA

CENTRALE TRADING S.r.l.

Originally established to provide support and assistance to Banks that use the online trading service offered by Directa Sim, over the years Centrale Trading has entered into agreements with many companies, making it possible to expand the range of services offered to BCC-CR-RAIKAs and client Banks.
Of these:

- Directa Sim: the agreement dates back to 2004, and to date 168 credit institutions located throughout the country have signed on. The online trading platforms were adapted over time to the changed needs of customers and make it possible to offer an excellent service suited to the most demanding customers;
- Italpreziosi S.p.A.: in 2013, the collaboration between Directa and Italpreziosi S.p.A. made it possible to activate the ‘Oro Fisico in Banca’ (physical gold in bank) project, which allows Banks to employ a platform for the trading of gold bars and coins on behalf of customers. In 2018, the offer was enhanced with accumulation plans and insured deposits on physical gold which further expanded service potential;
- Six Financial Information: the agreement with Six Financial Information, a leading global data provider, has been active since 2014 for the marketing of its information products with Banks;
- WebSim: with this company that is part of the Intermonte Group, an agreement has been in place since 2016 making it possible for Banks to take advantage of a complete financial information and analysis service;
- Master Chart: in 2019, a new marketing agreement was signed with Master Chart, making it possible to complete the info provider offer with services designed to best cover the needs of retail operators.

More than one hundred training days were provided by Centrale Trading in 2018 in collaboration with the contracted banks, for internal training of colleagues of the BCC-CR-RAIKAs as well as direct training for end customers. Activities with end customers range from the presentation of Directa’s operating platforms, to specific courses on technical and operating aspects, to individual presentations with significant customers. These training activities were augmented by over 100 commercial visits made to banks which are already partners for updating on the service and the planning of development activities, and to potential new participating banks to present the unique features of the services offered.

31.12.2018	Directa	Italpreziosi	Six	WebSim
Trentino	20	15	17	15
Lombardy	22	4	4	1
Alto Adige	21	17	2	
Veneto	18	9	2	4
Emilia	11	3		4
Piedmont	10	2		
Sicily	10	1	1	
The Marches	9	2		
Campania	8	4		
Tuscany	9	1	1	
Lazio	9	4	1	
Friuli Venezia Giulia	7	3	3	3
Puglia	6			
Calabria	3	1	2	
Abruzzo	2	1		
Molise	1			
Valle d'Aosta	1			
Umbria	1			
TOTAL	168	168	33	27

CENTRO SISTEMI DIREZIONALI S.r.l.

Centro Sistemi Direzionali S.r.l. (CSD) handles the development and implementation of the SID2000 management information system and the SIO organisational system in favour of the different affiliated Banks of the Group.
In 2018, the Company was working on multiple projects, such as:

- aggregated data extraction for the Parent Company's Planning and Control instrument: the project's objective was the provision of aggregated data by affiliated Bank, type and additional business attributes to the Parent Company's Planning and Control procedure;
- EW and TRIGGER project: calls for the management of performing positions that meet requirements for a change in risk level, determined by the identification of Early Warnings and Triggers with different frequency (both monthly and daily). The application requires the management by the Parent Company of positions of debtors with multiple loans and centralised positions;
- fine tuning of the Performance Rating model: the project aimed to refine the Performance Rating model in light of its activation in affiliated Banks that adopted CSD systems in 2017 and in the first half of 2018;
- NPL management: a procedure was created for the management of impaired loans by the individual affiliated Banks and by the Parent Company. In particular, a form has been developed for the management and archiving of information on each individual case. The forms will be updated with data from the various operating systems every month, every day, and for some functions in real time. Using this procedure, the Parent Company will be able to operate in a single environment on centralised cases and monitor the cases managed directly by the individual Banks;
- creation of the GDPR tool: to bring the companies belonging to the Cassa Centrale Banca Cooperative Banking Group into line with the new European Regulation 2016/769 on personal data processing (GDPR), a tool has been created for completing the Register of processing activities;
- Business Impact Analysis management: for the management of the Business Impact Analysis (BIA) for companies belonging to the Cassa Centrale Banca Cooperative Banking Group, an application has been made available which can be used to complete first and second level analyses. The application enables the Parent Company to monitor the activities carried out by the various companies;
- GROUP PROfile: for all Banks that use CSD, the GROUP PROfile application can be used to monitor customer data aggregated by groups defined in the management systems for supervisory reporting purposes or groups defined arbitrarily in the CSD environment respecting the following requirements:
  - renewed and simplified graphic interface;
  - combined use in the web and mobile (tablet) version;
  - possibility to configure the presentation of information by thematic area;
  - improvement of utilisation and reproduction performance.

The increase in activities carried out by the subsidiary as well as the number of client Banks has had positive economic repercussions for the company.
Revenues reached around EUR 5.5 million with a 12.00% increase. This increase, despite rising business costs as a result of the increase in activities carried out, made it possible for the Company to achieve a result for the year of close to half a million euros.

MANAGEMENT ACTIVITY OF THE CASSA CENTRALE BANCA GROUP

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

GROUP'S CAPITAL STRUCTURE AND INCOME STATEMENT

The Cassa Centrale Banca Group, as at 31 December 2018, is composed of the Parent Company Cassa Centrale Banca S.p.A. and the companies it controls: Phoenix Informatica Bancaria S.p.A., Centrale Credit & Real Estate Solutions S.r.l., Centrale Soluzioni Immobiliari S.r.l., Assicura Group S.r.l., with its subsidiaries Assicura Agenzia S.r.l. and Assicura Broker S.r.l., and Informatica Bancaria Finanziaria S.p.A. with its subsidiaries Informatica Bancaria Trentina S.r.l. and Servizi Informatici Bancari Trentini S.r.l., Nord Est Asset Management S.A., CESVE S.p.A. Consortile, Claris Leasing S.p.A., Centrale Soluzioni Immobiliari S.r.l. and Prestipay S.p.A. The Parent Company also holds a controlling interest (100%) in Centrale Casa S.r.l., a company formed on 31 August 2017, consolidated at equity because its equity and economic values at the end of the financial year were not relevant (immaterial subsidiary).

It is also highlighted that, for the purpose of these consolidated financial statements, it was deemed unnecessary to consolidate, as not relevant, the portion of the Company's income statement whose control was taken over on 7 December 2017 with the consequent first line-by-line accounting consolidation as at 31.12.2017 of only the net assets acquired: Phoenix Informatica Bancaria S.p.A., Assicura Group S.r.l. and Informatica Bancaria Finanziaria S.p.A. with their respective subsidiaries.

It should also be noted that the accounts report the amounts related to the previous year for comparative purposes.

RECLASSIFIED FINANCIAL STATEMENTS

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	Assets	31.12.2018	01.01.2018	Changes	Change %
10.	Cash and cash equivalents	123,891	697,161	(573,270)	(82.23)
20.	Financial assets measured at fair value through profit or loss	87,469	90,597	(3,128)	(3.45)
	1) Loans to banks	-	-	-	
	2) Loans to customers	17,957	20,437	(2,480)	(12.13)
	3) Securities	69,512	70,160	(648)	(0.92)
30.	Financial assets measured at fair value through other comprehensive income	1,824,803	1,871,171	(46,368)	(2.48)
40.	Financial assets measured at amortised cost	4,558,720	3,271,675	1,287,045	39.34
	1) Loans to banks	2,034,175	1,689,196	344,979	20.42
	2) Loans to customers	1,166,031	472,999	693,032	146.52
	3) Securities	1,358,514	1,109,480	249,034	22.45
70.	Equity investments	20,114	43,504	(23,390)	(53.77)
90.	Tangible assets	64,421	45,935	18,486	40.24
100.	Intangible assets	89,818	50,179	39,639	78.99
100.	Tax assets	52,904	38,142	14,762	38.70
	a) current	2,788	3,902	(1,114)	(28.56)
	b) deferred	50,116	34,240	15,876	46.37
130.	Other assets	291,763	127,088	164,675	129.58
	TOTAL ASSETS	7,113,903	6,235,453	878,450	14.09

Figures in thousands of euro

	Liabilities and equity	31.12.2018	01.01.2018	Changes	Change %
10.	Financial liabilities measured at amortised cost	5,375,722	4,705,180	670,542	14.25
	a) due to banks	2,612,089	3,449,574	(837,485)	(24.28)
	b) due to customers	2,679,545	1,252,579	1,426,966	113.92
	c) debt securities in issue	84,088	3,027	81,061	2677.93
20.	Financial liabilities held for trading	11,596	11,341	255	2.25
30.	Financial liabilities measured at fair value	9,449	9,790	(341)	(3.48)
60.	Tax liabilities	21,256	10,427	10,829	103.86
	a) current	9,391	1,744	7,647	438.47
	b) deferred	11,865	8,683	3,182	36.65
80.	Other liabilities	464,264	342,123	122,141	35.70
90.	Provision for severance indemnity	8,440	6,999	1,441	20.59
100.	Provisions for risks and charges:	31,473	28,505	2,968	10.41
	a) commitments and guarantees issued	7,843	14,434	(6,591)	(45.66)
	c) other provisions for risks and charges	23,630	14,071	9,559	67.93
120.	Valuation reserves	(12,922)	13,942	(26,864)	(192.68)
150.	Reserves	95,154	93,185	1,969	2.11
160.	Share premium	19,029	19,029	-	-
170.	Share capital	952,032	952,032	-	-
180.	Own shares		-345		
190.	Third party minority interests (+/-)	41,411	26,955		
200.	Profit (loss) for the year (+/-)	96,999	16,290	80,709	495.45
	TOTAL LIABILITIES AND EQUITY	7,113,903	6,235,453	878,450	14.09

Figures in thousands of euro

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

RECLASSIFIED INCOME STATEMENT

INCOME STATEMENT

	Items	31.12.2018 IFRS 9	31.12.2017 IAS 39	Changes	Change %
10+20	Interest margin	27,095	10,231	16,864	164.83
45+50	Net commissions	77,373	47,841	29,532	61.73
70.	Dividend and similar income	729	726	3	0.41
80+100+110	Net result from trading, disposal/acquisition and fair value measurement of financial assets and liabilities	16,874	15,136	1,738	11.48
230+250+270	Other operating charges/income	177,227	3,345	173,882	N.S.
	Operating income	299,298	77,279	222,019	287.30
190 a)	personnel costs	(59,477)	(18,566)	40,911	(220.35)
190 b)	other administrative expenses	(109,670)	(39,569)	70,101	(177.16)
210+220	Net value adjustments/write-backs to tangible/intangible assets	(16,508)	(1,656)	14,852	(896.86)
	Operating charges	(185,655)	(59,791)	(125,864)	210.50
	Profit (loss) from operations	113,643	17,488	96,155	549.85
130.	Net value adjustments/write-backs due to credit risk of:	(1,057)	5,238	(6,295)	(120.18)
130 a)	financial assets measured at amortised cost - banks	(3,940)		(3,940)	
130 a)	financial assets measured at amortised cost - customers	5,579	5,292	287	5.42
130 a)	financial assets measured at amortised cost - securities	(1,203)		(1,203)	
130 b)	financial assets measured at fair value through other comprehensive income	(1,493)	(54)	(1,439)	N.S.
200 a)	net allocations to provisions for risks and charges - commitments and guarantees issued	7,112	(336)	7,448	N.S.
200 b)	net allocations to provisions for risks and charges - other net allocations	(1,289)		(1,289)	
290.	Profit (loss) before tax from current operating activities	118,409	22,390	96,019	428.86
300.	Income taxes for the year on current operating activities	(17,872)	(6,100)	11,772	(192.98)
340.	Profit (loss) for the year for minority interests	(3,538)			N.S.
350.	Profit (loss) for the year	96,999	16,290	80,709	495.47

Figures in thousands of euro

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

Notes regarding the drafting of the financial statements

The compulsory financial statements were drafted on the basis of Bank of Italy Circular no. 262/2005 of 22 December 2005 as introduced by the 5th update of 22 December 2017. The latter updated the statements primarily to take into consideration the introduction of IFRS 9 Financial Instruments, which replaced IAS 39 Financial instruments: recognition and measurement as of 1 January 2018.

Therefore, the compulsory financial statements are different from those used for the financial statements of Cassa Centrale Banca as at 31 December 2017. For the details, please refer to Part A Section 4 - Other matters - Entry into force of IFRS 9 in these Financial Statements.

To make it possible to provide comments on the financial position and income statement figures, reclassified statements (unaudited) have been drafted on the basis of the statements provided in the 5th update of Bank of Italy Circular no. 262/2005. More specifically:

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

IAS 39	IFRS 9
Reclassified statements pursuant to the 4th update of Bank of Italy Circ. 262/2005	Reclassified statements pursuant to the 5th update of Bank of Italy Circ. 262/2005
(10. - 20.) Interest margin	(10. - 20. -140.) Interest margin
(80.+90.+100.+110.) Net result from trading, hedging, disposal/repurchase and assets/liabilities measured at fair value	(80.+90.+100.+110.) Net result from trading, hedging, disposal/repurchase and assets/liabilities measured at fair value through profit or loss
(130a.) Net value adjustments for impairment of: loans	(130a.) Net value adjustments/write-backs due to credit risk relative to: financial assets measured at amortised cost: - loans to banks - loans to customers - securities
(130b.) Net value adjustments/write-backs for impairment of financial entities available for sale	(130b.) Net value adjustments/write-backs due to credit risk relative to: financial assets measured at fair value through other comprehensive income
(130d.) Net value adjustments/write-backs for impairment of: other net financial operations of value for impairment of: loans	(200a.) Net allocations to provisions for risks and charges: commitments and guarantees issued

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

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

- recoveries of taxes recognised in item 230 of the accounting statement (other operating charges/income) are reclassified as a reduction from indirect taxes included under other administrative expenses;
- the item net value adjustments on tangible and intangible assets includes items 210 and 200 of the accounting statement.

Furthermore, the comments on trends in the main financial position and income statement aggregates are made on the basis of the reclassified statements.

ASSETS

The Group liquidity at banks (EUR 2,034 million) increased by EUR 345 million (+20.4%) compared to the previous year. In particular, in the aggregate the most significant increase is attributed to the item Other loans to Banks for around EUR 855 million, while the compulsory reserve registered a decline of around EUR 491 million.

There were no repurchase agreement transactions in place as at 31 December.

The amounts due from customers increased compared to the previous year, from EUR 473 million to EUR 1,166 million (up approximately EUR 693 million).

This increase was primarily related to obtaining control over the investee Claris Leasing S.p.A., whose loans amount to roughly EUR 530 million, and the item Other loans, which rose by around EUR 78 million.

The Group's situation with impaired loans is described in detail in the Explanatory notes - Part E.

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

As at 31 December 2018:

• the total of gross impaired exposures amounted to around EUR 153 million, written down by approximately EUR 102 million: total net non performing exposures thus came to around EUR 51 million, consisting of non performing loans for EUR 18 million and unlikely to pay positions of EUR 33 million.

The total amount of performing past due exposures net of write-downs was around EUR 4 million.

Gross performing exposures totalled around EUR 6,295 million, broken down into EUR 4,524 million from Financial assets measured at amortised cost and EUR 1,771 million from Financial assets measured at fair value through other comprehensive income.

• the performing exposures listed above had write-downs of roughly EUR 18 million (around 0.3% of total exposures).

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

1) 'Financial assets held for trading' [Item 20 a)], or:

- financial instruments held with a view to realising cash flows through their sale as:

(i) they were acquired or incurred primarily with a view to selling or repurchasing them in the short term; (ii) they were part of a portfolio of identified instruments managed on a unitary basis and for which there is the proven existence of a recent and effective strategy aimed at obtaining profits in the short term;

- trading derivatives;

2) 'Financial assets measured at fair value' [Item 20 b)]: financial instruments classified in this category in application of the Fair Value Option (FVO);

3) 'Other financial assets obligatorily measured at fair value' [Item 20 c)]: financial instruments (i) whose management strategy is determined based on fair value or (ii) with objective characteristics, or contractual terms, that do not envisage cash flows represented solely by payments of principal and interest on the principal outstanding at specific dates, or when the SPPI testis not passed.

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

Financial assets measured at fair value through profit or loss posted a slight decline compared to the previous year, coming to roughly EUR 87 million (EUR 91 million in the previous year).

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

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

Financial assets measured at fair value through other comprehensive income amount to roughly EUR 1,825 million, down by around EUR 46 million compared to the comparative figure for the previous year; these are mainly Level 1 debt securities (EUR 1,769 million out of the total, equal to about 97%) issued by public administrations (Italian government securities).

LIABILITIES

The total deposits of the Group of around EUR 5,376 million increased during the year by EUR 671 million (+14.25%). The analysis of the fundamental components of the figure shows that the total deposits of the banking system (EUR 2,612 million), including the term deposits in the Obligatory Reserve (EUR 297 million), decreased by 24.2% compared to 2017.

Customer deposits rose from EUR 1,252 million to 2,680 million (+113.9%); the significant increase is primarily due to repurchase agreement transactions (1,358 million) stipulated on the MTS Repo platform with the Cassa di Compensazione e Garanzia as counterparty.

'Deferred tax liabilities' (item 80.b) include, among other things, the deferred taxes calculated on the added value of intangible assets, measured at the time of the purchase price allocation of the companies acquired, equal to roughly EUR 9.7 million.

The consolidated equity items mainly include:

- Profit reserves of EUR 95 million;
- Negative valuation reserves of EUR -13 million;
- Share premium of EUR 19 million and Capital (net of own shares) of EUR 952 million;
- Profit pertaining to the Group of EUR 97 million and Third party minority interests of EUR 41 million.

	31.12.2018	31.12.2017
Reserves and share premium	101,261	116,419
Share capital	952,032	951,687
Profit for the year	96,999	16,290
GROUP EQUITY	1,150,292	1,084,396
Third party minority interests	41,411	26,955
TOTAL EQUITY	1,191,703	1,111,351

Figures in thousands of euro

Consolidated regulatory capital amount to EUR 919.2 million, entirely composed of Common equity Tier 1 capital as additional AT1 capital and Tier 2 capital were nil due to the effect of deductions and transitory regime.

The Group's total capital ratio stands at 49.47% (minimum required limit is 11.55%, inclusive of 2.5% for capital conservation buffer) and is calculated by dividing the total consolidated regulatory capital by consolidated weighted-risk assets which amount to EUR 1,858 million.

INCOME STATEMENT

The items of the consolidated Income Statement are made up of the economic data for the Parent Company and consolidated companies net of the consolidation elisions and adjustments.

The consolidated 'Interest margin' is roughly EUR 27 million, up by EUR 16.9 million compared to the previous year: this result can be attributed to the Parent Company CCB for around EUR 20.8 million and to the contribution, relating only to the second half of 2018, of the company Claris Leasing, for roughly EUR 6.3 million.

Consolidated 'Net commissions' totalled EUR 77.4 million compared to 47.8 million in 2017: the main contribution was due primarily to CCB for roughly EUR 64 million, as well as the consolidation of NEAM as of 1 October 2018 (EUR 1.8 million) and the conclusion of some significant transactions of Centrale Credit & Real Estate Solutions S.r.l. (around EUR 6 million).

The consolidated 'Net interest and other banking income' amounts to roughly EUR 122 million and includes, in addition to the items already mentioned, 0.7 million for dividends received almost exclusively from non significant equity investments of the subsidiary Cassa Centrale Banca and 16.9 million deriving from trading, disposal/acquisition and measurement of financial assets and liabilities measured at fair value. Some details are provided below regarding the items specified above, in essence referring to the Parent Company Cassa Centrale Banca:

- trading provided a positive contribution of 2.2 million due primarily to -0.5 million for equities, +2.3 million for assets in foreign currency, as well as +0.4 million for derivatives on debt securities and interest rates (profits/losses, capital gains/losses and accruals). The latter reflect the valuation of the derivatives themselves (always matched in the market), as well as the accrual of the relative spreads;
- the disposal/repurchase of financial assets/liabilities generated profit of 14.3 million, fully relating to the sale of financial assets, of which:
  - 4.8 million from the sale of receivables (non performing loans);
  - 9.4 million from the disposal of government securities classified in financial assets measured at fair value through other comprehensive income;
- measurement at fair value resulted in profit of 0.4 million, ascribable to:
  - financial assets/liabilities measured at fair value for 0.3 million (-0.2 financial assets and +0.5 million financial liabilities);
  - financial assets/liabilities obligatorily measured at fair value for 0.1 million (primarily referring to the Loans component).

Other operating income and charges of roughly 177 million rose sharply compared to the same figure from 2017 (EUR 3 million); this increase can be mainly attributed to:

- the contribution of revenues from sales and services of Phoenix Informatica Bancaria, which as at 31 December 2017 did not contribute to the consolidated income statement of the CCB Group, equal to roughly EUR 96 million (net of around EUR 3 million relating to intercompany elisions);
- the 'Recovery of other expenses' referring primarily to the share attributable to the CR-BCCs for internal audit, compliance and data protection officer services that they outsource to Cassa Centrale Banca, equal to around EUR 6 million;
- the revaluation, carried out following the acquisition of control, of the equity investments previously held in NEAM S.A and CESVE S.p.A. , respectively of around EUR 14.3 million and EUR 3.6 million;
- the recognition in the Income Statement of badwill generated on the Claris Leasing S.p.A. equity investment of roughly EUR 31.6 million, accounted for in compliance with IFRS 3.

The consolidated 'Net income from financial activities' (EUR 121 million) was impacted by net value adjustments and write-backs calculated on financial assets measured at amortised cost (EUR +0.4 million) and on financial assets measured at fair value through other comprehensive income (EUR -1.4 million).

As at 31 December 2018, operating charges totalled roughly EUR 186 million and are represented by:

- personnel costs, equal to roughly EUR 59 million, up significantly due to the number of people hired during the year to meet requirements linked to the establishment of the Banking Group, and the contribution of the service companies consolidated in the course of the year, equal to roughly EUR 19 million;

- other administrative expenses amounting to around EUR 110 million, mainly consisting of services for professional expenses (EUR 43 million) and information technology expenses (EUR 48 million);
- value adjustments on tangible and intangible assets of approximately 17 million.

Due to the trends described above, the profit from operations came to EUR 62 million.

Item 130. a) net value adjustments due to credit risk relative to financial assets measured at amortised cost is roughly EUR -1 million and consists of the following:

- 4 million in net value adjustments on loans to Banks;
- 5.6 million in net write-backs on loans to customers. This item reflects 6.3 million in net analytical write-backs on exposures classified in the third stage, against 0.7 million in net value adjustments on exposures in the first/second stage;
- EUR 1.2 million for the net adjustment on debt securities (rows A. and B. in the table).

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

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

- +5.8 million in net write-backs on provisions for risks and charges. With respect to credit risk, there was a net write-back of 7.1 million during the year for credit risk relating to guarantees/commitments while, as regards other provisions for risks and charges, there was an allocation of 1.3 million relating to the item 'legal disputes';
- +0.02 million as the net profit from the disposal of investments and equity investments related to the sale of real estate during the year.

The profit and loss from the disposal of investments and equity investments is equal to roughly EUR 51 million and mainly consists of:

- 'Other proceeds' relating to the revaluation, carried out following the acquisition of control, of the equity investments previously held in NEAM S.A and CESVE S.p.A. , respectively of around EUR 14.3 million and EUR 3.6 million,
- the recognition in the Income Statement of badwill generated on the Claris Leasing S.p.A. equity investment of roughly EUR 31.6 million, accounted for in compliance with IFRS 3.

As a result of the trends described above, the profit from current operations gross of taxes came to 118 million. Income taxes for the year on current operating activities amounted to roughly 18 million.

After attributing the applicable portion of the result to minority interests, equal to around 3.5 million, the Group profit as at 31 December 2018 equalled around EUR 97 million.

MAIN FINANCIAL AND ECONOMIC INDICATORS

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

The indicators were constructed using the data provided in the reclassified statements.

INDICATORS OF THE FINANCIAL STATEMENTS	31.12.2018	01.01.2018	Change 31.12.2018 compared to 01.01.2018
STRUCTURAL RATIOS			
Loans to customers / Total Assets	16.64%	7.91%	8.7 p.p.
Direct deposits / Total Assets	75.57%	75.46%	0.1 p.p.
Equity / Total Assets (1)	16.75%	17.98%	(1.2 p.p.)
PROFITABILITY RATIOS			
Net profit / Equity (ROE) (1)	9.21%		
Net profit / Total Assets (ROA)	1.36%		
Cost to income	62.03%		
RISK RATIOS			
Net non performing loans/Net loans to customers (4)	1.48%	2.00%	(0.5 p.p.)
Other impaired loans/Net loans to customers (4)	2.80%	4.40%	(1.6 p.p.)
Value adjustments to non performing loans / gross non performing loans	78.30%	84.74%	(6.4 p.p.)
Value adjustments to other impaired loans/gross other impaired loans	54.02%	48.02%	6.0 p.p.
Value adjustments to performing loans/Gross performing loans	1.11%	2.59%	(1.5 p.p.)
PRODUCTIVITY RATIOS (2) (3)			
Operating income per employee	404		
Personnel costs	80		
Net earnings per employee	131		
EQUITY RATIOS			
CET1 Capital ratio (Common equity Tier 1 capital/ Total risk-weighted assets)	49.47%		
Tier 1 Capital ratio (Tier 1 capital/Total risk-weighted assets)	49.47%		
Total Capital ratio (Total regulatory capital/Total risk-weighted assets)	49.47%		

(1) The Equity includes the profits made during the year.

(2) The productivity ratios are expressed in thousands of euros.

(3) Indicators calculated using the average number of employees.

OTHER INFORMATION ON OPERATIONS

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

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

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

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

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

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

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

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

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

OTHER INFORMATION ON OPERATIONS

Further information is provided as set out in the Supervisory Instructions for the financial statements of banks (chapter 2, par. 8 and chapter 3, par. 8, Bank of Italy Circular no. 262, revision of 22 December 2017).

Group's main strategic business areas

The Group's main strategic business areas correspond to those of the subsidiaries.

Group's risk measurement, control and management

In the course of 2018, the Parent Company Cassa Centrale Banca expanded the scope of its subsidiaries, which at year end also includes Claris Leasing. Net of this last company, the subsidiaries do not currently express risks comparable to those of the Bank and are subject to specific operating risks relating to their activity, in accordance with their company objectives and the strategies set by the Parent Company. The latter will provide, in relation to the development of subsidiaries' activities, to give precise indications to their Bodies in relation to risk management, and in consequence every Group's company will attribute, internally, responsibilities relating to the roles of control and information to the Parent Company.
In consideration of the recent consolidation of Claris Leasing, the types of risk listed below are linked almost exclusively to the activity of Cassa Centrale Banca; specific references have been included in the dedicated sections of the Consolidated Explanatory Notes with regard to the activities of Claris Leasing, when applicable.

Research and Development

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

Own shares

The Bank holds no own shares as the remaining inventories in the portfolio were transferred in the course of the year.

Relations with related parties

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

Business continuity

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

Corporate governance

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

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

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

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

Internal control system

The Parent Company defines the structure of the Group internal control system in conformity to the provisions contained in Part I, Title IV, Chapter 3 of Bank of Italy Circular no. 285 of 17 December 2013.

Remuneration and incentivisation policies

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

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

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

Compliance Department

On the basis of the provisions of the Bank of Italy contained in Part I, Title IV, Chapter 3 of Circular no. 285 of 17 December 2013, the Compliance Department oversees the risk of failure to comply with regulations, understood as the risk of incurring legal or administrative sanctions, significant financial losses or reputational damages as a result of violations of imperative rules (laws, regulations) or internal regulations (such as articles of association, codes of conduct, corporate governance codes) for the Group Companies. In the course of 2018, the Department began to operate as an outsourcer for the affiliated Banks of the Cooperative Banking Group, carrying out the compliance activities and the compliance risk assessment methodology adopted by Cassa Centrale Banca for them.

Money laundering and funding terrorism

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

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

Consolidated non-financial statement

As permitted by article 5, paragraph 3, letter b) of Italian Legislative Decree 254/2016, the company has prepared the consolidated non-financial statement in a separate report. It is available on the website of Cassa Centrale Banca at www.cassacentrale.it.

AUDITING OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were audited by KPMG S.p.A., to whom the Shareholders' Meeting of 22 May 2010, with approval from the Board of Statutory Auditors, assigned the task of carrying out the audit of Cassa Centrale Banca's consolidated financial statements for the 2010-2018 nine-year period.

SIGNIFICANT EVENTS AFTER 31 DECEMBER 2018

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

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

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

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

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

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

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

BUSINESS OUTLOOK

The international economic scenario continues to show signs of a slowdown, making it reasonable to expect 2019 to be full of uncertainty for the global economy. In December 2018, the international trade of goods declined in terms of volume for the second consecutive month. This pessimism reflects an unusual concentration of negative factors for global demand, such as political tensions in various countries, a no-deal Brexit and the continuation of the US-China trade war. A possible escalation in protectionism continues to constitute one of the main risks for a decline in the international economy. Within this context of significant uncertainty as to the development of the global economic cycle, monetary conditions remain expansionary in major countries, with the possible effect of supporting economic activity. Indeed, the Federal Reserve and the ECB have suspended their process of normalising monetary policy to carefully evaluate the intensity and effects of the global slowdown.
The slowdown in the economic cycle has also involved the Eurozone economy: industrial and export-driven economies, like Germany's, have felt its effects the most. The signals seen in the initial months of 2019 confirm the deceleration in the Eurozone. Outlooks for the upcoming months remain characterised by moderation.
Within the framework of an international and European slowdown, in 2018 Italy marked a greater deceleration than other countries, as it was also impacted by weak international trade as well as domestic demand and the uncertain direction of economic policy, which weighed down on operator expectations. Although the legacy of 2018 has a significant impact on GDP growth outlooks for our country (forecasts for 2019 are currently +0.1%), more recent economic indicators suggest a few positive signals in terms of the easing of tensions surrounding sovereign debt as well as the recovery of stock prices. At the same time, signs of an improvement are being witnessed in operator confidence and expectations.
Starting from 1 January 2019, the process of establishing the Cassa Centrale Banca Cooperative Banking Group also concerned the significant step of the entry into the accounting scope of 84 BCC-CR-RAIKAs, which decided to take part in the Cassa Centrale Banca project, and the acquisition of control over additional instrumental companies.
For 2019, activities associated with the organisational and operating structuring of the Banking Group are expected to continue, with the resulting investments in human resources and technological infrastructure, in particular in the Parent Company and the instrumental companies, with an expected increase in the relative costs. Revenues are expected to decline slightly, particularly due to the lower contribution of the component deriving from the finance area. Overall, the economic result is in any event expected to be positive.

RECONCILIATION BETWEEN PARENT COMPANY AND CONSOLIDATED NET PROFIT AND EQUITY

	Share capital and reserves	Profit for the year	Total Equity
Cassa Centrale Banca S.p.A. Financial Statements	1,056,022	31,017	1,087,039
Results of subsidiaries and associates		16,566	16,566
Revaluation of shareholdings (step acquisition) and recognition of Badwill from Purchase Price Allocation		49,529	49,529
Other consolidation adjustments	-2,729	-113	-2,842
TOTAL CONSOLIDATED FINANCIAL STATEMENTS	1,053,293	96,999	1,150,292

Figures in thousands of euro

BOARD OF STATUTORY AUDITORS' REPORT

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

Dear Shareholders,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Equity investments: changes during the year

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Consolidated Financial Statements:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Board participated in the meetings of the Board of Directors: in 2018 14 meetings were held (7 in 2019) and it also participated in the meetings of the Executive Committee; in 2018, 8 meetings were held (3 in 2019).

In 2018, the Risk Committee held 11 meetings, in which the Chairman of the Board of Statutory Auditors or another standing auditor participated (6 in 2019).

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

Observations on compliance with the principles of proper administration

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

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

The activities of the corporate bodies and functions, as confirmed by the Board of Statutory Auditors, were characterised by compliance with the principles of proper administration and protection of the Bank's assets.

Within the scope of the meetings in which it participated and the verifications performed, the Board of Statutory Auditors did not become aware of transactions that were imprudent, hazardous or in potential conflict of interests, or transactions in conflict with the resolutions of the Shareholders' Meeting or that could compromise the integrity of the company's assets. In addition, no transactions were identified that lacked the necessary information in any cases in which Directors had an interest.

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

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

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

Observations on the adequacy of the organisational structure

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

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

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

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

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

Adaptation to IFRS 9

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

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

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

Information on intragroup and/or transactions with related parties

- *Information on compensation of executives with strategic responsibilities*

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

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

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

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

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

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

Consolidated non-financial statement (NFS)

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

Thus, in essence, starting from the financial statements relating to the years beginning in 2017, large listed companies, banks and insurance companies (with at least 500 employees and which meet specific size-related requirements) must draft a statement to accompany traditional financial reporting on non-financial matters, such as environmental, social and personnel aspects, as well as respect for human rights and the fight against corruption.
In compliance with the provisions of Italian Legislative Decree 254/2016, the Company has prepared the consolidated non-financial statement (also referred to as the 'NFS'). Indeed, Cassa Centrale Banca has decided to undertake economic, social and environmental sustainability initiatives consistent with its organisational characteristics. To the extent necessary to ensure an understanding of business activities, trends, results and impacts with respect to the main topics of sustainability, Cassa Centrale Banca's commitment in terms of sustainability has taken shape through the preparation of the NFS, in order to meet the obligations laid out in articles 3 and 4 of Italian Legislative Decree 254/2016. The NFS reports the main policies applied by the company, the management models and the main activities carried out by the Bank with respect to the topics expressly referred to in Italian Legislative Decree 254/2016 (environmental, social, personnel, respect for human rights, fight against corruption), as well as the main risks identified connected with those topics.
The NFS was drafted in compliance with the Sustainability Reporting Guidelines (version 4) published in May 2013 by the Global Reporting Initiative (GRI), "Core" option.
The NFS was submitted to the Risks Committee for examination and evaluation and subsequently approved by the Cassa Centrale Banca Board of Directors.
The NFS was also submitted to the independent auditors for their compliance opinion, which they provided in a dedicated report containing a certification of the compliance of the information provided pursuant to art. 3, paragraph 10 of Italian Legislative Decree 254/16. The review was performed according to the procedures laid out in the 'Independent Auditors' Report'.

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

The Board of Statutory Auditors performed, in compliance with the law and the duties imposed by supervisory provisions, the duties assigned to it, also in line with the provisions issued by the Bank of Italy, the ECB and Consob, as well as the rules of conduct of the Board of Statutory Auditors applicable to the case in question, recommended by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Board of Chartered Accountants).
In conclusion, during our supervisory activity, no objectionable events requiring reporting were identified.
As can be seen in the data reported in the Report on Operations and in the Explanatory Notes, the Bank's capital ratios as at 31 December 2018 are all considerably higher than the required minimums.

Consolidated Financial Statements as at 31 December 2018

We also examined the draft consolidated financial statements as at 31 December 2018, which are presented to you by the Directors.
They were prepared in compliance with the law and the Report on Operations supplements the description of the performance of the bank and its subsidiaries, as well as the Group structure, as set forth in arts. 25 et seq. of Italian Legislative Decree 127/91 as amended.

The main subsidiaries consolidated line-by-line are:
- Centrale Credit & Real Estate Solutions;
- Assicura Group S.r.l.;
- Informatica Bancaria Finanziaria S.p.A.;
- Claris Leasing S.p.A.;
- Nord Est Asset Management S.A.;
- Phoenix S.p.A.;
- Servizi Bancari Associati S.p.A.;
- CESVE S.p.A. consortile.

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

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

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

Conclusions

Considering the result for the year of EUR 31,016,819, the Company's equity of EUR 1,056,022 thousand (of which Reserves EUR 103,990 thousand), the capital strength indicators (CET 1 and Total Capital Ratio) and having examined the content of the Reports prepared by the independent auditors, the Board of Statutory Auditors does not raise, insofar as it is responsible, any objections with respect to the approval of the Financial Statements as at 31 December 2018 and the allocation of the profit for the year as proposed by the Directors.
Dear shareholders, with the approval of the financial statements, the term of office of this Board of Statutory Auditors has come to an end. Therefore, we invite you to appoint a new control body for the years 2019-2021 and decide on the relative remuneration.
On conclusion of our term of office, we would like to thank all of the members of the Board of Directors, the management and all of the Bank's personnel for their assistance in performing the functions and duties assigned to us.

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

INDEPENDENT AUDITORS' REPORT

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

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

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Cassa Centrale Banca Group (the "group"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

Transition to IFRS 9

Notes to the consolidated financial statements "Part A - Accounting policies": "A.1 – General part", Section 5 – Other matters: "Transition to IFRS 9"

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

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

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

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

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

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

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

Key audit matter	Audit procedures addressing the key audit matter
Lending to customers is one of the group's core activities. Loans and receivables with customers recognised under financial assets at amortised cost totalled €2,399.6 million at 31 December 2018, accounting for 33.7% of total assets. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of	Our audit procedures included: — gaining understanding of the parent's and group companies' processes and IT environments in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the

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

Recognition of business combinations and purchase price allocation

Notes to the consolidated financial statements "Part B - Information on the statement of financial position - Assets": Section 10 "Intangible assets"

Notes to the consolidated financial statements "Part C - Information on the income statement": Section 16 "Other operating costs and income"

Notes to the consolidated financial statements "Part G - Business combinations": section 1 "Combinations performed during the year"

Key audit matter	**Audit procedures addressing the key audit matter**
The group acquired control over Claris Leasing S.p.A., Nord Est Asset Management S.A., Servizi Bancari Associati S.p.A. Consortile and Cesve S.p.A. Consortile during 2018. Since they are business combinations, the parent's directors accounted for them in accordance with IFRS 3 and, therefore, they identified the acquisition date, calculated the purchase price (or consideration transferred) and allocated it (purchase price allocation, or PPA). Upon conclusion of the PPA procedure, the group recognised goodwill of €30.3 million relating to Nord Est Asset Management S.A., Servizi Bancari Associati S.p.A. Consortile and Cesve S.p.A. Consortile under assets and a gain on bargain purchase of €31.6 million relating to Claris Leasing S.p.A. in profit or loss. Due to the materiality of the above business combinations and the complex valuations involved that required a high level of judgement by the parent's directors in measuring the acquired assets and assumed liabilities, we believe that the recognition of the above business combinations and purchase price allocation are a key audit matter.	Our audit procedures included: — checking that the recognition of the acquired assets and liabilities complied with IFRS 3; — analysing the contract documents relating to the acquisitions; — analysing the valuation process, assumptions and methods used to measure the acquisition-date fair value of the assets acquired and liabilities assumed by the group; we carried out these procedures with the assistance of experts of the KPMG network; — assessing the appropriateness of the disclosures on the above business combinations and purchase price allocation.

Measurement of intangible assets with an indefinite useful life

Notes to the consolidated financial statements "Part B - Information on the statement of financial position - Assets": Section 10 "Intangible assets"

Notes to the consolidated financial statements "Part C - Information on the income statement": Section 16 "Other operating costs and income"

Notes to the consolidated financial statements "Part G - Business combinations": section 1 "Combinations performed during the year"

Key audit matter	Audit procedures addressing the key audit matter
As a result of a number of business combinations carried out in the last two years, the group recognised intangible assets with an indefinite useful life, amounting to €52.5 million at the reporting date, comprising goodwill of €30.3 million resulting from transactions carried out in 2018. As disclosed in the notes to the consolidated financial statements, in accordance with IFRS 3, the parent's directors allocated the intangible assets with an indefinite useful life to certain cash-generating units ("CGU") they had identified. When preparing the draft consolidated financial statements, the directors tested the reporting-date carrying amounts for impairment in order to identify any impairment loss on the CGU to which the intangible assets with an indefinite useful life have been allocated compared to their recoverable amount. The directors calculated the recoverable amount on the basis of the value in use by discounting the expected future cash flows. Impairment testing requires complex valuations and a high level of judgement, especially in relation to: — the expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of group's sector and the directors' forecasts about the CGU's future performance; — the financial parameters to be used to discount the cash flows. For the above reasons, we believe that the measurement of intangible assets with an indefinite useful life is a key audit matter.	Our audit procedures included: — understanding the process adopted to prepare the impairment tests approved by the parent's directors; — checking any discrepancies between the previous year historical and business plan figures, in order to check the accuracy of the forecasts underlying the directors' judgements; — analysing the criteria used to identify the CGU and tracing the carrying amounts of the assets and liabilities allocated thereto to the consolidated financial statements; — assessing the directors' approach to determine the CGU's value in use; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures about intangible assets with an indefinite useful life and the related impairment test in the consolidated financial statements.

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254 of 30 December 2016

The directors of Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254 of 30 December 2016.

We have checked that the directors had approved such non-financial statement.

In accordance with article 3.10 of Legislative decree no. 254 of 30 December 2016, we attested the compliance of the non-financial statement separately.

Verona, 15 April 2019

KPMG S.p.A.

(signed on the original)

Massimo Rossignoli
Director of Audit

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED INCOME STATEMENT

Assets		31.12.2018	31.12.2017
10.	Cash and cash equivalents	123,891	697,161
20.	Financial assets measured at fair value through profit or loss	87,469	
	a) financial assets held for trading	17,282	
	b) financial assets measured at fair value	3,098	
	c) Other financial assets obligatorily measured at fair value	67,089	
30.	Financial assets measured at fair value through other comprehensive income	1,824,803	
40.	Financial assets measured at amortised cost	4,558,720	
	a) loans to banks	2,159,168	
	b) loans to customers	2,399,552	
	Financial assets held for trading (formerly Item 20)		14,389
	Financial assets measured at fair value (formerly Item 30)		3,139
	Financial assets available for sale (formerly Item 40)		2,360,780
	Held to maturity investments (formerly Item 50)		609,044
	Loans to banks (formerly Item 60)		1,735,227
	Loans to customers (formerly Item 70)		490,995
50.	Hedging derivatives	-	-
60.	Adjustment of the financial assets subject to macro-hedging (+/-)	-	-
70.	Equity investments	20,114	43,504
80.	Reinsurers' share of technical provisions	-	-
90.	Tangible assets	64,421	45,935
100.	Intangible assets	89,818	50,179
	of which: goodwill	52,471	22,189
110.	Tax assets:	52,904	33,043
	a) current	2,788	3,902
	b) deferred	50,116	29,141
120.	Non-current assets and groups of assets held for disposal	-	-
130.	Other assets	291,763	127,088
	TOTAL ASSETS	7,113,903	6,210,484

Liabilities and Equity		31.12.2018	31.12. 2017
10.	Financial liabilities measured at amortised cost	5,375,722	
	a) due to banks	2,612,089	3,449,574
	b) due to customers	2,679,545	1,252,579
	c) debt securities in issue	84,088	
	Debt securities in issue (formerly Item 30)		3,027
20.	Financial liabilities held for trading	11,596	11,341
30.	Financial liabilities measured at fair value	9,449	
	Financial liabilities measured at fair value (formerly Item 50)		9,790
40.	Hedging derivatives	-	-
50.	Adjustment of the financial liabilities subject to macro-hedging (+/-)	-	-
60.	Tax liabilities	21,256	8,683
	a) current	*9,391*	-
	b) deferred	*11,865*	*8,683*
70.	Liabilities associated to assets held for disposal	-	-
80.	Other liabilities	464,264	
	Other liabilities (formerly Item 100)		343,015
90.	Provision for severance indemnity	8,440	6,999
100.	Provisions for risks and charges	31,473	
	a) commitments and guarantees issued	*7,843*	
	Provisions for risks and charges (formerly Item 120)		*14,125*
	b) retirement and similar obligations	-	54
	c) other provisions for risks and charges	23,630	14,071
110.	Technical provisions	-	
120.	Valuation reserves	(12,922)	(2,522)
130.	Repayable shares	-	
140.	Equity instruments	-	
150.	Reserves	95,154	99,912
160.	Share premium	19,029	19,029
170.	Share capital	952,032	952,032
180.	Own shares (-)	-	(345)
190.	Third party minority interests (+/-)	41,411	26,955
200.	Profit (loss) for the year (+/-)	96,999	16,290
	TOTAL LIABILITIES AND EQUITY	7,113,903	6,210,484

Income statement items		31.12.2018	31.12.2017
10.	Interest income and similar revenues	41,456	
	of which: interest income calculated with the effective interest method	*41,456*	
	interest income and similar revenues (formerly Item 10)		23,079
20.	Interest expenses and similar charges paid	(14,361)	(12,848)
30.	Interest margin	27,095	10,231
40.	Commission income	163,839	101,728
50.	Commission expenses	(86,466)	(53,887)
60.	Net commissions	77,373	47,841
70.	Dividend and similar income	729	726
80.	Net result from trading	2,197	
90.	Net result from hedging activities	-	-
100.	Profit (loss) from disposal/repurchase of:	14,294	
	a) financial assets measured at amortised cost	4,853	
	b) financial assets measured at fair value through other comprehensive income	9,441	
	c) financial liabilities	-	
110.	Net result of other financial assets and liabilities measured at fair value through profit or loss	383	
	a) financial assets and liabilities measured at fair value	293	
	b) other financial assets obligatorily measured at fair value	90	
	Net result from trading (formerly Item 80)		1,894
	Profit (loss) from disposal/repurchase of: (formerly Item 100)		13,008
	a) loans		3,055
	b) financial assets available for sale		9,953
	c) held to maturity investments		-
	d) financial liabilities		-
	Net result on financial assets and liabilities measured at fair value (formerly Item 110)		234
120.	Net interest and other banking income	122,071	73,934
130.	Net value adjustments/write-backs due to credit risk relative to:	(1,084)	
	a) financial assets measured at amortised cost	409	
	b) financial assets measured at fair value through other comprehensive income	(1,493)	
	Net value adjustments/write-backs due to impairment of: (formerly Item 130)		5,092
	a) loans		5,292
	b) financial assets available for sale		(54)
	c) held to maturity investments		
	d) other financial transactions		(146)
140.	Profits/losses from contractual changes without derecognitions	27	
150.	Net income from financial activities	121,014	-
160.	Net premiums	-	-
170.	Balance of other income and expenses of insurance management	-	-
180.	Net income from financial and insurance activities	-	-
190.	Administrative expenses	(179,542)	(66,659)
	a) personnel costs	(59,477)	(18,566)
	b) other administrative expenses	(120,065)	(48,093)
200.	Net allocations to provisions for risks and charges	5,823	
	a) commitments and guarantees issued	7,112	
	Net allocations to provisions for risks and charges (formerly Item 160)		(336)
	b) other net allocations	(1,289)	(336)
210.	Net value adjustments/write-backs to tangible assets	(9,829)	(1,352)
220.	Net value adjustments/write-backs to intangible assets	(6,679)	(304)
230.	Other operating charges/income	167,960	9,170
240.	Operating costs	(22,267)	(59,481)
250.	Profits (losses) on equity investments	19,637	2,846
260.	Net result of fair value measurement of tangible and intangible assets	-	-
270.	Value adjustments to goodwill	-	-
280.	Profit (loss) from disposal of investments	25	(1)
290.	Profit (loss) before tax from current operating activities	118,409	22,390
300.	Income taxes for the year on current operating activities	(17,872)	(6,100)
310.	Profit (loss) after tax from current operating activities	100,537	16,290
320.	Profit (loss) after tax from discontinued operations	-	-
330.	Profit (loss) for the year	100,537	16,290
340.	Profit (loss) for the year for minority interests	(3,538)	-
350.	Profit (loss) for the year for the parent company	96,999	16,290

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

	Items	2018	2017
10.	Profit (loss) for the year	100,537	16,290
	Other post tax components of income without reversal to the income statement	-	-
20.	Equities measured at fair value through other comprehensive income	(2,333)	
30.	Financial liabilities measured at fair value through profit or loss (changes in credit rating):	-	
40.	Hedging of equities measured at fair value through other comprehensive income:	-	
50.	Tangible assets	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	155	-
80.	Non-current assets and groups of assets held for disposal	-	-
90.	Quota of reserves from the valuation of shareholdings measured with the equity method	-	-
	Other post-tax components of income with reversal to the income statement	-	-
100.	Hedging of foreign investments	-	-
110.	Exchange rate differences	-	-
120.	Cash flow hedging	-	-
130.	Hedging instruments: (non designated elements)	-	
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	(24,519)	
	Financial assets available for sale (formerly Item 100)	-	(5,264)
150.	Non-current assets and groups of assets held for disposal	-	-
160.	Quota of reserves from the valuation of shareholdings measured with the equity method	(1,635)	-
170.	Total other post-tax components of income	(28,332)	(5,264)
180.	Comprehensive income (Items 10+170)	72,205	11,026
190.	Consolidated comprehensive income pertaining to minority interests	3,538	-
200.	Consolidated comprehensive income pertaining to the parent company	68,667	11,026

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

				Allocation of result from previous year		Changes for the period										
							Equity Transactions									
	Balances at 31.12.2017	Adjustment to opening balances	Balances at 1.1.2018	Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of own shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options	Changes in equity investments	Comprehensive income for 2018	Equity at 31.12.2018 (Group)	Equity at 31.12.2018 (minority interests)
Share capital:																
a) ordinary shares	944,232	-	944,232	-	-	-	-	-	-	-	-	-	-	-	944,232	8,807
b) other shares	7,800	-	7,800	-	-	-	-	-	-	-	-	-	-	-	7,800	-
Share premium	19,029	-	19,029	-	-	-	-	-	-	-	-	-	-	-	19,029	121
Reserves:																
a) of profit	99,912	(6,727)	93,185	16,290	-	(14,321)	-	-	-	-	-	-	-	-	95,154	26,060
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	(2,522)	16,464	13,942	-	-	1,468	-	-	-	-	-	-	-	(28,332)	(12,922)	2,885
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Own shares	(345)	-	(345)	-	-	-	345	-	-	-	-	-	-	-	-	-
Profit (loss) for the year	16,290	-	16,290	(16,290)	-		-	-	-	-	-	-	-	96,999	96,999	3,538
Equity for the group	1,084,396	9,737	1,094,133	-	-	(12,853)	345	-	-	-	-	-	-	68,667	1,150,292	-
Equity pertaining to minority interests	26,955	-	26,955	-	-	10,918	-	-	-	-	-	-	-	3,538	-	41,411

The changes in reserves include the recognition of non controlling interests resulting from the business combinations completed during the year.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

				Allocation of result from previous year		Changes for the period										
							Equity Transactions									
	Balances at 31.12.2016	Adjustment to opening balances	Balances at 1.1.2017	Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of own shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock options	Changes in equity investments	Comprehensive income for 2017	Equity at 31.12.2017 (Group)	Equity at 31.12.2017 (minority interests)
Share capital:																
a) ordinary shares	140,400	-	140,400	-	-	-	814,868	-	-	-	-	-	-	-	952,032	3,236
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	4,350	-	4,350	-	-	-	14,838	-	-	-	-	-	-	-	19,029	159
Reserves:																
a) of profit	82,319	-	82,319	17,933	-	23,220	-	-	-	-	-	-	-	-	99,912	23,560
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	2,742	-	2,742	-	-	-	-	-	-	-	-	-	-	(5,264)	(2,522)	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Own shares	-	-	-	-	-	-	-	(345)	-	-	-	-	-	-	(345)	-
Profit (loss) for the year	19,648	-	19,648	(17,933)	(1,715)	-	-	-	-	-	-	-	-	16,290	16,290	-
Group equity	249,459	-	249,459	-	(1,715)	(340)	826,311	(345)	-	-	-	-	-	11,026	1,084,396	-
Equity pertaining to minority interests	-	-	-	-	-	23,560	3,395	-	-	-	-	-	-	-	-	26,955

The changes in reserves include the recognition of non controlling interests resulting from the business combinations completed during the year.

CONSOLIDATED CASH FLOW STATEMENT (INDIRECT METHOD)

	Amount	
	December 2018	December 2017
A. OPERATING ACTIVITIES		
1. Operations	126,581	34,992
- income for the period (+/-)	96,999	16,290
- gains/losses on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit or loss (-/+)	(59)	
- gains/losses on financial assets held for trading and financial assets/ liabilities measured at fair value *(formerly IAS 39)* (-/+)		2,603
- gains/losses on hedging activities (-/+)	-	-
- net value adjustments/write-backs due to credit risk (+/-)	1,084	
- net value adjustments/write-backs for impairment *(formerly IAS 39)* (+/-)		(5,147)
- net value adjustments/write-backs to tangible and intangible assets (+/-)	16,508	1,657
- net allocations to provisions for risks and charges and other costs/ revenues (+/-)	(5,823)	667
- uncollected net premiums (-)	-	-
- other uncollected insurance revenue/charges (+/-)	-	-
- taxes, duties and tax credits not settled (+)	17,872	20,900
- net value adjustments/write-backs from discontinued operations net of tax (+/-)	-	
- other adjustments (+/-)	-	(1,978)
2. Cash flows generated/used by the financial assets	1,415,794	(1,208,951)
- financial assets held for trading	2,754	
- financial assets measured at fair value	41	
- other financial assets obligatorily measured at fair value	6,018	
- financial assets measured at amortised cost	1,287,454	
- financial assets held for trading *(formerly IAS 39)*		3,583
- financial assets measured at fair value *(formerly IAS 39)*		(180)
- financial assets available for sale *(formerly IAS 39)*		(166,297)
- loans to banks: on demand *(formerly IAS 39)*		(19,530)
- loans to banks: other receivables *(formerly IAS 39)*		(974,350)
- loans to customers *(formerly IAS 39)*)		(18,520)
- other assets	(131,645)	(33,657)
3. Cash flows generated/used by the financial liabilities	685,220	1,286,173
- financial liabilities measured at amortised cost	670,542	
- due to banks: on demand *(formerly IAS 39)*		620,865
- due to banks: other payables *(formerly IAS 39)*		(200,623)
- due to customers *(formerly IAS 39)*		790,065
- Debt securities in issue *(formerly Item 39)*		-
- financial liabilities held for trading	255	(5,684)
- financial liabilities measured at fair value	(341)	
- financial liabilities measured at fair value *(formerly IAS 39)*		188
- other liabilities	14,764	
- other liabilities *(formerly IAS 39)*		81,362
Net cash flows generated/used by operations	603,993	112,214

	Amount	
	December 2018	December 2017
B. INVESTMENT ACTIVITIES		
1. Cash flows generated by	4,842	718
- sales of equity investments	-	-
- dividends collected on equity investments	728	400
- sales of held to maturity investments *(formerly IAS 39)*		-
- sales of tangible assets	4,114	318
- sales of intangible assets	-	-
- sales of subsidiaries and business units	-	
2. Cash flows used by	25,881	(143,530)
- equity investment acquisitions	-	(8,188)
- purchases of held to maturity investments *(formerly IAS 39)*		(130,071)
- tangible asset acquisitions	11,518	(4,590)
- intangible asset acquisitions	14,363	(681)
- purchases of subsidiaries and business units	-	
Net cash flows generated/used by investment activities	30,723	(142,812)
C. FUNDING ACTIVITIES		
- issues/purchases of own shares	-	693,452
- issues/purchases of equity instruments	-	-
- dividend distribution and other	-	(1,715)
- sale/purchase of third parties' controlling interests	-	
Net cash flows generated/used by funding activities	-	691,737
NET CASH FLOWS GENERATED/USED DURING THE YEAR	573,270	661,139

KEY (+) generated (-) used

RECONCILIATION

Items	Amount	
	December 2018	December 2017
Cash and cash equivalents at the beginning of the year	697,161	36,022
Total net cash flows generated/used during the year	(573,270)	661,139
Cash and cash equivalents: impact of exchange differences	-	-
Cash and cash equivalents at year-end	123,891	697,161

CONSOLIDATED EXPLANATORY NOTES

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

Part A
Accounting policies

Part B
Information on the consolidated statement of financial position

Part C
Information on the consolidated income statement

Part D
Consolidated comprehensive income

Part E
Information on risks and related hedging policies

Part F
Information on consolidated equity

Part G
Business combinations regarding companies or branches

Part H
Transactions with related parties

Part I
Payment agreements based on own equity instruments

Part L
Segment reporting

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

PART A
ACCOUNTING POLICIES

A.1 - GENERAL PART
Section 1 - Statement of compliance with international accounting standards
Section 2 - General preparation criteria
Section 3 - Scope and methods of consolidation
Section 4 - Subsequent events
Section 5 - Other matters

A.2 - PART REGARDING THE MAIN ITEMS IN THE ACCOUNTS
1 - Financial assets measured at fair value through profit or loss
2 - Financial assets measured at fair value through other comprehensive income
3 - Financial assets measured at amortised cost
4 - Hedging transactions
5 - Equity investments
6 - Tangible assets
7 - Intangible assets
8 - Non-current assets and groups of assets held for disposal
9 - Current and deferred taxes
10 - Provisions for risks and charges
11- Financial liabilities measured at amortised cost
12 - Financial liabilities held for trading
13 - Financial liabilities measured at fair value
14 - Foreign exchange transactions
15 - Other information

A.3 - INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS
A.4 - INFORMATION ON FAIR VALUE
A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used
A.4.2 Processes and sensitivities of the valuations
A.4.3 Fair value hierarchy
A.4.4 Other information
A.4.5 Fair value hierarchy
A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels
A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)
A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)
A.4.5.4 Assets and liabilities which are not measured at fair value or which are measured at fair value on non-recurring basis: breakdown by fair value levels.

A.5 - INFORMATION ON THE'DAY ONE PROFIT/LOSS'

A.1 - GENERAL PART

SECTION 1

STATEMENT OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

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

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

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

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

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

SECTION 2

GENERAL PREPARATION CRITERIA

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

The Consolidated Financial Statements consist of the Consolidated Statement of financial position, the Consolidated Income Statement, the Statement of Consolidated Comprehensive Income, the Statement of changes in Consolidated Equity, the Consolidated Cash flow Statement, the Consolidated Explanatory Notes, and are accompanied by the Director's report on operations and the situation of the Group.

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

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

Furthermore, estimation processes are based on past experience and other factors considered reasonable in this case, and were adopted to estimate the carrying amount of assets and liabilities that cannot be easily inferred from other sources. In particular, estimation processes were adopted that support the book value of some of the most important valuation items posted in the accounts, according to reference regulations. These processes are mainly based on estimates of future recoverability of the values in the accounts and were carried out on a going concern basis. The main cases for which subjective evaluations are required to be made by the Group include:

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

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

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

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

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

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

For more details on the implications of the introduction of the aforementioned accounting standards, please refer to the comprehensive information provided in section 5 'Other matters'. In addition, the specific description of the accounting policies regarding the individual items of the Consolidated Financial Statements was provided in light of the new accounting standards in force from 1 January 2018.

With particular reference to the methods of presenting the effects of the first-time application of IFRS 9, the Group decided to avail itself of the option provided by paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 'First-Time Adoption of International Financial Reporting Standards', according to which - without prejudice to the retrospective application of the new rules of measurement and presentation required by IFRS 9 - no provision is made for the mandatory re-statement on a homogeneous basis of the comparative data in the financial statements of first-time application of the new standard.

In consideration of the above, with reference to the layouts of the financial statements as at 31.12.2018 set forth in Bank of Italy circular no. 262 (5th update), these were appropriately modified with the insertion, for the aggregates impacted by IFRS 9 and applicable solely for 2017, of the items required by IAS 39 and stated in compliance with the 4th update of Bank of Italy circular no. 262.

With reference to the tables in the explanatory notes which require the comparative year, note the following:

- for the items impacted by IFRS 9, the data relating to 2017 are not re-stated in the respective tables and a note is provided in the margin of said tables which refers to the information in the financial statements published as at 31.12.2017;
- for the items not impacted by IFRS 9, by contrast, the tables relating to the previous year required by the 5th update of Bank of Italy circular no. 262 were compiled normally.

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

SECTION 3

SCOPE AND METHODS OF CONSOLIDATION

The Consolidated Financial Statements include the financial statements of Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. and of its direct and indirect subsidiaries. The scope of consolidation is defined with reference to the provisions of IFRS 10, 11, 12 and IFRS 3. The companies operating in dissimilar business sectors from the one the Parent Company belongs to are also included in the scope of consolidation - as specifically required by IAS/IFRS.

In compliance with the provisions of paragraph 1.3 of Bank of Italy circular no. 115, the consolidated provision prepared for the sole purposes of determining the consolidated profit to be included in the calculation of regulatory capital also includes the consolidation, using the proportional method, of Casse Rurali Raiffeisen Finanziaria given the company is subject to joint control.

Subsidiaries

The scope of consolidation is determined in compliance with the provisions contained in international accounting standard IFRS 10 'Consolidated Financial Statements.' Based on this principle, the control requirement forms the basis of the consolidation of all types of entities, and is realised when an investor simultaneously:

- has the power to determine the relevant activities of the entity;
- is exposed to or benefits from the variable returns deriving from its involvement with the entity;
- has the ability to exercise its power to influence the amount of its returns (link between power and returns).

IFRS 10 establishes that, to have control, the investor must have the ability to direct the relevant activities of the entity, based on a legal right or mere de facto situation, and also be exposed to the variability of the results stemming from this power.

The subsidiaries are consolidated from the date on which the Group acquires control, according to the 'acquisition method' - IFRS 3, and cease to be consolidated when control is no longer held.

The existence of control is subject to a continuous valuation process if there are events and circumstances that indicate the presence of a change in one or more of the three elements forming the control requirement, presented in paragraph 2 below. Evaluations and assumptions for determining the scope of consolidation.

The full consolidation consists of the 'line-by-line' acquisition of the aggregates of the Statement of financial position and the Income Statement of the entities controlled, as counter-entry to the cancellation of the investment held by the Group in the entity and the recognition, in the appropriate items, of the shares held by minority interests.

The differences emerging from this offsetting were subject to the provisions of IFRS 3; if they were allocated to the appropriate items, they are subject to the accounting treatment of the reference standard; if they were not specifically allocated, they are booked to goodwill under intangible assets and subject to impairment testing .Negative differences are recognised in the Consolidated Income Statement (so-called 'bargain purchase').

In addition, for entities controlled through an investment relationship, the share of equity pertaining to minority interests, the result for the year and comprehensive income is represented separately in the respective Consolidated Financial Statements (respectively under items '210. Third party minority interests', '330. Profit (loss) for the year of minority interests', '150. Consolidated comprehensive income pertaining to minority interests').

Costs and revenues relating to the controlled entity are included in the consolidated financial statements from the date of acquisition of control. The costs and revenues of the subsidiary transferred are included in the income statement until the transfer date; the difference between the consideration of the transfer and the carrying amount of the net assets of said entity is recognised in the income statement item '270. Profit (loss) from disposal of investments'. In the presence of a partial disposal of the controlled entity which does not determine the loss of control, the difference between the consideration of the transfer and the associated carrying amount is booked as a counter-entry of equity.

Controlling interests held for sale are consolidated on a line-by-line basis and stated separately in the financial statements as a disposal group valued at the reporting date at the lower of the carrying amount and the fair value less disposal costs.

Associates

An associate is a company in which the investing company has significant influence and which is not a subsidiary or part of a joint venture. A significant influence is presumed to exist when the investing company:

- holds, directly or indirectly, at least 20% of the capital of another company;
- is able, also through shareholder agreements, to exercise a significant influence through:
  - representation on the company's governance body;
  - participation in the process of defining policies, including therein participation in decisions relating to dividends;
  - the existence of significant transactions;
  - the exchange of managerial personnel.

Equity investments in associates are measured according to the equity method. The equity investment in associates includes goodwill (net of any impairment) paid for the acquisition. Participation in the post-acquisition profits and losses of associates is booked to the income statement under item 250.

'Profits (losses) on equity investments'. Any distribution of dividends is used to reduce the book value of the equity investment.

If the interest in the losses of an associate is equal to or exceeds the book value of the investee, no further losses are recognised, unless specific obligations have been undertaken in favour of the associate or payments have been made to said entity.

The valuation reserves of the associates are shown separately in the statement of comprehensive income.

Joint arrangements

A joint arrangement is a contractual agreement in which two or more counterparties have joint control.

Joint control is the sharing, on a contractual basis, of control of an agreement, which exists solely when the unanimous consent of all parties that share control is required for decisions relating to significant assets. According to IFRS 11, joint arrangements must be classified as Joint operations or Joint Ventures based on the contractual rights and obligations held by the Group.

A Joint operation is a joint arrangement in which the parties have rights over the assets and obligations with respect to the liabilities of the agreement. A Joint Venture is a joint arrangement in which the parties have rights over the net assets of the agreement.

1. Equity investments in wholly-owned and jointly-owned subsidiaries

Company name	Relationship type (a)	Investing company	Share (b)	Availability of voting rights (c)
A.1 Equity investments in wholly-owned subsidiaries (line-by-line consolidation)				
Centrale Credit & Real Estate Solutions S.r.l.	1	Cassa Centrale Banca S.p.A.	100.00%	100.00%
Centrale Soluzioni Immobiliari S.r.l.	1	Cassa Centrale Banca S.p.A.	100.00%	100.00%
Assicura Group S.r.l.	1	Cassa Centrale Banca S.p.A.	100.00%	100.00%
Assicura Agenzia S.r.l.	1	Assicura Group S.r.l.	100.00%	100.00%
Assicura Broker S.r.l.	1	Assicura Group S.r.l.	100.00%	100.00%
Centrale Casa S.r.l.	1	Cassa Centrale Banca S.p.A.	100.00%	100.00%
I.B.T. S.r.l.	1	Informatica Bancaria Finanziaria S.p.A. (I.B.Fin.)	100.00%	100.00%
Claris Leasing S.p.A.	1	Cassa Centrale Banca S.p.A.	100.00%	100.00%
Nord Est Asset Management S.A. (NEAM)	1	Cassa Centrale Banca S.p.A.	100.00%	100.00%
Bologna Servizi Bancari S.r.l.	1	Phoenix Informatica Bancaria S.p.A.	100.00%	100.00%
Phoenix Informatica Bancaria S.p.A.	1		90.33%	90.33%
		Cassa Centrale Banca S.p.A.	80.31%	80.31%
		CESVE S.p.A. consortile	10.02%	10.02%
Informatica Bancaria Finanziaria S.p.A. (I.B.Fin.)	1		84.75%	84.75%
		Cassa Centrale Banca S.p.A.	69.75%	69.75%
		SBA	15.00%	15.00%
Servizi Bancari Associati S.p.A. consortile (SBA)	1	Cassa Centrale Banca S.p.A.	67.49%	67.49%
S.I.B.T. S.r.l.	1	I.B.T. S.r.l.	60.00%	60.00%
Prestipay S.p.A.	1	Cassa Centrale Banca S.p.A.	60.00%	60.00%
CESVE S.p.A. consortile	1		50.16%	50.16%
		Phoenix Informatica Bancaria S.p.A.	25.07%	25.07%
		Cassa Centrale Banca S.p.A.	25.09%	25.09%
CLARIS LEASE 2015 S.r.l.	4	Claris Leasing S.p.A.	-	-
A.1 Equity investments in jointly-controlled companies (equity method)				
Casse Rurali Raiffeisen Finanziaria S.p.A.	1	Cassa Centrale Banca S.p.A.	50.00%	50.00%

(a) Relationship type:

1 - Majority of voting rights in ordinary shareholders' meeting

4 - Other forms of control

(b) The % interest represents the ratio of ordinary shares to preference shares of investees held by the Parent company and total shares of the investee.

(c) The % of available votes represents the ratio between ordinary shares of investees held by the Parent company and total ordinary shares of the investee.

In the Consolidated Financial Statements, the equity investment in the joint-venture CRRFIN S.p.A. was consolidated using the equity method, while in the position consolidated for prudential purposes, said equity investment was consolidated using the proportional methods, as required by paragraph 1.3 of Circular no. 115 issued by the Bank of Italy.

The equity investments in Assicura Group S.r.l., Assicura Agenzia S.r.l., Assicura Broker S.r.l., Servizi informatici bancari trentini S.r.l., Centrale Credit & Real Estate Solutions S.r.l., Prestipay S.p.A., Bologna servizi Bancari S.r.l. and S.I.B.T. S.r.l., over which the Parent Company exercises control, were measured using the equity method, for the purposes of the prudential consolidated position, in application of art. 19 of Regulation (EU) no. 575/2013 which makes provision for cases of exclusion from line-by-line consolidation. These equity investments will, instead, be consolidated on a line-by-line basis for the preparation of the Consolidated Financial Statements.

It should be noted that, on 2 May 2018, Informatica Bancaria Trentina S.p.A. transferred control of Tecnodata S.r.l. through the sale of the shares held, with the subsequent deconsolidation of said entity.

In vehicle companies, the circumstances that need to be examined for the purposes of any existence of a situation of control pursuant to IFRS 10 are:

- The involvement/role of Group companies in the structuring of the transaction (originator/investor/servicer/ facility provider);
- the subscription of a large portion of ABS securities issued by the vehicle company on the part of Group companies;
- the scope/objective of the transaction.

The vehicle company for the securitisation consolidated for accounting purposes is Claris Lease 2015 S.r.l., whose transaction was originated by the company Claris Leasing S.p.A. in 2015.

The objective of this securitisation transaction was to ensure greater correlation of maturities between funding and lending, as well as diversification of sources of financing. Therefore, in respect of a portfolio of securitised loans of EUR 473 million, Senior notes of EUR 342 million, Mezzanine notes for EUR 45 million and Junior Notes for EUR 86 million were issued. The entire Junior and Mezzanine issue was subscribed by Claris Leasing. This circumstance determined the non-derecognition of the portfolio loans by Claris Leasing and the de facto consolidation of the assets and liabilities of the vehicle already in the separate financial statements of Claris Leasing. It is worth noting that, aside from the subscription of the securities in question, Claris Leasing acts as servicer.

2. Significant valuations and assumptions for determining the scope of consolidation

The scope of consolidation is determined in compliance with the provisions contained in international accounting standard IFRS 10 'Consolidated Financial Statements', which came into force in 2014. Based on this principle, the control requirement forms the basis of the consolidation of all types of entities, including structured entities when the conditions are met, and is realised when an investor simultaneously has:

- the power to determine the relevant activities of the entity;
- is exposed to or benefits from the variable returns deriving from its involvement with the entity;
- has the ability to exercise its power to influence the amount of its returns (link between power and returns).

IFRS 10 establishes that, to have control, the investor must have the ability to direct the relevant activities of the entity, based on a legal right or mere de facto situation, and also be exposed to the variability of the results stemming from this power.

Therefore, the Group consolidates all types of entities when all three aspects of control are present.
Generally, when an entity is directed through voting rights, control derives from holding more than half of the voting rights.
In other cases, determination of the scope of consolidation calls for consideration of all factors and circumstances that give the investor the practical ability to unilaterally manage the relevant activities of the entity (de facto control).
To this end, it is necessary to consider a collection factors, such as, merely by way of an example:

- the scope and design of the entity;
- the identification of the relevant activities and how they are managed;
- any right held through contractual agreements which confer the power to govern the relevant activities, such as the power to determine the financial and operating policies of the entity, the power to exercise the majority of voting rights in the decision-making body or the power to appoint or remove the majority of the body with decision-making functions;
- any potential voting rights exercisable and considered substantial;
- involvement in the entity in the role or agent or principal;
- the nature and the dispersion of any rights held by other investors.

With reference to the Group's situation as at 31 December 2018, all companies in which the majority of voting rights in the ordinary shareholders' meeting are held are considered wholly-owned subsidiaries, given that no evidence has been highlighted that the other investors have the practical ability to direct the relevant activities.
For companies in which half or less of voting rights are held, as at 31 December 2018, no agreement, statutory clause or situation able to attribute the Group the practical capacity to unilaterally govern the relevant activities were identified.

3. Equity investments in wholly-owned subsidiaries with significant third-party interests

As at 31 December 2018, there are no subsidiaries through an equity relationship with significant third-party interests. Consequently, no information is provided in paragraphs 3.1 and 3.2 below.

3.1 Third-party interests, availability of third-party votes and dividends distributed to third parties

No information is reported given that, for the Group as at 31 December 2018, there are no third-party interests considered significant.

3.2 Equity investments with significant third-party interests: accounting information

No information is reported given that, for the Group as at 31 December 2018, there are no third-party interests considered significant.

4. Significant restrictions

As at 31 December 2018, there are no legal or substantive obligations or restrictions able to obstruct the rapid transfer of capital resources within the Group. The only restrictions are those attributable to regulatory provisions which may require a minimum amount of regulatory capital to be retained, or to the provisions of the Italian Civil Code on distributable profits and reserves.

It should be noted that there are no protective rights held by minorities able to limit the Group's capacity to access or transfer assets between Group companies or settle the Group's liabilities, also in relation to the fact that, as at 31 December 2018, there are no subsidiaries with significant third-party interests, as stated in the previous paragraph.

5. Other information

Financial statements used for the consolidation

The accounting positions forming the basis of the line-by-line consolidation process are those relating to 31 December 2018, as approved by the competent bodies of the consolidated companies adjusted, where necessary, to bring them into line with the homogeneous accounting standards of the Group.

The valuation at equity is performed on the basis of the latest available financial statements of the investees, as detailed in Part B, table 10.2 of the Consolidated Explanatory Notes.

SECTION 4

SUBSEQUENT EVENTS

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

SECTION 5

OTHER MATTERS

a) Newly applied accounting standards in 2018

During 2018, the following principles and interpretations entered into effect:

- IFRS 15: Revenue from Contracts with Customers (Reg. EU 1905/2016);
- IFRS 9: Financial Instruments (Reg. EU 2067/2016);
- Clarifications to IFRS 15: Revenue from Contracts with Customers (Reg. EU 1987/2017);
- Joint application of IFRS 9 Financial instruments and IFRS 4 Insurance Contracts - amendments to IFRS 4 (Reg. EU 1988/2017);
- Annual cycle of improvements to IFRS standards 2014-2016 which involve amendments to IAS 28 Investments in associates and joint ventures, to IFRS 1 First-time adoption of International Financial Reporting Standards and to IFRS 12 Disclosure of interests in other entities (Reg. 182/2018);
- Amendments to IAS 40: Change of use of investment property (Reg. 400/2018);
- Interpretation IFRIC 22: Foreign currency transactions and advance consideration (Reg. 519/2018);
- Amendments to IFRS 2: Classification and measurement of share-based payment transactions (Reg. 289/2018).

Transition to IFRS 9

Effective from 1 January 2018, IFRS 9 'Financial instruments' entered into force (hereinafter also the 'Standard') which replaces IAS 39 'Financial instruments: recognition and measurement'.

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

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

- the classification and measurement of financial instruments: the accounting categories in which to classify financial assets were amended, requiring, in particular, debt instruments (debt securities and loans) to be classified based on the business model adopted by the entity and the characteristics of the cash flows generated by financial assets;
- the impairment model: an impairment model is introduced which, superseding the concept of 'incurred loss' of the previous standard (IAS 39), is based on a methodology of estimated expected loss, similar to the Basel regulations. IFRS 9 also introduces several changes in terms of the scope, staging of loans and, in general, some characteristics of the basic components of credit risk (EAD, PD and LGD);
- new rules for the recognition of hedging instruments (general hedge accounting): the general hedge accounting model provides a series of new approaches to correlate the accounting scope more closely to risk management.

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

Recognition and measurement

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

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

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

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

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

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

IFRS 9 makes provision for the following business models:

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

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

In defining the business models, account was taken of the fact that the Group carries out banking activities with the objective not only of traditional brokerage activities in the reference area. The basic assumptions of this model, albeit with an improved framework, will also be confirmed in the approach connected with the formation of the banking group, in compliance with the reform of cooperative credit.

Again as regards classification and measurement, the methodology was defined for carrying out the so-called 'SPPI Test' ('Solely Payments of Principal and Interest on the principal amount outstanding'), which was applied to financial instruments (debt securities and loans) characterised by 'Hold to collect' or 'Hold to collect and sell' business models. By contrast, the SPPI Test is not performed for equities.

The purpose of the test is to determine whether the contractual cash flows of the single financial asset are exclusively payments of principal and interest accrued on the amount of capital to be repaid and, therefore, essentially, are consistent with the key elements of a basic credit granting agreement.

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

In the opposite case (if the SPPI test is not passed), the financial instrument will be instead be classified into the category 'Financial assets measured at fair value through profit or loss (FVTPL)'.

Taking account of the above, considering the specific situation of the Group, it is noted that:

a) Loan portfolio: as at 1 January 2018, it is composed primarily of exposures to banks and customers. Based on IFRS 9, a 'Hold to collect' business model was attributed to the aforementioned portfolio, given that the Group manages the relevant financial assets for the purposes of continuously collecting contractual cash flows by paying constant attention to the management of the credit risk associated to these. In addition, considering that, for the aforementioned loans, the contractual flows are normally consistent with a basic credit granting agreement (SPPI Test passed), these assets will largely be measured at amortised cost and the impairment will need to be calculated for them according to the new IFRS 9 model (see information reported in the next paragraph). In residual cases in which the aforementioned loans do not pass the SPPI Test, they are measured at FVTPL;

b) Securities portfolio: the portfolio of debt securities of the Group as at 1 January 2018 is composed primarily of the regulatory banking book. The latter is composed largely of Italian Government bonds classified, as at 31 December 2017, for the most part under 'Financial assets available for sale' (AFS) and, to a lesser extent, under 'Held to maturity investments' (HTM). A residual part of this portfolio is composed of foreign Government bonds, corporate bonds, bond issues of cooperative credit banks and shares in mutual investment funds which, as at 31 December 2017, were classified alternatively under other accounting categories. At 1 January 2018, the Group also holds, to more limited degree, debt securities for trading purposes (regulatory trading portfolio) which, at the time of the first-time application of IFRS 9, were allocated to the relevant business model Other/trading. On first-time application of IFRS 9 for the debt securities of the regulatory banking book, by contrast, the business models adopted are as follows:
   - 'Hold to collect' (HTC): this is a business model attributed to debt securities held for permanent investment purposes and, therefore, with a view to collecting contractual cash flows by constantly monitoring the risks associated to them (in particular credit risk). Any assets for the management of structural liquidity risk (medium/long-term) whose disposal is, however, limited to extreme circumstances, or assets whose objective is to stabilise and optimise the medium/long-term interest margin, can also be incorporated in said business model. On first-time application of IFRS 9, this business model was attributed largely to the securities previously classified under Loans & Receivables and HTM, and to a portion of the portfolio of Government bonds previously classified to AFS (in view of more watchful prospective management of sovereign risk at both individual and consolidated level);
   - 'Hold to collect and sell' (HTCS): this is a business model attributed mainly to the securities of the regulatory banking book held for the purposes of the active management of current liquidity and/or for the maintenance of given risk and/or return profiles or for maintaining a consistent profile of durations between related financial assets and liabilities. Insomuch as the assets are managed both with the intent of collecting contractual cash flows and collecting flows deriving from the sale of instruments. Sales will therefore be an integral part of the business model. On first-time application of IFRS 9, this business model was attributed largely:
     I) to the securities previously classified under AFS (predominantly Government bonds), excluding those set out in the previous point, to which the 'Hold to collect' business model was attributed;
     II) to a portion of securities previously classified under HTM, with a view to the rebalancing of portfolios also based on even more careful risk management.

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

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

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

Impairment model

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

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

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

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

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

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

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

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the following point;
- in stage 2, positions which, at the reference date, present at least one of the characteristics described below:
  - a significant increase in credit risk from the disbursement date has been identified, defined in accordance with the operating methods adopted by the future parent company and set out in the appropriate technical documentation;
  - positions which, at the valuation date, are classified to ‘watch list’, i.e. ‘performing under observation’;
  - positions which, at the valuation date, present an increase of 200% in the ‘PD’ with respect to that at origination;
  - presence of a ‘forborne performing’ attribute;
  - presence of past due amounts and/or overdue by more than 30 days;
  - positions (without ‘lifetime PD’ at the disbursement date) that, at the measurement date, do not present the characteristics to be identified as ‘Low Credit Risk’ (as described below);

- in stage 3, non performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and non performing exposures.

Performing positions that possess the following characteristics at the measurement date are considered 'Low Credit Risk':

- absence of 'PD lifetime' at the disbursement date;
- rating class of less than or equal to 4.

Positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above.

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

- stage 1, expected loss must be calculated on a time horizon of 12 months;
- stage 2, expected loss must be calculated by considering all the losses that are expected to be incurred over the entire life of the financial asset (lifetime expected loss): therefore, with respect to the calculation performed in accordance with IAS 39, entities will move from the estimate of incurred loss over a time horizon of 12 months to an estimate that takes into consideration the entire residual life of the loan; in addition, given that IFRS 9 requires entities to also adopt forward-looking estimates for the calculation of the lifetime expected loss, it will therefore be necessary to consider the scenarios connected with macro-economic variables (e.g. GDP, unemployment rate, inflation, etc.) which, through a macro-economic statistical model, are able to estimate the forecasts over the residual duration of the loan;
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss will be analytical.

The risk parameters (PD, LGD and EAD) are calculated by the impairment model. While the default rates for positions not covered by a rating at origination, are those made available by the Bank of Italy.

It should be underlined that the Group calculates the ECL based on the allocation stage, per individual position, with reference to cash and off-balance sheet exposures.

It should be noted that the Group, for loans to banks, adopted a different model for determining the significant increase in credit risk from the one envisaged for loans to customers. However, the stage allocation rationale adopted for loans to banks was defined in the most consistent manner possible with that implemented for loans to customers.

More specifically, the Group made provision for the identical allocation of the individual positions to that provided for loans to customers.

However, performing positions that possess the following characteristics at the measurement date are considered 'Low Credit Risk':

- absence of 'PD lifetime' at the disbursement date;
- PD Point in Time higher than 0.3%.

Positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above. Now, therefore, for loans to banks, the Group adopts the IFRS 9 impairment model developed on an ad hoc basis for the specific counterparty type and, therefore, different from the model used for loans to customers.

The estimate of expected loss using the Expected Credit Loss (ECL) methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:
- stage 1: expected loss is calculated on a time horizon of 12 months;
- stage 2: expected loss is calculated on a time horizon that incorporates the entire duration of the position until maturity (so-called LEL, 'Lifetime Expected Loss');
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss will be analytical.

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

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

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

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

In the first stage of creditworthiness, securities were placed:
- at the moment of purchase, regardless of their risk;
- which, at the measurement date, have not experienced a significant increase in credit risk with respect to the moment of purchase;
- which have experienced a significant decrease in credit risk.

In the second stage, the ECL is calculated by using the probability of lifetime default. This stage will include those securities that possess the following characteristics:
- at the measurement date, the instrument presents an increase in credit risk with respect to the purchase date as such to request the recognition of an expected loss until maturity;
- instruments that fall under stage 3 on the basis of a significant decrease in risk.

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

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

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

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

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

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

Circular 262/2005 5th update - ASSETS																		
Circular 262/2005 4th update		31.12.2017 IAS 39	10. Cash and cash equivalents	20. Financial assets measured at fair value through profit or loss			30. Financial assets measured at fair value through other comprehensive income	40. Financial assets measured at amortised cost		50. Hedging derivatives	60. Adjustment of the financial assets subject to macro-hedging (+/-)	70. Equity investments	80. Tangible assets	90. Intangible assets	100. Tax assets		110. Non-current assets and groups of assets held for disposal	120. Other assets
				a) financial assets held for trading	b) financial assets measured at fair value	c) other financial assets obligatorily measured at fair value		a) loans to banks	b) loans to customers						a) current	b) deferred		
10.	Cash and cash equivalents	697,161	697,161	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.	Financial assets held for trading	14,389	-	14,389	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30.	Financial assets measured at fair value	3,139	-	-	3,139	-	-	-	-	-	-	-	-	-	-	-	-	-
40.	Financial assets available for sale	2,360,780	-	-	-	49,373	1,440,374	-	871,032	-	-	-	-	-	-	-	-	-
50.	Held to maturity investments	609,044	-	-	-	-	422,998	-	186,047	-	-	-	-	-	-	-	-	-
60.	Loans to banks	1,735,227	-	-	-	-	-	1,735,227	-	-	-	-	-	-	-	-	-	-
70.	Loans to customers	490,995	-	-	-	23,150	-	-	467,844	-	-	-	-	-	-	-	-	-
80.	Hedging derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90.	Adjustment of the financial assets subject to macro-hedging (+/-)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100.	Equity investments	43,504	-	-	-	-	-	-	-	-	-	43,504	-	-	-	-	-	-
110.	Tangible assets	45,935	-	-	-	-	-	-	-	-	-	-	45,935	-	-	-	-	-
120.	Intangible assets	50,179	-	-	-	-	-	-	-	-	-	-	-	50,179	-	-	-	-
130.	Tax assets	33,043	-	-	-	-	-	-	-	-	-	-	-	-	3,902	29,141	-	-
	a) current	3,902	-	-	-	-	-	-	-	-	-	-	-	-	3,902	-	-	-
	b) deferred	29,141	-	-	-	-	-	-	-	-	-	-	-	-	-	29,141	-	-
140.	Non-current assets and groups of assets held for disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150.	Other assets	127,088	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	127,088
	TOTAL ASSETS	6,210,484	697,161	14,389	3,139	72,523	1,863,372	1,735,227	1,524,923	-	-	43,504	45,935	50,179	3,902	29,141	-	127,088

	Circular 262/2005 5th update - LIABILITIES																				
			10. Financial liabilities measured at amortised cost					60. Tax liabilities				100. Provision for risks and charges									
	Circular 262/2005 4th update	31.12.2017 IAS 39	a) due to banks	b) due to customers	c) debt securities in issue	20. Financial liabilities held for trading	30. Financial liabilities measured at fair value	a) current	b) deferred	80. Other liabilities	90. Provision for severance indemnity	a) commitments and guarantees issued	b) retirement and similar obligations	c) other provisions for risks and charges	120. Valuation reserves	150. Reserves	160. Share premium	170. Share capital	180. Own shares	190. Third party minority interests (+/-)	200. Profit (loss) for the year (+/-)
10.	Due to banks	3,449,574	3,449,574	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.	Due to customers	1,252,579	-	1,252,579	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30.	Debt securities in issue	3,027	-	-	3,027	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
40.	Financial liabilities held for trading	11,341	-	-		11,341	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50.	Financial liabilities measured at fair value	9,790	-	-	-	-	9,790	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60.	Hedging derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
70.	Adjustment of the financial liabilities subject to macro-hedging (+/-)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
80.	Tax liabilities	8,683	-	-	-	-	-	-	8,683	-	-	-	-	-	-	-	-	-	-	-	-
	a) current	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	b) deferred	8,683	-	-	-	-	-	-	8,683	-	-	-	-	-	-	-	-	-	-	-	-
90.	Liabilities associated to assets held for disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100.	Other liabilities	343,015	-	-	-	-	-	-	-	342,069	-	946	-	-	-	-	-	-	-	-	-
110.	Provision for severance indemnity	6,999	-	-	-	-	-	-	-	-	6,999	-	-	-	-	-	-	-	-	-	-
120.	Provisions for risks and charges	14,125	-	-	-	-	-	-	-	-	-	-	54	14,071	-	-	-	-	-	-	-
	a) retirement and similar obligations	54	-	-	-	-	-	-	-	-	-	-	54	-	-	-	-	-	-	-	-
	b) other provisions	14,071	-	-	-	-	-	-	-	-	-	-	-	14,071	-	-	-	-	-	-	-
140.	Valuation reserves	(2,522)	-	-	-	-	-	-	-	-	-	-	-	-	(2,522)	-	-	-	-	-	-
150.	Repayable shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
160.	Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
170.	Reserves	99,912	-	-	-	-	-	-	-	-	-	-	-	-	-	99,912	-	-	-	-	-
180.	Share premium	19,029	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,029	-	-	-	-
190.	Share capital	952,032	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	952,032	-	-	-
200.	Own shares (-)	(345)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(345)	-	-
210.	Third party minority interests (+/-)	26,955																	-	26,955	
220.	Profit (loss) - for the year (+/-)	16,290	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,290
	TOTAL LIABILITIES AND EQUITY	6,210,484	3,449,574	1,252,579	3,027	11,341	9,790	-	8,683	342,069	6,999	946	54	14,071	(2,522)	99,912	19,029	952,032	(345)	26,955	16,290

ASSETS					
Circular 262/2005 5th update	31.12.2017 IAS 39	Measurement	Impairment	FTA tax impacts	1.1.2018 IFRS 9
10. Cash and cash equivalents	697,161				697,161
20. Financial assets measured at fair value through profit or loss	90,051	(560)	1,106		90,597
a) financial assets held for trading	14,389	(111)	-		14,278
b) financial assets measured at fair value	3,139	-	-		3,139
c) other financial assets obligatorily measured at fair value	72,523	(449)	1,106		73,180
30. Financial assets measured at fair value through other comprehensive income	1,863,372	7,799	-		1,871,171
40. Financial assets measured at amortised cost	3,260,150	7,457	4,068		3,271,675
a) loans to banks	1,735,227	-	(2,863)		1,732,364
b) loans to customers	1,524,923	7,457	6,930		1,539,310
50. Hedging derivatives					
60. Adjustment of the financial assets subject to macro-hedging (+/-)					
70. Equity investments	43,504				43,504
90. Tangible assets	45,935				45,935
100. Intangible assets	50,179				50,179
110. Tax assets	33,043			5,099	38,142
a) current	3,902				3,902
b) deferred	29,141			5,099	34,240
120. Non-current assets and groups of assets held for disposal					
130. Other assets	127,089				127,089
TOTAL ASSETS	6,210,484	14,696	5,174	5,099	6,235,453

LIABILITIES					
Circular 262/2005 5th update	31.12.2017 IAS 39	Measurement	Impairment	FTA tax impacts	1.1.2018 IFRS 9
10. Financial liabilities measured at amortised cost	4,705,180	-	-	-	4,705,180
a) due to banks	3,449,574	-	-	-	3,449,574
b) due to customers	1,252,579	-	-	-	1,252,579
c) debt securities in issue	3,027	-	-	-	3,027
20. Financial liabilities held for trading	11,341	-	-	-	11,341
30. Financial liabilities measured at fair value	9,790	-	-	-	9,790
40. Hedging derivatives		-	-	-	-
50. Adjustment of the financial liabilities subject to macro-hedging (+/-)		-	-	-	-
60. Tax liabilities	8,683	-	-	1,744	10,427
a) current		-	-	1,744	1,744
b) deferred	8,683	-	-	-	8,683
70. Liabilities associated to assets held for disposal		-	-	-	-
80. Other liabilities	342,123	-	-	-	342,123
90. Provision for severance indemnity	6,999	-	-	-	6,999
100. Provisions for risks and charges	15,017	-	13,488	-	28,505
a) commitments and guarantees issued	946	-	13,488	-	14,434
b) retirement and similar obligations					-
c) other provisions for risks and charges	14,071	-	-	-	14,071
120. Valuation reserves	(2,522)	15,443	1,021	-	13,942
130. Repayable shares		-	-	-	-
140. Equity instruments		-	-	-	-
150. Reserves	99,912	(747)	(9,335)	3,355	93,185
160. Share premium	19,029	-	-	-	19,029
170. Share capital	952,032	-	-	-	952,032
180. Own shares (-)	(345)	-	-	-	(345)
190. Third party minority interests	26,955				26,955
200. Profit (loss) for the year (+/-)	16,290	-	-	-	16,290
TOTAL LIABILITIES	6,210,484	14,696	5,174	5,099	6,235,453

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

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

  The adjustment to CET1 may be made in the period between 2018 and 2022, re-including in the CET1, the impact as determined above, to the extent indicated hereunder for each of the 5 years of the transitory period:
  - 2018: 95.00%
  - 2019: 85.00%
  - 2020: 70.00%
  - 2021: 50.00%
  - 2022: 25.00%

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

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

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

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

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

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

- identification of the contract (or contracts) with the customer: the provisions of IFRS 15 apply to each contract that is stipulated with a customer and that observes specific criteria. In some specific cases, IFRS 15 requires an entity to combine/aggregate several contracts and recognise them as a single contract;
- identification of 'performance obligations': a contract represents commitments to transfer goods or services to a customer. If these goods or services are 'separate', these promises qualify as 'performance obligations' and are accounted for separately;
- determination of the transaction price: the transaction price is the amount of consideration the entity expects to be entitled to, in exchange for transferring promised goods or services. The expected transaction price may be a fixed amount, but sometimes may include variable or non-cash components. The variable amounts are included in the transaction price by using the most likely amount method;
- allocation of the transaction price between the 'performance obligations' of the contract: an entity allocates the transaction price to the different 'performance obligations' based on the stand-alone sale prices of each separate good or service set out in the contract. If a stand-alone sale price is not observable, an entity must estimate it. The standard identifies when an entity must allocate a discount or a variable component to one or more, but not all, 'performance obligations' (or to separate goods or services) set out in the contract;
- recognition of the revenue at the moment of satisfaction of the 'performance obligation': an entity recognises the revenue when it satisfies a 'performance obligation' through the transfer of a good or provision of a service, set forth contractually, in favour of a customer (i.e. when the customer obtains control of that good or service). The amount of the revenue to be recognised is that which was allocated on the 'performance obligation' that was satisfied. A 'performance obligation' may be satisfied in a certain moment (typically in the event of the transfer of goods) or during a time period (typically in the event of the supply of services).

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

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

In 2017, the European Commission endorsed the following accounting standards or interpretations entering into force on 1 January 2019 with the right of early application, which the Group did not avail itself of, together with the adoption of IFRS 15:

- IFRS 16: Leases (Reg. EU 1986/2017) which can only be applied early together with the adoption of IFRS 15;
- Amendments to IFRS 9: Prepayment features with negative compensation (Reg. EU 2018/498);
- Interpretation IFRIC 23: Uncertainty over income tax treatments.

IFRS 16 Leases

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

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

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

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

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

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

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

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

- IFRS 14: Regulatory Deferral Accounts (January 2014);
- IFRS 17: Insurance contracts (May 2017);
- Amendments to IFRS 10 and to IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (September 2014);

- Amendments to IFRS 2: Classification and measurement of share-based payment transactions (June 2016);
- Amendments to IAS 28: Long-term interests in associates and joint ventures (October 2017).

d) Audit of the annual accounts

The consolidated financial statements are audited by the independent auditors KPMG S.p.A. for the period 2010-2018.

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

Letter F) - Government Grants Received

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

Disbursing Entity	Amount received	Reason
Energy Services Manager	15	Photovoltaic plant grants
Chamber of Commerce of Cuneo	4	Chamber of Commerce calls for tender
INPS	29	Work-life balance trade union agreement
FON.COOP	15	Training account grant
Autonomous Province of Trento	86	PAT L.P. 6/99 art. 3
Autonomous Province of Trento	21	PAT L.P. 6/99 art. 3
FVG Region	8	Concession of grants taken from the regional fund for the employment of persons with disabilities pursuant to reg. no. 186/2016
Autonomous Province of Trento	5	Grant 5 of the document of employment policy projects 2015-2018 for disabled persons for type 'E2' following the hiring on open-ended contract
Fondo paritetico Interprofessionale nazionale per la Formazione Continua nelle imprese cooperative	27	Personnel training grant

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

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

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

Classification criteria

Assets measured at fair value through profit or loss include the following:

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

Therefore, this item includes the following:

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

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

Recognition criteria

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

Measurement criteria

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

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

Derecognition criteria

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

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

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

Recognition of the income components

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

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

Classification criteria

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

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

Therefore, this item includes the following:

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

Recognition criteria

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

Measurement criteria

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

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

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

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

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

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

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

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

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

The impairment is entered in the Income Statement.

The equity instruments are not subject to the impairment process.

For more details, please refer to paragraph 'Impairment Model' of Section 5 - Other matters of this document.

Derecognition criteria

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

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

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

Recognition of the income components

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

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

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

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

3 - FINANCIAL ASSETS MEASURED AT AMORTISED COST

Classification criteria

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

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

Therefore, this item includes the following:

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

Recognition criteria

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

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

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

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

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

Measurement criteria

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

The exceptions to the application of the amortised cost method are as follows:
- the short-term asset, for which the application of discounting is negligible (valuation at cost);
- asset with no defined maturity;
- receivables subject to revocation.

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

This component depends on the insertion of the asset in one of the three stages set forth in IFRS 9:
- in stage 1, performing positions that do not present, at the valuation date, a significant increase in credit risk or which can be identified as 'Low Credit Risk';
- in stage 2, performing positions that, at the reference date, present a significant increase or that do not present the characteristics to be identified as 'Low Credit Risk';
- in stage 3, non performing positions.

The estimate of expected loss using the Expected Credit Loss (ECL) methodology, for the classes defined above, must take place on the basis of the allocation of each position into the three reference stages, as detailed below.
- stage 1, expected loss must be calculated on a time horizon of 12 months;
- stage 2, the expected loss must be calculated by considering all the losses that it is presumed will be incurred during the entire life of the financial asset (lifetime expected loss);
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss will be analytical. In addition, where appropriate, forward looking elements will be introduced to the measurement of the aforementioned positions represented, in particular, by the inclusion of different scenarios (e.g. sale), weighted for the relevant probability of occurrence.

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

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

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

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

For more details, please refer to paragraph 'Impairment Model' of Section 5 - Other matters of this document.

Derecognition criteria

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

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

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

Recognition of the income components

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

Value adjustments/write-backs including write-backs connected to the passing of time, are recorded at each reference date in the Income Statement, under the item 'Net value adjustments/write-backs due to credit risk'.

The profits and losses from the sale of loans are entered in the Income Statement 'Gains (losses) on disposal/ repurchase'.

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

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

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

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

4 - HEDGING TRANSACTIONS

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

Classification criteria

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

The hedging transactions aim to neutralise the losses recorded on a certain element

(or group of elements) attributable to a certain risk through the profits recorded on a different element (or group of elements) in case the particular risk actually occurs.

The types of hedging provided for by IAS 39 are:

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

Recognition criteria

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

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

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

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

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

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

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

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

Measurement criteria

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

Derecognition criteria

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

Recognition of the income components

Fair value hedge

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

Cash flow hedge

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

5 - EQUITY INVESTMENTS

Classification criteria

The item includes interests held in jointly controlled subsidiaries and associates.
The following definitions in particular apply:

- Associate: equity investments in companies for which, despite the conditions of control not being satisfied, the Group, directly or indirectly, is able to exercise a significant influence. This influence is presumed to exist for companies in which the Group holds at least 20.00% of voting rights or in which, nonetheless, has the power to participate in the determination of the financial and management policies based on particular legal relationships.
- Joint venture: equity investment in companies through a joint arrangement in which the parties that hold joint control have rights over the net assets of the arrangement.

Recognition criteria

Equity investments are initially entered at the settlement date, including the directly attributable ancillary charges.

Measurement criteria

Following initial recognition, the carrying amount of the equity investments is increased or decreased to record the Group's interest in the profits and losses of the investee realised after the recognition date.
The share of the profits for the year of the investee pertaining to the Group is booked to the income statement. The dividends received from an investee reduce the carrying amount of the equity investment. Value adjustments to the carrying amount may also be necessary following changes to the Group's share in the associate, deriving from changes in the equity of the investee that said entity has not recognised in the income statement.
These changes, merely by way of a non-exhaustive example, variations stemming from the market valuation of financial assets measured at fair value through other comprehensive income or the recalculation of the value of the property, plant and equipment; the share of these changes pertaining to the Group is booked directly to Group equity under item 120 'Valuation reserves'.
For valuation purposes, the financial statements of the investees are used, drafted, if significant, according to the IAS/IFRS used by the Group.
If there is evidence of impairment of an equity investment, the recoverable value of the same investment is estimated, taking account of the market value or the present value of the future cash flows. If the recovery value is lower than the carrying amount, the difference is recognised as an impairment loss in the income statement.
If the reasons for the impairment no longer apply following an event that has occurred after the recognition of the impairment, the Group effects write-backs, which are recorded in the Income Statement.

Derecognition criteria

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

Recognition of the income components

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

6 - TANGIBLE ASSETS

Classification criteria

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

Recognition criteria

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

Measurement criteria

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

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

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

Derecognition criteria

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

Recognition of the income components

The systematic depreciation is recorded in the Income Statement under the item 'Net value adjustments/write-backs to tangible assets'.
In the first year the depreciation is recorded proportionally to the effective period of using the asset.
The assets subject to depreciation are adjusted for possible impairment losses each time events or changes in situations indicate that the carrying amount might not be recoverable.
A write-down for value impairment is recorded for an amount corresponding to the excess in the carrying amount compared to the recoverable value. The recoverable value of an asset is equal to the higher of the fair value, net of any sales costs, and the related value of using the asset, meant as the current value of the future flows originating from the asset. Any adjustments are recognised in the Income Statement.
If the reasons leading to recording the loss cease to apply, a write-back is recorded, which may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.
In the item 'Profit (loss) from disposal of investments', the positive or negative balance between the profits and losses on investments is recognised.

7 - INTANGIBLE ASSETS

Classification criteria

Accounting standard IAS 38 defines intangible assets as non-monetary assets without physical substance owned for use in a multi-year or undefined period, which meet the following characteristics:
- identifiability;
- the company holds control of them;
- it is probable that the expected future economic benefits attributable to the asset will flow into the company;
- the cost of the asset can be reliably measured.

In the absence of one of these characteristics, the expense to acquire or generate the same internally is recorded as a cost in the year when it was incurred.
Intangible assets include, in particular, the application software with multi-year use and the other identifiable intangible assets that originate from legal or contractual rights.

Recognition criteria

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

Measurement criteria

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

Derecognition criteria

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

Recognition of the income components

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

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

Classification criteria

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

Recognition criteria

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

Measurement criteria

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

Derecognition criteria

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

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

---

9 - CURRENT AND DEFERRED TAXES

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

Current taxes

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

Deferred taxes

Deferred tax assets and liabilities are booked by using the so-called balance sheet liability method, taking into account the temporary differences between the carrying amount of an asset or a liability and its value recognised for tax purposes. They are calculated using the applicable tax rates according to current laws, in the year when the deferred tax asset will be realised or the deferred tax liability will be settled.

Tax assets are recorded only if it is deemed probable that in the future a taxable income will be realised, against which this asset may be used.
In particular tax regulations may lead to differences between taxable income and statutory income that, if temporary, only cause a temporal mismatch that implies the advance or deferment of the time of taxation compared to the period of accrual, thus determining a difference between the carrying amount of an asset or a liability in the Statement of financial position and its value recognised for tax purposes. These differences are distinguished between 'Deductible temporary differences' and 'Taxable temporary differences'.

Deferred tax assets

'Deductible temporary differences' indicate a future reduction in taxation, against a prepayment of tax compared to the economic-statutory accrual. They generate deferred tax assets since they will determine a lower tax burden in the future, on the condition that in the following years, taxable profits are realised in a sufficient measure to cover the realisation of the taxes paid in advance.
'Deferred tax assets' are recorded for all the deductible temporary differences if it is probable that a taxable income will be realised against which the deductible temporary differences may be used. However the probability of recovering advance taxes relative to goodwill, other intangible assets and adjustments to receivables is to be considered automatically fulfilled pursuant to the provisions of the law that provide for their transformation into a tax credit in the event of a statutory and/or tax loss.
The transformation enters into effect from the date of the approval of the shareholders' meeting of the separate financial statements in which the loss is recognised.
The origin of the difference between the higher fiscal income and the statutory one is mainly due to negative income components fiscally deductible in years that are subsequent to those of recognition in the financial statements.

Deferred tax liabilities

'Taxable temporary differences' indicate a future increase in taxation and consequently generate 'Deferred tax liabilities', since these differences give rise to taxable amounts in the following years to those when they are attributed to the statutory Income Statement, determining a deferment of the taxation compared to the economic-statutory accrual.
'Deferred tax liabilities' are recorded for all the taxable temporary differences with the exception of the deferred tax reserves since transactions that determine the taxation are not envisaged.
The origin of the difference between the lower fiscal income and the statutory one is due to:
- positive income components taxable in years after those when they were entered in the accounts;
- deductible negative income components in years prior to the one when they will be entered in the accounts according to statutory criteria.

Assets and liabilities entered for advance and deferred taxes are systematically measured to take into account any amendments taking place in the regulations or in the rates.
Advance taxes and deferred taxes are accounted for at capital level with open balances and without compensations and are booked in the item 'b) deferred tax assets' and in the item 'b) deferred tax liabilities'.

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

10 - PROVISIONS FOR RISKS AND CHARGES

Classification criteria

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

Recognition criteria

Therefore, this item includes the following:

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

Measurement criteria

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

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

The allocated funds are periodically reviewed and adjusted, if necessary, to reflect the best current estimate. If, following the review, the charge becomes unlikely to be incurred, the provision is cancelled. Concerning the funds relating to employee benefits, please see point 17 below.

Derecognition criteria

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

Recognition of the economic components

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

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

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

11- FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

Classification criteria

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

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

Recognition criteria

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

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

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

Measurement criteria

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

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

Derecognition criteria

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

Recognition of the income components

The negative income components represented by the interest expense are entered on an accrual basis in the items in the Income Statement relating to interest.
Any difference between the value of repurchasing own securities and the corresponding carrying amount of the liability is entered in the Income Statement under 'Gains (losses) on disposal/repurchase'.

---

12 - FINANCIAL LIABILITIES HELD FOR TRADING

Classification criteria

Subject to recognition in this item are the financial liabilities, whatever their technical form (debt securities, loans, etc.) classified in the trading portfolio.
The item includes the negative value of the trading derivative contracts. Derivatives connected to the fair value option are also included in this category (as defined in IAS 9, paragraph 4.2.2) which are operationally related to the assets and liabilities measured at fair value which on the Statement of financial position date have a negative fair value, except for derivatives which are designated as effective hedging instruments and recognised under item 40 of Liabilities; if the fair value of a derivative subsequently becomes positive, it shall be recognised among financial assets measured at fair value through profit or loss.

Recognition criteria

The derivative financial instruments are entered at the subscription date and measured at fair value through profit or loss.

Measurement criteria

Subsequently to the initial recognition, the financial liabilities are measured at fair value through profit or loss.
For details regarding determination of the fair value please see paragraph 15.5 below 'Criteria for determining the fair value of financial instruments'.

Derecognition criteria

Financial liabilities held for trading are derecognised from the financial statements when the contractual rights to the relevant cash flows expire or when the financial liability is transferred with the substantial transfer of all the risks and rewards deriving from its ownership.

Recognition of the income components

The profits and losses deriving from the change in fair value and/or the sale of the derivative instruments connected to the fair value option are booked under 'Net result from trading' in the Income Statement.

13 - FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

Classification criteria

Classified in this item are those financial liabilities measured at fair value with valuation results entered in the Income Statement, based on the so-called fair value option set forth by paragraph 4.2.2 of IFRS 9, i.e. when:

- an inconsistency in the valuation or recognition is eliminated or significantly reduced (sometimes defined as an accounting mismatch), which would otherwise result from the measurement of assets or liabilities or the recognition of the associated profits and losses on a different basis;
- a group of financial liabilities or financial assets and liabilities is managed and its return is measured at fair value according to a documented risk management or investment strategy and the information relating to the group is provided internally on said basis to Executives with strategic responsibilities.

Recognition criteria

The initial recognition of the financial liabilities takes place at the issue date of the debt securities. Upon recognition, the financial liabilities measured at fair value are recorded at their fair value, which normally corresponds to the amount collected without considering the transaction costs or income directly attributable to the same instrument, which are instead attributed to the Income Statement.

Measurement criteria

Liabilities are measured at fair value. The income components are reported according to the provisions of IFRS 9, as below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve ('Statement of Comprehensive Income');
- the remaining fair value are booked to the income statement, under the item Net result of other financial assets and liabilities measured at fair value through profit or loss.

For details regarding determination of the fair value please see paragraph 15.5 below 'Criteria for determining the fair value of financial instruments'.

Derecognition criteria

The financial liabilities measured at fair value are cancelled from the financial statements when they have expired or are extinct.

Cancellation also takes place in case of repurchasing previously issued securities. The difference between the carrying amount of the liability and the amount paid to purchase is recorded in the Income Statement.

The re-placement on the market of own shares subsequently to their repurchase is considered as a new issue with entry of the new placement price, without effects on the Income Statement.

Recognition of the income components

The cost for interest on debt instruments is classified among the interest expense and similar charges of the Income Statement.

The income components relating to this financial statements item are reported according to the provisions of IFRS 9, as below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve ('Statement of Comprehensive Income');
- the remaining fair value are booked to the income statement, under the item Net result of other financial assets and liabilities measured at fair value through profit or loss.

14 - FOREIGN EXCHANGE TRANSACTIONS

Classification criteria

Among the assets and liabilities in foreign currencies, in addition to those explicitly expressed in a currency other than the Euro, are also those to which financial indexing clauses apply, connected to the Euro exchange rate with a certain currency or a given basket of currencies.
For the purpose of the conversion method to be used, the assets and liabilities in foreign currencies are subdivided into monetary items (classified among the current items) and non-monetary items (classified among the non-current items).
The monetary elements consist of cash at hand and in the assets and liabilities to be received or paid, in cash amounts that are fixed or to be determined. In non-monetary elements, the right to receive or the obligation to deliver a cash amount that is fixed or to be determined is absent.

Recognition criteria

Transactions in foreign currencies are recorded, at the time of initial recognition, in a currency account, by applying the exchange rate in force at the transaction date to the amount in a foreign currency.

Measurement criteria

At the time of closing the financial statements or the interim period, the elements originally denominated in foreign currencies are valued as follows:

- the monetary items are converted at the exchange rate at year-end;
- the non-monetary items measured at the historical cost are converted at the exchange rate in force at the transaction date;
- the non-monetary items measured at fair value are converted at the spot exchange rate at year-end.

Recognition of the income components

The exchange rate differences found between the transaction date and the related payment date, on the monetary elements, are booked in the Income Statement in the year when they arise, together with those which derive from the conversion of monetary elements at different rates from the initial conversion rates or the conversion at the previous year-end.
When a profit or loss relating to a non-monetary element is recorded in the Equity, the exchange rate difference relating to this element is also recorded in the Equity.
When a profit or loss is recorded in the Income Statement, also the related exchange rate difference is recorded in the Income Statement.

15 - OTHER INFORMATION

15.1 Sales and repurchase contracts (repos)

The securities sold and subject to repurchase agreements are classified as committed financial instruments, when the purchaser has a right under a contract or agreement to resell or lend the underlying; the liability of the counterparty is included in the liabilities to other banks, other deposits or customer deposits.
The securities purchased in relation to a resale contract are accounted for as loans or down payments to other banks or customers.
The difference between the sales price and the purchase price is booked as interest and recorded on an accrual basis along the lifespan of the transaction.

15.2 Provision for severance indemnity and seniority bonuses

Provision for severance indemnity (T.F.R.) is similar to a post-employment benefit of the defined benefit plan type the value of which IAS 19 requires to be determined using actuarial methodologies.
Consequently, the valuation at the end of the year is made on the basis of the benefits accrued using the projected unit credit method.
This method provides for a projection of future outflows based on historical, statistical and probability analysis as well as by virtue of adopting the appropriate basic demographic techniques.
It makes it possible to calculate the T.F.R. accrued on a certain day in actuarial terms, distributing the expense for all the years of expected residual permanence of the existing employees and no longer as an expense to be settled in the event that the company ceases its operations on the reference date.
The valuation of the employee T.F.R. was carried out by an independent actuary pursuant to the method indicated above.
Following the entry into effect of the supplementary pension reform, pursuant to Italian Legislative Decree no. 252/2005, the portions of the provision for severance indemnity (T.F.R.) accrued to 31.12.2006 will remain in the company, while the portions that accrue from 1 January 2007 have been, based on the employee's choice, applied to supplementary pension plans or the INPS fund.
The latter were therefore recognised in the income statement based on the contributions due in each year; the Group did not discount the obligation to the supplementary fund or the INPS as its maturity is less than 12 months.
Based on IAS 19, the T.F.R. paid to the Pension Fund Treasury (INPS) is considered as a defined contribution plan, as is the amount paid into the supplementary fund.
The portions accrued and paid into the supplementary pension funds are recognised in income statement sub-item 150 a).
These cases are configured as a defined contribution plan since the obligation of the company towards the employee ends with the payment of the accrued amounts. Therefore, for these cases, only the portion of the debt can be recorded under the Group's liabilities (among 'other liabilities') for payments still to be made to the INPS or the supplementary funds, on the reference date.
IAS 19 requires all actuarial gains and losses accrued on the reference date to be immediately recognised in the 'Statement of comprehensive income' - OCI.
The 'other long-term benefits' described by IAS 19 also include the seniority bonuses to employees. These benefits must be valued, in compliance with IAS 19, with the same methodology used to determine the provision for severance indemnity, as these are compatible.

The liability for the seniority bonus is recorded under the provisions for risks and charges of the statement of financial position.
The allocation, as the reattribution to the Income Statement of any excesses of the specific fund (due for example to changes to the actuarial assumptions) are recognized in the Income Statement among the "Personnel costs".

15.3 Recognition of revenues and costs

The Group adopts a disaggregation of revenues from services at a given moment in time or over a period of time.
A 'performance obligation' is satisfied over a period of time if at least one of the following conditions is met:
- the customer controls the asset involved in the contract at the moment in which it is created or enhanced;
- the customer simultaneously receives or consumes the benefits provided by the entity's performance as the entity performs;
- the company's performance creates a personalised asset for the customer and the company has a payment right for the services completed at the date of transfer of the asset.

If none of the above criteria are met, then the revenue is recognised at a given moment in time. The indicators of the transfer of control are i) the payment obligation ii) the legal title to the right for the consideration accrued iii) the physical possession of the asset iv) the transfer of the risks and benefits connected with ownership v) acceptance of the asset.
With regards to revenues realised over a period of time, the Group adopts a time-based accounting method.
In relation to the above, the main approaches adopted by the Group are summarised below:
- the interest is recognised on a temporal basis, based on the contractual interest rate or the effective rate in the case of application of the amortised cost;
- the overdue interest, possibly set contractually, is booked in the Income Statement only at the time of its actual collection;
- the dividends are recorded in the Income Statement in the period in which their distribution is resolved, which coincides with the period when they are collected;
- the commissions for revenues from services are entered, based on the existence of contractual agreements, in the period when the same services were rendered;
- the revenues from the sale of non-financial assets are recorded at the time of finalising the sale, unless the Group has maintained most of the risks and benefits connected to the asset.

The costs are booked to the Income Statement according to the accruals principles; the costs relating to the obtainment and fulfilment of the contracts with the customer are recognised in the Income Statement in the periods in which the associated revenues are recognised.

15.4 Improvements to third-party assets

The restoration costs on third party properties are capitalised in consideration of the fact that, throughout the duration of the lease, the using company has the control of the goods and may gain future economic benefits from them. The aforementioned costs are classified among the 'Other assets' and are amortised for a period not exceeding the duration of the lease.

15.5 Criteria for determining the fair value of financial instruments

IFRS 13 defines fair value as: 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial liabilities, the fair value definition in IFRS 13 requires identification as fair value of that amount that would be paid for the transfer of the same liability (exit price), rather than the value required to extinguish that liability.

With regards to the determination of the fair value of OTC derivatives in statement of financial position assets, IFRS 13 confirmed the rule of applying the Credit Valuation Adjustment - CVA. With regard to financial liabilities involving OTC derivatives, IFRS 13 introduces the Debit Valuation Adjustment (DVA), i.e. an adjustment to fair value which aims to reflect its own default risk on those instruments.

The Group therefore considered it reasonable not to recognise a correction in the fair value of derivatives for CVA and DVA in the cases in which agreements had been made and remained operative for collateralisation of the positions and derivatives with the following characteristics:

- a bilateral exchange of guarantees with a high frequency (daily or at the most weekly);
- the type of guarantee provided in cash or highly liquid government securities with a high credit rating, subject to an appropriate spread;
- absence of a threshold of the fair value of the derivative under which an exchange of guarantees is not required or setting the level to such a threshold which is adequate to allow for effective and significant mitigation of the counterparty risk;
- MTA - Minimum Transfer Amount (that is the difference between the fair value of the contract and the value of the guarantee) under which there is no adjustment of the collateralisation of the positions, identified contractually at a level that allows for essential mitigation of the counterparty risk.

The fair value of the investments listed on active markets is determined based on the prices (the official price or another equivalent price on the last day that the stock exchange is open in the reporting period) of the principal or most advantageous market which the Group has access to. To this end, a financial instrument is regarded as quoted in an active market if listed prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If there is no active market, the fair value is determined using the valuation techniques which are generally accepted (method based on market valuation, the cost method and the income method), which estimate the price that would apply in an ordinary transaction involving the sale or transfer of a liability between market operators on the valuation date, at arm's length. These valuation techniques provide the usage of, in the order of hierarchy indicated below:

1. the listed prices for assets and liabilities in markets which are not active (for example those prices which can be obtained from external info-providers) or the prices of similar assets and liabilities in active markets;
2. the fair value obtained from valuation models (for example, Discounting Cash Flow Analysis, Option Pricing Models) which include the representative risk factors that affect the fair value of a financial instrument (cost of money, credit risk, volatility, exchange rates, etc.) based on data which can be observed on the market, in relation also to similar instruments, on the valuation date. If market data is not available for one or more risk factors, internally determined parameters are used which are based on history and statistics. The valuation models are reviewed periodically to ensure their full and constant reliability;

3. the price indications provided by the issuing counterparty, as adjusted to take into account counterparty risk and/or liquidity risk (for example, the value of the unit communicated by the asset management company for closed end funds restricted to institutional investors or other types of non-harmonised UCITS - non UCITS Undertakings for Collective Investment in Transferable Securities, the redemption value determined pursuant to the issuing regulation for insurance contracts);
4. for equity-linked instruments, if the valuation techniques above do not apply: i) the value ensuing from independent appraisals if available; ii) the value corresponding to the portion of the equity held, as this results from the last financial statements approved by the company; iii) the cost, adjusted as necessary to take into account significant amounts of impairment, where the fair value cannot be determined reliably;
5. for loans and receivables, for which fair value is calculated only in order to provide appropriate information for the financial statements, the contractual cash flows are discounted net of the expected losses calculated on the basis of the borrower's credit rating, using the corresponding interest rate structure for the maturity.

The fair value used for valuation of the financial instruments, based on the criteria provided above, is broken down into the following levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process:

Level 1 - listed prices (without adjustments) in active markets for assets and liabilities that are identical which the entity can access on the valuation date and the last NAV (Net Asset Value) published by the asset management company for harmonised funds and sicavs (UCITS - Undertakings for Collective Investment in Transferable Securities);

Level 2 - inputs other than the listed prices which are included in Level 1 which can be observed directly or indirectly for the asset or the liability. The valuation methods based on market valuations that mainly use data that is observable on the market and the prices provided by external information providers belong to this level;

Level 3 - inputs that are not observable for assets and liabilities but which reflect the assumptions that market operators would use to determine the price of the asset or the liability. The prices provided by issuing counterparties or which are based on independent appraisals, as well as those obtained using valuation models that do not use market data to estimate significant factors that affect the fair value of the financial instrument belong to this level. Also under Level 3 are the valuations of financial instruments at cost or which correspond to the fraction of the equity held by the company.

A listed price on an active market provides the most reliable fair value and, where this is available, must be used without any adjustment in order to measure the fair value.

If there are no prices listed on active markets the financial instruments must be classified in levels 2 or 3.

Classification in Level 2 rather than Level 3 is determined based on the ability to observe on the market significant inputs used to determine the fair value.

The Level 2 inputs include:

- prices listed for similar assets or liabilities on active markets;
- prices listed for similar or identical assets or liabilities on non-active markets;
- figures other than the listed prices for assets or liabilities (for example the interest rates and yield curve which can be observed at intervals that are commonly listed; implicit volatility and credit spreads);
- inputs corroborated by the market.

All other variables used in valuation techniques that cannot be corroborated based on data observable on the market are not considered to be observable.
If the fair value of a financial instrument is not determined through the price recognised in an active market (Level 1), the overall fair value may present, at the phase of its determination based on valuation models, inputs which are observable or not observable. However, the level attributed must be unique and for this reason it must refer to the instrument as a whole.

15.6 Business Combinations

A business combination consists of the bringing together of companies or company activities in a single entity kept at the drafting of the financial statements.
A business combination may give rise to investment link between the parent company (acquiror) and subsidiary (acquiree). A business combination may also make provision for the purchase of the net assets of another company, including any goodwill, or the acquisition of the capital of another company (mergers and contributions).
Based on the provisions of IFRS 3, business combinations must be accounted for by applying the purchase method which envisages the following phases:
- identification of the purchaser;
- determination of the cost of the business combination;
- allocation, at the acquisition date, of the cost of the business combination to the assets acquired and liabilities assumed, including therein any contingent liabilities.

In particular, the cost of a business combination is determined as the sum of the fair value, at the date of the exchange, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued, in exchange for control of the acquiree. augmented by any cost directly attributable to the business combination.
The acquisition date is the date on which control of the acquiree is effectively obtained. When the acquisition is carried out via a single exchange, the exchange date coincides with the acquisition date.
When the business combination is achieved through several exchange transactions:
- the cost of the combination is the total cost of the individual transactions;
- the exchange date is the date of each exchange transaction (i.e. the date on which each investment is recognised in the financial statements of the acquiring company), while the acquisition date is the date on which control of the acquiree is obtained.

The cost of a business combination is allocated by recognising the identifiable assets, liabilities and contingent liabilities of the acquiree at the associated fair values at the acquisition date.
The identifiable assets, liabilities and contingent liabilities of the acquiree are recognised separately at the acquisition date only if, at said date, they satisfy the following criteria:
- in the event of an asset other than an intangible asset, it is likely that any future related economic benefits flow to the acquiror and it is possible to reliably measure its fair value;
- in the event of a liability other than a contingent liability, it is likely that, to extinguish the obligation, the use of resources aimed at generating economic benefits will be necessary and it is possible to reliably measure its fair value;
- in the event of an intangible asset or a contingent liability, the relevant fair value can be reliably measured.

The positive difference between the cost of the business aggregation and the acquiror's interest at the net fair value of the identifiable assets, liabilities and contingent liabilities must be accounted for as goodwill.
Following initial recognition, the goodwill acquired in a business combination is measured at the relevant cost, and is subject to an impairment test at least annually.
In the event of a negative difference, a new measurement is performed. This negative difference, if confirmed, is booked immediately as revenue in the income statement.

15.7 Accruals and deferrals

Accruals and deferrals that include expenses and income pertaining to the period accrued on assets and liabilities are booked to the financial statements as an adjustment to the assets and liabilities to which they refer.

15.8 Share based payments

This case does not apply to the Group as it does not have a so-called 'stock option plan' in place on bank-issued shares.

A.3 - INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

The tables of this section do not contain information and therefore were not filled in.

A.4 - INFORMATION ON FAIR VALUE

INFORMATION OF A QUALITATIVE NATURE

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

For assets and liabilities measured at fair value on a recurring basis in the financial statements, in the absence of prices on active markets, the Group uses valuation methods in line with the requirements of the accounting standards (fair value levels) and with the methodologies generally accepted and used by the market.
The valuation models include techniques based on the discounting of future cash flows and estimated volatility, as well as the use of credit spreads. It should be noted that the only items measured at fair value in the financial statements are on a recurring basis and are represented by financial assets and liabilities.
In particular, in the absence of prices on active markets, the financial instruments are measured using the methods below. In some cases, the fair value of the assets and liabilities, in compliance with the following methods, was calculated via outsourcing by third parties. In particular, these valuation techniques provide the usage of, in the order of hierarchy indicated below:

1. the listed prices for assets and liabilities in markets which are not active (for example those prices which can be obtained from market info-providers) or the prices of similar assets and liabilities in active markets;
2. the fair value obtained from valuation models (for example, Discounting Cash Flow Analysis, Option Pricing Models) which include the representative risk factors that affect the fair value of a financial instrument (cost of money, credit risk, volatility, exchange rates, etc.) based on data which can be observed on the market, in relation also to similar instruments, on the valuation date. If market data is not available for one or more risk factors, internally determined parameters are used which are based on history and statistics.
   The valuation models are reviewed periodically to ensure their full and constant reliability;
3. the price indications provided by the issuing counterparty, as adjusted to take into account counterparty risk and/or liquidity risk (for example, the value of the unit communicated by the asset management company for closed end funds restricted to institutional investors or other types of non-harmonised UCITS, the redemption value determined pursuant to the issuing regulation for insurance contracts);
4. for equity-linked instruments, if the valuation techniques above do not apply: i) the value ensuing from independent appraisals if available; ii) the value corresponding to the portion of the equity held, as this results from the last financial statements approved by the company; iii) the cost, adjusted as necessary to take into account significant amounts of impairment, where the fair value cannot be determined reliably;
5. for loans and receivables, for which fair value is calculated only in order to provide appropriate information for the financial statements, the contractual cash flows are discounted net of the expected losses calculated on the basis of the borrower's credit rating, using the corresponding interest rate structure for the maturity;

If there are no prices listed on active markets the financial instruments must be classified in levels 2 or 3.
Classification in Level 2 rather than Level 3 is determined based on the ability to observe on the market significant inputs used to determine the fair value.
The Level 2 inputs include:

- prices listed for similar assets or liabilities on active markets;
- prices listed for similar or identical assets or liabilities on non-active markets;
- market figures other than the listed prices for assets or liabilities (for example the interest rates and yield curve which can be observed at intervals that are commonly listed; implicit volatility and credit spreads);
- inputs corroborated by the market.

All other variables used in valuation techniques that cannot be corroborated based on data observable on the market are not considered to be observable.

If the fair value of a financial instrument is not determined through the price recognised in an active market (Level 1), the overall fair value may present, at the phase of its determination based on valuation models, inputs which are observable or not observable. However, the level attributed must be unique and for this reason it must refer to the instrument as a whole; the unique level attributed thus reflects the lowest level of import with a significant effect in the determination of the fair value of the instrument.

In order for data which cannot be observed on the market to have a significant effect in the overall determination of the fair value of the instrument, the overall impact is measured such as to render uncertain (i.e. of significant variability), the overall valuations; in the event in which the weight of the data which cannot be observed prevails, the level attributed is '3'.

Among the main rules applied for the determination of the fair value levels we note that the following are considered to be "Level 1": government debt securities, corporate debt securities, equities, open ended funds, derivative financial instruments and financial liabilities issued the fair value of which corresponds, on the valuation date, to a price which is listed on an active market.

The following are considered to be 'Level 2':

- government debt securities, corporate debt securities, equities, open ended funds and financial liabilities issued by issuers of national and international stature, which are not listed on an active market and which are measured mainly through the data observable on the market;
- OTC (Over the counter) financial derivatives concluded with institutional counterparties measured mainly through observable data market.

Finally, the following are classified under 'Level 3':

- equities and financial liabilities issued, for which there are no listed prices on active markets on the valuation date and which are mainly valued on the basis of a technique using data which cannot be observed on the market whose impact is not negligible;
- OTC (Over the counter) financial derivatives concluded with institutional counterparties, which are valued on the basis of pricing models which are altogether similar to those used for the valuation in 'Level 2' and which are differentiated on the basis of the level of observe ability of the input data used in the pricing techniques (we refer mainly to implicit correlations and volatility);
- the derivative financial instruments concluded with customers for whom the fair value adjustment portion which takes into account the risk of default is significant compared to the total value of the financial instrument.

IFRS 13 furthermore requires that, for financial assets classified under 'Level 3', a disclosure must be made in regard to the sensitivity of the economic results following the change to one or more non-observable parameters used and the measurement techniques for determination of the fair value.

A.4.2 PROCESSES AND SENSITIVITIES OF THE VALUATIONS

The Group generally conducts a sensitivity analysis of the non-observable inputs, through a stress test on all significant non-observable inputs for the valuation of the different types of financial instruments belonging to level 3 of the fair value hierarchy; based on this test, the potential changes in fair value are determined, per instrument type, attributable to plausible variations in non-observable inputs.

With reference to the financial statements as at 31.12.2018, the Group did not carry out said analysis with reference to the assets classified to level 3 of the fair value hierarchy represented by investments in unlisted equity instruments in active markets and whose fair value cannot be reliably determined; these instruments, as already stated, are maintained at cost and written down, with recognition in the income statement, in the event impairment is verified.

The fair value of AT1 instruments, subscribed by funds of the category as part of support initiatives, is determined on the basis of the methodologies described below.

The recent issuing and subscription of said instruments (so-called hybrid capitalisation instruments) involves pricing analysis being affected by a quite contained market and available historical references (sufficiently reliable) on significant events that characterise said instruments (continuous payments of coupons, reduction of nominal value for loss absorption clause, exercise of options present, etc.).

The instruments were issued and subscribed as part of the projects for the support and relaunch of banks as a result of combinations with more vulnerable sister companies, nonetheless, in view of the credibility and medium-term sustainability of the relevant relaunch plans as the three-year business plans examined by the subscribing institutions certify; therefore, they are not based on different and structural approaches to the long-term composition of the Group's regulatory capital or the legislative requirements on the composition of liabilities (i.e. MREL) which can be traced back to other transactions on the markets but are impacted, within the context of the BCCs - by the reduced availability of "traditional" capital strengthening instruments (shares), which cooperative credit banks are structurally impacted by. Now partially remedied, prospectively speaking, through the parent company's possible subscription of the shares set out in art. 150-ter of the TUB.

They essentially assume the functions and purposes (best in terms of capital quality), up until today related to the majority of subordinated securities issued by the banks in the category.

Therefore, considering the absence of a market characterised by functional transactions to be taken as a reference, in defining a theoretical pricing model for said instruments (or similar instruments), two components take on significance:

a) Rate of return on subordinated securities with similar seniority;

b) Duration of the security as well as its structure.

A.4.3 FAIR VALUE HIERARCHY

For an examination of the methods used by the Group to determine the fair value levels of the assets and liabilities, please see paragraph 'Criteria for determining the fair value of financial instruments' in part A.2 'Part regarding the main items in the accounts', 15 - 'Other information'.

A.4.4 OTHER INFORMATION

The Group does not manage groups of financial assets and liabilities based on its net exposure to market risks or credit risk.

The Group, with reference to derivatives concluded with financial counterparties with which it stipulated framework offsetting agreements, availed itself of the possibility to measure the fair value at overall portfolio exposure level in order to take account of the offsetting of counterparty risk. The CVA/DVA calculated at portfolio level is allocated to the individual derivative contracts based on the fair value of the said individual contracts forming the object of the offsetting agreements.

INFORMATION OF A QUANTITATIVE NATURE

A.4.5. FAIR VALUE HIERARCHY

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

Financial assets/liabilities measured at fair value	31.12.2018		
	Level 1	Level 2	Level 3
1. Financial assets measured at fair value through profit or loss of which	53,697	15,814	17,958
a) financial assets held for trading	4,921	12,361	-
b) financial assets measured at fair value	-	3,098	-
c) other financial assets obligatorily measured at fair value	48,776	355	17,958
2. Financial assets measured at fair value through other comprehensive income	1,768,637	10,723	45,443
3. Hedging derivatives	-	-	-
4. Tangible assets	-	-	35
5. Intangible assets	-	-	-
TOTAL	1,822,334	26,537	65,565
1. Financial liabilities held for trading	-	11,596	-
2. Financial liabilities measured at fair value	-	9,449	-
3. HEDGING DERIVATIVES	-	-	-
TOTAL	-	21,045	-

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets measured at fair value	of which: c) other financial assets obligatorily measured at fair value				
1. Opening balances	18,538	-	-	18,538	44,112	-	35	-
2. Increases	-	-	-	-	2,606	-	-	-
2.1. Purchases	-	-	-	-	1,680	-	-	-
2.2. Profit attributed to:	-	-	-	-	-	-	-	-
2.2.1. Income Statement	-	-	-	-	-	-	-	-
- of which gains	-	-	-	-	-	-	-	-
2.2.2. Equity	-	X	X	-	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	926	-	-	-
3. Decreases	580	-	-	580	1,275	-	-	-
3.1. Sales	-	-	-	-	564	-	-	-
3.2. Repayments	126	-	-	126	-	-	-	-
3.3. Losses attributed to:	-	-	-	-	-	-	-	-
3.3.1. Income Statement	-	-	-	-	-	-	-	-
- of which capital losses	-	-	-	-	-	-	-	-
3.3.2. Equity	-	X	X	-	-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	454	-	-	454	711	-	-	-
4. Closing balances	17,958	-	-	17,958	45,443	-	35	-

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

The tables does not contain information and therefore were not filled in.

A.4.5.4 Assets and liabilities which are not measured at fair value or which are measured at fair value on non-recurring basis: breakdown by fair value levels

Assets and liabilities which are not measured at fair value or which are measured at fair value on a non-recurring basis	31.12.2018			
	Carrying amount	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	4,558,720	1,207,220	111,008	2,948,753
2. Tangible assets held for investment purposes	836	-	-	-
3. Non-current assets and groups of assets held for disposal	-	-	-	-
TOTAL	4,559,556	1,207,220	111,008	2,948,753
1. Financial liabilities measured at amortised cost	5,375,722	-	84,142	5,336,073
2. Liabilities associated to assets held for disposal	-	-	-	-
TOTAL	5,375,722	-	84,142	5,336,073

A.5 - INFORMATION ON THE 'DAY ONE PROFIT/LOSS'

The Group companies does not have any transactions for which, upon initial recognition of non listed financial instruments on active markets, this component relative to the 'day one profit/loss' was recognised. Consequently, no disclosure is provided as required by IFRS 7, par. 28.

PART B
INFORMATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

Section 1	Cash and cash equivalents Item 10
Section 2	Financial assets measured at fair value through profit or loss Item 20
Section 3	Financial assets measured at fair value through other comprehensive income Item 30
Section 4	Financial assets measured at amortised cost Item 40
Section 5	Hedging derivatives Item 50
Section 6	Adjustment of the financial assets subject to macro-hedging Item 60
Section 7	Equity Investments Item 70
Section 8	Reinsurers' share of technical provisions Item 80
Section 9	Tangible assets Item 90
Section 10	Intangible assets Item 100
Section 11	Tax assets and tax liabilities Item 110 of assets and Item 60 of liabilities
Section 12	Non-current assets and groups of assets held for disposal Item 110 of assets and Item 70 of liabilities
Section 13	Other assets Item 120

SECTION 1 **CASH AND CASH EQUIVALENTS - ITEM 10**

1.1 Cash and cash equivalents: breakdown

	Total 2018	Total 2017
a) Cash	123,891	97,174
b) Demand deposits at central banks	-	599,987
TOTAL	123,891	697,161

SECTION 2 **FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 20**

2.1 Financial assets held for trading: breakdown by category

Items/Values	Total 2018		
	Level 1	Level 2	Level 3
A. Cash assets	-	-	-
1. Debt securities	1,612	-	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	1,612	-	-
2. Equities	3,309	-	-
3. UCITS units	-	-	-
4. Loans	-	-	-
4.1 Repos	-	-	-
4.2 Other	-	-	-
TOTAL (A)	4,921	-	-
B. Derivative instruments	-	-	-
1. Financial derivatives	-	12,361	-
1.1 trading	-	12,361	-
1.2 connected to the fair value option	-	-	-
1.3 other	-	-	-
2. Credit derivatives	-	-	-
2.1 trading	-	-	-
2.2 connected to the fair value option	-	-	-
2.3 other	-	-	-
TOTAL (B)	-	12,361	-
TOTAL (A+B)	4,921	12,361	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.
This item contains the financial assets (debt securities, equities, UCITS units, and derivatives) classified in the trading portfolio. The cash assets under point 2. Equities mainly represent the financial instruments managed by third parties as part of securities asset management. The debt securities consist of Italian government bonds.

2.2 Financial assets held for trading: breakdown by debtors/issuers/counterparties

Items/Values	Total 2018
A. CASH ASSETS	-
1. Debt securities	1,612
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	1,612
of which: insurance companies	1,612
e) Non financial companies	-
2. Equities	3,309
a) Banks	286
b) Other financial companies	408
of which: insurance companies	258
c) Non financial companies	2,615
d) Other issuers	-
3. UCITS units	-
4. Loans	-
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non financial companies	-
f) Households	-
TOTAL (A)	4,921
B. Derivative instruments	-
a) Central counterparties	-
b) Other	12,361
TOTAL (B)	12,361
TOTAL (A+B)	17,282

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

2.3 Financial assets measured at fair value: breakdown by category

Items/Values	Total 2018		
	Level 1	Level 2	Level 3
1. Debt securities	-	3,098	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	-	3,098	-
2. Loans	-	-	-
2.1 Structured	-	-	-
2.2 Other	-	-	-
TOTAL	-	3,098	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

2.4 Financial assets measured at fair value: breakdown by debtors/issuers

Items/Values	Total 2018
1. Debt securities	3,098
a) Central Banks	-
b) Public bodies	-
c) Banks	3,098
d) Other financial companies	-
of which: insurance companies	-
e) Non financial companies	-
2. Loans	-
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non financial companies	-
f) Households	-
TOTAL	3,098

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.
In this item only the bonds purchased from the CR-BCCs are classified. For these securities, related to bonds of equal characteristics and value issued by us and recorded in item 50 of Liabilities, the fair value option is applied. This methodology represented for the Bank the most reliable and convenient possibility to account for the hedging transactions that naturally offset one another (so-called natural hedge).

2.5 Other financial assets obligatorily measured at fair value: breakdown by category

Items/Values	Total 2018		
	Level 1	Level 2	Level 3
1. Debt securities	-	-	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	-	-	-
2. Equities	-	-	-
3. UCITS units	48,776	355	-
4. Loans	-	-	17,958
4.1 Repos	-	-	-
4.2 Other	-	-	17,958
TOTAL	48,776	355	17,958

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

2.6 Other financial assets obligatorily measured at fair value: breakdown by debtors/issuers

Items/Values	Total 2018
1. Equities	-
of which: banks	-
of which: other financial companies	-
of which: non financial companies	-
2. Debt securities	-
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non financial companies	-
3. UCITS units	49,132
4. Loans	17,958
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	16,012
of which: insurance companies	-
e) Non financial companies	1,737
f) Households	209
TOTAL	67,089

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.
The item 'UCITS units' is composed of the following main categories of open funds:
• bond totalling EUR 31,626 thousand;
• balanced totalling EUR 17,150 thousand.

SECTION 3 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - ITEM 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by category

Items/Values	Total 2018		
	Level 1	Level 2	Level 3
1. Debt securities	1,768,637	-	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	1,768,637	-	-
2. Equities	-	10,723	45,443
3. Loans	-	-	-
TOTAL	1,768,637	10,723	45,443

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

3.2. Financial assets measured at fair value through other comprehensive income: breakdown by debtors/issuers

Items/Values	Total 2018
1. Debt securities	1,768,637
a) Central Banks	-
b) Public bodies	1,767,564
c) Banks	-
d) Other financial companies	1,073
of which: insurance companies	100
e) Non financial companies	-
2. Equities	56,166
a) Banks	44,177
b) Other issuers:	11,989
- other financial companies	1,987
of which: insurance companies	-
- non financial companies	9,172
- other	830
3. Loans	-
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non financial companies	-
f) Households	-
TOTAL	1,824,803

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total value adjustments

	Gross value				Total value adjustments			Overall partial write-offs
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	1,771,135	-	-	-	2,498	-	-	-
Loans	-	-	-	-	-	-	-	-
TOTAL	1,771,135	-	-	-	2,498	-	-	X
of which: impaired financial assets acquired or originated	X	X	-	-	X	-	-	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.
The division by stage of risk of financial assets measured at fair value through other comprehensive income is applied in compliance with the provisions of the new impairment model as introduced with the application of the new IFRS 9 accounting standard. For more details, please refer to Part A – Accounting policies, A.1 – General part, Section 4 - Other matters.

SECTION 4 FINANCIAL ASSETS MEASURED AT AMORTISED COST - ITEM 40

4.1 Financial assets measured at amortised cost: breakdown by category of loans to Banks

Transaction type/Values	Total 2018					
	Carrying amount			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
A. Loans to Central Banks	173,126	-	-	-	-	173,126
1. Fixed-term deposits	-	-	-	X	X	X
2. Compulsory reserve	173,126	-	-	X	X	X
3. Repos	-	-	-	X	X	X
4. Other	-	-	-	X	X	X
B. Loans to banks	1,986,042	-	-	X	110,308	1,870,343
1. Loans	1,861,049	-	-	-	-	1,860,657
1.1 Current accounts and deposits on demand	135,039	-	-	X	X	X
1.2. Fixed-term deposits	116,909	-	-	X	X	X
1.3. Other loans:	1,609,101	-	-	X	X	X
- Repos receivables	-	-	-	X	X	X
- Finance leases	1,016	-	-	X	X	X
- Other	1,608,085	-	-	X	X	X
2. Debt securities	124,993	-	-	-	110,308	9,686
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	124,993	-	-	-	110,308	9,686
TOTAL	2,159,168	-	-	-	110,308	2,043,469

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

The item 'Other loans-other' consists of loans secured by eligible ECB securities offered to the BCC-CR-RAIKAs as part of the 'Collateral Account' service, activated in order to intermediate the BCC-CR-RAIKAs not only on the refinancing transactions by the European Central Bank but also on the repo market. As part of these services, based on the financial guarantee agreements pursuant to Italian Legislative Decree no. 170 of 21 May 2004, Cassa Centrale Banca obtained the transfer of legal ownership of eligible securities from the BCC-CR-RAIKAs. These securities can therefore be used by the Bank to guarantee the participation in the refinancing operations of the European Central Bank and for the stipulation of transactions on the repo market.

4.2 Financial assets measured at amortised cost: breakdown by category of loans to customers

Transaction type/Values	Total 2018					
	Carrying amount			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
1. Loans	1,115,513	50,518	-	-	-	905,284
1.1. Current accounts	40,320	3,443	-	X	X	X
1.2. Repos receivables	-	-	-	X	X	X
1.3. Mortgage loans	446,361	15,523	-	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	-	-	-	X	X	X
1.5. Finance leases	500,063	29,683	-	X	X	X
1.6. Factoring	-	-	-	X	X	X
1.7. Other loans	128,769	1,869	-	X	X	X
2. Debt securities	1,233,521	-	-	1,207,220	700	-
2.1. Structured securities	-	-	-	-	-	-
2.2. Other debt securities	1,233,521	-	-	1,207,220	700	-
TOTAL	2,349,034	50,518	-	1,207,220	700	905,284

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.
Loans to customers are shown net of value adjustments from write-downs.
Impaired assets include the non performing loans, unlikely to pay and past due exposures according to the definitions of the Bank of Italy. Details of these exposures, the amounts and the breakdown of the value adjustments, are shown in Part E of the Explanatory notes – 'Credit quality'.
The fair value of short-term or revocable receivables was conventionally assumed to be equal to the carrying amount. For the impaired positions it was deemed appropriate to assume the fair value equal to the net carrying amount.
The receivables include loans in foreign currencies totalling EUR 69 thousand.
Among other things, 3 bonds were recognised under the sub-item 'Other debt securities' (EUR 897 thousand) issued by Lucrezia Securitation as part of the initiatives in favour of the CR-BCCs operated by the Institutional Guarantee Fund.

4.3 Finance leases

	Total 2018	
	Minimum payments	Actual value of minimum payments
	Receivables from banks for finance leases	
Up to 3 months	93	-
From 3 months to 1 year	284	377
From 1 to 5 years	407	407
Beyond 5 years	232	232
Total value of gross / net investment	1,016	1,016
- of which: Unguaranteed residual values accruing to the benefit of the lessor	-	-
Less: deferred financial profits	-	-
Actual value of receivables for minimum payments due (net lease investment)	-	-
	Receivables from customers for finance leases	
Up to 3 months	24,590	24,590
From 3 months to 1 year	63,374	63,374
From 1 to 5 years	229,459	229,459
Beyond 5 years	212,323	212,323
Total value of gross / net investment	529,746	529,746
- of which: Unguaranteed residual values accruing to the benefit of the lessor	-	-
Less: deferred financial profits	-	-
Actual value of receivables for minimum payments due (net lease investment)		

4.4 Financial assets measured at amortised cost: breakdown by debtors/issuers of loans to customers

Transaction type/Values	Total 2018		
	First and second stage	Third stage	Of which: impaired assets acquired or originated
1. Debt securities	1,233,521	-	-
a) Public bodies	1,232,623	-	-
b) Other financial companies	898	-	-
of which: insurance companies	-	-	-
c) Non financial companies	-	-	-
2. Loans to:	1,115,513	50,518	-
a) Public bodies	1,411	-	-
b) Other financial companies	149,510	393	-
of which: insurance companies	-	-	-
c) Non financial companies	911,908	46,846	-
d) Households	52,684	3,279	-
TOTAL	2,349,034	50,518	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

4.5 Financial assets measured at amortised cost: gross value and total value adjustments

	Gross value				Total value adjustments			Overall partial write-offs
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	1,358,036	40,191	3,298	-	2,443	377	-	-
Loans	2,932,231	22,413	229,987	152,822	7,745	4,784	102,303	7,631
TOTAL	4,290,265	62,604	233,285	152,822	10,188	5,161	102,303	X
of which: impaired financial assets acquired or originated	X	X	-	-	X	-	-	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

The division by stage of risk of financial assets measured at amortised cost is applied in compliance with the provisions of the new impairment model as introduced with the application of the new IFRS 9 accounting standard. For more details, please refer to Part A – Accounting policies, A.1 – General part, Section 4 - Other matters.

SECTION 5

HEDGING DERIVATIVES - ITEM 50

The Group does not have hedging derivatives in place.

As a consequence, this Section has not been filled in.

SECTION 6

ADJUSTMENT OF THE FINANCIAL ASSETS SUBJECT TO MACRO-HEDGING - ITEM 60

As at the date of the consolidated financial statements there are no assets subject to macro-hedging.

As a consequence, this Section has not been filled in.

SECTION 7

EQUITY INVESTMENTS - ITEM 70

This section includes the equity investments in companies under joint control or subject to a significant influence (IAS 28 and IFRS 11).

As at 31 December 2018, the carrying amount of 'Equity investments' came to EUR 20.12 million, relating:

- to 'significant' equity investments totalling EUR 19.42 million (as represented in the following table 7.2);
- to 'non significant' equity investments totalling EUR 0.7 million (as represented, on the whole, in the following table 7.4);

The scope of 'significant equity investments' was determined by considering the materiality of the carrying amount of the investment and the share of the investee's assets with respect to the homogeneous balances relating to the current financial statements.

7.1 Equity investments: information on investment ratios

Names	Registered office	Operating headquarters	Relationship type (a)	Investment relationship		Votes available %
				Investing company	% interest	
A. Jointly-controlled companies						
1. Casse Rurali Raiffeisen Finanziaria S.p.A.	Bolzano	Bolzano	1	Cassa Centrale Banca S.p.A.	50.00	50.00
B. Companies subject to a significant influence						
1. Assicura Cooperazione Trentina S.r.l.	Trento	Trento	1	Cassa Centrale Banca S.p.A.	39.00	39.00
2. Centrale Trading S.r.l.	Trento	Trento	1	Cassa Centrale Banca S.p.A.	32.50	32.50
				Phoenix S.p.A.	10.00	10.00
3. Centro Sistemi Direzionali S.r.l.	Palazzolo sull'Oglio (BS)	Palazzolo sull'Oglio (BS)	1	Phoenix S.p.A.	40.34	40.34
4. Formazione Lavoro S.c.a.r.l.	Trento	Trento	1	Cassa Centrale Banca S.p.A.	22.21	22.21

(a) Relationship type: 1=stake in share capital

The table above does not include the total control equity investment in Centrale Casa S.r.l. which, for reason of limited significance, is consolidated with the net equity method for the purposes of the Group's consolidated financial statements.

7.2 Significant equity investments: carrying amount, fair value and dividends received

Names	Carrying amount	Fair value	Dividends received
A. Jointly-controlled companies			
1. Casse Rurali Raiffeisen Finanziaria S.p.A.	15,144	-	-
B. Companies subject to a significant influence		-	-
1. Assicura Cooperazione Trentina S.p.A.	2,983	-	-
2. Centro Sistemi Direzionali S.r.l.	1,297		
TOTAL	19,424	-	-

The column Fair value does not contain any information, given that listed investments (IFRS 12.20) are not present, in the same way there are no investees measured at fair value, considering the expression of the relative recoverable value, as a result of impairment (IAS 36.130).

As regards the jointly controlled investment in Casse Rurali Raiffeisen Finanziaria S.p.A., for greater representativeness, the data refer to the period ended 31.12.2018 in the process of being approved.
The data of the financial statements of the companies subject to a significant influence relate to the year ended as at 31.12.2017.

7.3 Significant equity investments: accounting information

Names	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest margin	Value adjustments and write-backs on tangible and intangible assets	Profit (loss) before tax from current operating activities	Profit (loss) after tax from current operating activities	Profit (loss) on groups of assets held for sale, after tax	Profit (loss) for the year (1)	Other post-tax income components (2)	Comprehensive Income (3) = (1)+(2)
A. Jointly-controlled companies														
1. Casse Rurali Raiffeisen Finanziaria S.p.A.	-	65,352	1	32,058	6	2	(158)	-	1,432	1,432	-	1,432	-	1,432
B. Companies subject to a significant influence														
1. Assicura Cooperazione Trentina S.p.A.	86	7,324	34	-	40	2,662	5	-	2,595	2,578	-	2,578	-	2,578
2. Centro Sistemi Direzionali S.r.l.	2,167	-	3,337	-	1,918	4,906	42	227	284	203	-	203	-	203

The table shows the data obtained from the last accounting position available.

Reconciliation between net assets and the carrying amount of the investee in the financial statements

Names	Net assets (*)	% interest	Net assets held	Goodwill	Other adjustments	Carrying amount
A. Jointly-controlled companies						
1. Casse Rurali Raiffeisen Finanziaria S.p.A.	30,289	50.00	15,144	-	-	15,144
B. Companies subject to a significant influence	-	-	-	-	-	-
1. Assicura Cooperazione Trentina S.p.A.	7,404	39.00	2,887	96	-	2,983
2. Centro Sistemi Direzionali S.r.l.	3,585	30.00	715			715

(*) equal to the sum of 'Financial assets', 'Non-financial assets' net of 'Financial liabilities', 'Non-financial liabilities' indicated in previous table 7.3.

7.4 Non significant equity investments: accounting information

Name	Carrying amount of equity investments	Total assets	Total liabilities	Total revenues	Profit (loss) after tax from current operating activities	Profit (loss) on groups of assets held for sale, after tax	Profit (loss) for the year (1)	Other post-tax income components (2)	Comprehensive Income (3) = (1) + (2)
Jointly-controlled companies	-	-	-	-	-	-	-	-	-
Companies subject to a significant influence	689	1,110	391	1,006	(81)	-	(81)	-	(81)

The table reports the accounting information on a cumulative basis by type of investment relationship, with reference to the companies subject to a significant influence but immaterial.
'Total liabilities' does not include Equity.
The data of the financial statements of the companies subject to a significant influence relate to the year ended as at 31 December 2017.
In the column 'Total revenues' the total amount of the income components with a positive sign is shown, gross of their tax effect.
The values are expressed with reference to the percentage held by the Group, as required by IFRS 12.

7.5 Equity investments: annual changes

	Total 2018	Total 2017
A. Opening balances	43,504	28,151
B. Increases	1,677	20,863
B.1 Purchases	-	19,153
B.2 Write-backs	-	-
B.3 Revaluations	1,677	1,710
B.4 Other changes	-	-
C. Decreases	25,067	5,510
C.1 Sales	-	-
C.2 Value adjustments	2,212	34
C.3 Other changes	22,855	5,474
D. Closing balances	20,114	43,504
E. Total revaluations	8,111	11,910
F. Total adjustments	4,789	2,577

It is noted that the item 'Total revaluations' represents only the company within the consolidation scope at the reporting date. The item 'Other changes' (Decreases) mainly takes into account the companies over which the Group obtained control during the current year, which were previously subject to a significant influence.

7.6 Significant valuations and assumptions to establish the existence of joint control or significant influence

Please refer to part A for this section.

7.7 Commitments referring to equity investments in subsidiaries under joint control

As at the date of the financial statements there are no commitments referring to equity investments in subsidiaries under joint control.

7.8 Commitments referring to equity investments in companies subject to a significant influence

As at the date of the financial statements there are no commitments referring to equity investments in companies subject to a significant influence.

7.9 Significant restrictions

As at 31 December 2018, there are no legal or substantive obligations or restrictions able to obstruct the rapid transfer of funds to the Company, except for those attributable to regulatory provisions which may require a minimum amount of regulatory capital to be retained, or to the provisions of the Italian Civil Code on distributable profits and reserves.

7.10 Other information

Please refer to part A for this section.

SECTION 8

REINSURERS' SHARE OF TECHNICAL PROVISIONS - ITEM 80

The tables of this section do not contain information and therefore were not filled in.

SECTION 9

TANGIBLE ASSETS - ITEM 90

9.1 Tangible assets for business use: breakdown of the assets measured at cost.

Assets/Values	Total 2018	Total 2017
1. Assets owned	51,870	35,964
a) land	8,759	6,341
b) buildings	25,797	15,420
c) furniture	2,106	1,986
d) electronic systems	8,405	6,343
e) other	6,803	5,874
2. Assets acquired through finance leases	5,739	-
a) land	1,060	-
b) buildings	4,639	-
c) furniture	40	-
d) electronic systems	-	-
e) other	-	-
TOTAL	57,609	35,964
of which: obtained through the enforcement of guarantees received	-	-

9.2 Tangible assets held for investment purposes: breakdown of the assets measured at cost

Assets/Values	Total 2018				Total 2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Assets owned	836	-	-	-	3,929	-	-	3,929
a) land	-	-	-	-	3,093	-	-	3,093
b) buildings	836	-	-	-	1,138	-	-	1,138
2. Assets acquired through finance leases	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
TOTAL	836	-	-	-	4,231	-	-	4,231
of which: obtained through the enforcement of guarantees received	-	-	-	-	-	-	-	-

It is noted that in relation to data relative to 31.12.2017, the item 'Buildings' was partially restated in the new section 9.5 'Inventories of tangible assets disciplined by IAS 2'.

9.3 Tangible assets for business use: breakdown of the revalued assets

There are no revalued tangible assets; therefore, the relevant table was not filled in.

9.4 Tangible assets held for investment purposes: breakdown of the assets measured at fair value

The Group's tangible assets held for investment purposes are measured at cost; therefore, the relevant table was not filled in.

9.5 Inventories of tangible assets disciplined by IAS 2: breakdown

Items/Values	Total 2018	Total 2017
1. Inventories of tangible assets obtained through the enforcement of guarantees received	-	-
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
2. Other inventories of tangible assets	5,976	5,740
TOTAL	5,976	5,740
of which: measured at fair value net of sales costs	-	-

Please refer to table 9.2 for the partial restatement of opening balances.

9.6 Tangible assets for business use: annual changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balances	6,341	24,610	11,136	41,719	20,972	104,778
A.1 Total net impairment	-	9,191	9,151	35,374	15,098	68,814
A.2 Net opening balances	6,341	15,419	1,985	6,345	5,874	35,964
B. Increases:	3,478	16,431	815	8,027	4,991	33,742
B.1 Purchases	-	88	699	5,088	4,448	10,323
- of which business combinations	-	-	-	-	-	-
B.2 Expenditures for capitalised improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	9	-	-	9
B.4 Positive fair value changes charged to	-	-	-	-	-	-
a) Equity	-	-	-	-	-	-
b) Income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment purposes	-	-	-	-	-	-
B.7 Other changes	3,478	16,343	107	2,939	543	23,410
C. Decreases:	-	1,414	654	5,967	4,062	12,097
C.1 Sales	-	-	44	-	18	62
- of which business combinations	-	-	-	-	-	-
C.2 Amortisation and depreciation	-	836	408	5,225	3,360	9,829
C.3 Value adjustments for impairment charged to	-	-	2	-	-	2
a) Equity	-	-	2	-	-	2
b) Income statement	-	-	-	-	-	-
C.4 Negative fair value changes charged to	-	-	-	-	-	-
a) Equity	-	-	-	-	-	-
b) Income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) tangible assets held for investment purposes	-	-	-	-	-	-
b) assets held for disposal	-	-	-	-	-	-
C.7 Other changes	-	578	200	742	684	2,204
D. Net closing balances	9,819	30,436	2,146	8,405	6,803	57,609
D.1 Total net impairment	-	15,613	8,390	47,667	18,560	90,559
D.2 Gross closing balances	9,819	46,049	10,536	56,072	25,363	148,168
E. Valuation at cost	-	-	-	-	-	-

Item E. 'Valuation at cost' is not measured since its compilation is only required for tangible assets measured at fair value in the financial statements. This case does not apply to the Group.

It should be noted that the values of the 'Gross opening balances', the 'Net opening balances' and the associated 'Total net impairment' do not include the balances of the tangible assets of the companies whose control was acquired during 2018. Conversely, the net values of these fixed assets were reported as 'Other increases' and the 'Gross closing balances', 'Net closing balances' and the associated 'Total net impairment' were updated with the total values of the Group's consolidated assets.

9.7 Tangible assets held for investment purposes: annual changes

	Total	
	Land	Buildings
A. Opening balances	3,093	1,138
B. Increases	-	-
B.1 Purchases	-	-
- of which business combinations	-	-
B.2 Expenditures for capitalised improvements	-	-
B.3 Positive fair value changes	-	-
B.4 Write-backs	-	-
B.5 Positive exchange rate differences	-	-
B.6 Transfers from properties held for functional use	-	-
B.7 Other changes	-	-
C. Decreases	3,093	302
C.1 Sales	3,093	-
- of which business combinations	-	-
C.2 Amortisation and depreciation	-	-
C.3 Negative fair value changes	-	-
C.4 Value adjustments for impairment	-	-
C.5 Negative exchange rate differences	-	-
C.6 Transfers to:	-	-
a) properties for functional use	-	-
b) non-current assets held for disposal	-	-
C.7 Other changes	-	302
D. Closing balances	-	836
E. Valuation at fair value	-	-

Please refer to table 9.2 for the partial restatement of opening balances.

9.8 Inventories of tangible assets disciplined by IAS 2: annual changes

	Inventories of tangible assets obtained through the enforcement of guarantees received					Other inventories of tangible assets	Total
	Land	Buildings	Furniture	Electronic systems	Other		
A. Opening balances	-	-	-	-	-	5,740	5,740
B. Increases	-	-	-	-	-	1,195	1,195
B.1 Purchases	-	-	-	-	-	1,195	1,195
B.2 Write-backs	-	-	-	-	-	-	-
B.3 Positive exchange rate differences	-	-	-	-	-	-	-
B.4 Other changes	-	-	-	-	-	-	-
C. Decreases	-	-	-	-	-	959	959
C.1 Sales	-	-	-	-	-	959	959
C.2 Value adjustments for impairment	-	-	-	-	-	-	-
C.3 Negative exchange rate differences	-	-	-	-	-	-	-
C.4 Other changes	-	-	-	-	-	-	-
D. Closing balances	-	-	-	-	-	5,976	5,976

Please refer to table 9.2 for the partial restatement of opening balances.

9.9 Commitments for tangible asset purchases

As at 31 December 2018 the Cassa Centrale Banca Group had no commitments for tangible asset purchases deemed to be significant.

SECTION 10 INTANGIBLE ASSETS - ITEM 100

10.1 Intangible assets: breakdown by type of asset

Assets/Values	Total 2018		Total 2017	
	Definite duration	Indefinite duration	Definite duration	Indefinite duration
A.1 Goodwill	-	52,471		22,189
A.1.1 pertaining to the Group	-	-		22,189
A.1.2 pertaining to minority interests	-	-		
A.2 Other intangible assets	37,347	-	27,994	
A.2.1 Assets valued at cost:	37,347	-	27,994	
a) Intangible assets generated internally	-	-		
b) Other assets	37,347	-	27,994	
A.2.2 Assets measured at fair value	-	-		
a) Intangible assets generated internally	-	-		
b) Other assets	-	-		
TOTAL	37,347	52,471	27,994	22,189

Information on goodwill and other intangible assets

The application of the IFRS 3 accounting standard in the reporting of acquisition transactions may include the recognition of goodwill and intangible assets, which essentially represent the difference between the cost of aggregation and the value, measured at fair value, of the identifiable assets acquired and the liabilities assumed, including therein the contingent liabilities.

The goodwill reported in the table mainly derives from the processes of corporate aggregations which took place during the 2017 and 2018 financial year, reported in detail below:

- EUR 8,998 thousand relating to the acquisition of Servizi Bancari Associati S.p.A. which took place on 1 July 2018;
- EUR 21,237 thousand relating to the acquisition of NEAM S.A. which took place on 1 October 2018;
- EUR 46 thousand relating to the acquisition of Cesve S.p.A. Consortile which took place on 1 October 2018;
- EUR 17,661 thousand relating to the acquisition of Phoenix Informatica Bancaria S.p.A. which took place during 2017;
- EUR 4,506 thousand relating to the acquisition of Assicura Group S.r.l. which took place during 2017.

The residual value of EUR 23 thousand derives from the goodwill recognised in the Statement of financial position assets of a Group company.

The other intangible assets are attributable to the valuations performed at the phase of PPA of the Customer Relationship of Phoenix Informatica Bancaria S.p.A. and NEAM S.A., respectively amounting to EUR 19,257 thousand and EUR 5,254 thousand, and of Convenzioni Assicurative di Assicura Group S.r.l. for EUR 3,837 thousand. The remaining part relates to the intangible assets recorded by the consolidated companies.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balances	22,189	-	-	35,279	-	57,468
A.1 Total net impairment	-	-	-	7,285	-	7,285
A.2 Net opening balances	22,189	-	-	27,994	-	50,183
B. Increases	30,282	-	-	26,580	-	56,862
B.1 Purchases	-	-	-	14,363	-	14,363
B.2 Increase in internal intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Positive fair value changes	-	-	-	-	-	-
- to Equity	X	-	-	-	-	-
- to Income Statement	X	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Other changes	30,282	-	-	12,217	-	42,499
C. Decreases	-	-	-	17,227	-	17,227
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	6,679	-	6,679
- Amortisation and depreciation	X	-	-	6,679	-	6,679
- Write-downs	-	-	-	-	-	-
+ Equity	X	-	-	-	-	-
+ Income statement	-	-	-	-	-	-
C.3 Negative fair value changes:	-	-	-	-	-	-
- to Equity	X	-	-	-	-	-
- to Income Statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for disposal	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	10,548	-	10,548
D. Net closing balances	52,471	-	-	37,347	-	89,817
D.1 Total net value adjustments	-	-	-	7,765	-	7,765
E. Gross closing balances	52,471	-	-	45,112	-	97,582
F. Valuation at cost	-	-	-	-	-	-

Item F. 'Valuation at cost' is not measured since its compilation is only required for tangible assets measured at fair value in the financial statements. This case does not apply to the Group.

It should be noted that the values of the 'Gross opening balances', the 'Net opening balances' and the associated 'Total net impairment' do not include the balances of the tangible assets of the companies whose control was acquired during 2018. Conversely, the net values of these fixed assets were reported as 'Other changes' (increases) and the 'Gross closing balances', 'Net closing balances' and the associated 'Total net impairment' were updated with the total values of the Group's consolidated assets.

10.3 Intangible assets: other information

As required by paragraphs 122 and 124 of IAS 38, it is specified that the Group did not:

- provide intangible assets as guarantee for its debts;
- acquire intangible assets via operating or finance lease agreements;
- acquire intangible assets via government concession.

It is noted that the Group has made commitments to acquire intangible assets for around EUR 1.8 million.

The impairment test of goodwill and of CGUs

The estimate of the Value in use, for the purposes of the implementation of the impairment test pursuant to IAS 36, of intangible assets with an indefinite life (including goodwill) that do not generate financial flows other than in combination with other corporate assets, require the allocation of the same to organisational units able to generate flows of financial resources.

The Impairment test of goodwill linked to the operations for control acquisition in Phoenix S.p.A., Servizi Bancari Associati S.p.A. and Assicura Group S.r.l. was carried out taking into account CGUs coinciding with the companies whose acquisition generated the goodwill subject to testing.

At every reporting date the Cassa Centrale Banking Group assesses whether there is an indication that an asset might have been impaired. If that is so, it is necessary to estimate the recoverability of the asset and carry out a specific test to ascertain the actual value impairment (hereinafter also 'Impairment test'). With reference to the goodwill, regardless of the fact that there may be indications of impairment, the entity preparing the financial statements must in any case carry out the impairment test at least annually.

Therefore, pursuant to IAS 36 paragraph 10, at the reference date of 31 December 2018, the Cassa Centrale Banking Group carried out the impairment test of goodwill recognised in the consolidated financial statements, with the specification that those arising from most recent acquisitions (NEAM S.A. and CESVE S.r.l.) will be confirmed by the valuation carried out on occasion of the allocation of the purchase price pursuant to IFRS 3. With regard to the goodwill linked to the operations of control acquisition in SBA, even though the latter was relatively recent as it took place during the second half of 2018, due to the effect of the acquisition of a further share of equity investment in the Company in question of 19%, the same was nevertheless subjected to the impairment test, given that the above-mentioned operation of control acquisition gave rise to a pre-existing implicit goodwill in the value of the equity investment.

The impairment test process requires the following 5 steps:

- identification of the cash generating units (hereinafter also 'CGUs');
- the identification of more appropriate evaluative models and parameters for the determination of fair value (hereinafter also 'FV') and of the value in use (hereinafter also 'ViU') of the CGU;
- identification of the greater recoverable value of the FV and ViU of the CGU;
- the calculation of the carrying amount of the CGU;
- comparison between the carrying amount and recoverable value of the CGU.

Impairment Test relative to the company Phoenix S.p.A.

The Phoenix's Recoverable Value was determined using the 'Discounted Cash Flow' model in its 'Unlevered' version: the operating cash flows were estimated on the basis of the company's Business Plan approved on 18 January 2019.

The cost of own capital (Ke), of 9.1%, was used as discounting rate of operating cash flows, in virtue of Phoenix's financial structure, which has no debts. The cost of own capital (Ke) was estimated through the Capital Asset Pricing Model (CAPM) taking a sample of Italian banks as reference, as representative of Phoenix's reference market. The long-term growth rate (g), used for the purposes of the calculation of the terminal value, was assumed to be 1.7%.
As required by the IAS 36 international accounting standard, a sensitivity analysis was carried out varying the Ke and the long-term growth rate by +/-0.50%: the outcome of the impairment test highlighted a recoverable value of the company higher than the carrying amount.

Impairment Test relative to the company Servizi Bancari Associati S.p.A.
The Recoverable Value was determined using the concise income-based method: in fact the acquisition of SBA by Cassa Centrale Banca gave rise to synergies identifiable in the commission flows generated by the SBA's partner Banks (and part of the CCB Cooperative Banking Group) for the use of services supplied by CCB. In consequence, for the purposes of the implementation of the impairment test of the goodwill recognised for SBA, the actual value of the commissions generated by the SBA's partners Banks held by CCB was compared with goodwill recognised in the financial statements.
The cost of own capital (Ke), of 9.1%, was used as discounting rate of income flows, estimated through the Capital Asset Pricing Model (CAPM) taking a sample of Italian banks as reference, as representative of SBA's reference market. As stated previously with regard to Phoenix S.p.A., in this case too the long-term growth rate (g), used for the purposes of the calculation of the terminal value, was assumed to be 1.7%.
As required by the IAS 36 international accounting standard, a sensitivity analysis was carried out varying the Ke and the long-term growth rate by +/-0.50%: the outcome of the impairment test highlighted a recoverable value of the company higher than the carrying amount.

Impairment Test of Assicura Group S.r.l.
The Recoverable Value of Assicura was determined through the analytical income method applied on the basis of the consolidated net profit of Assicura Group S.r.l.
The cost of own capital (Ke), of 7.9%, was used as discounting rate of operating cash flows. The cost of capital, as already mentioned for Phoenix and SBA, was estimated through the Capital Asset Pricing Model (CAPM) taking a sample of comparable companies. The long-term growth rate (g), used for the purposes of the calculation of the terminal value, was assumed to be 1.7%.
As already mentioned in the two preceding cases and as required by the IAS 36 international accounting standard, a sensitivity analysis was carried out varying the Ke and the long-term growth rate by +/-0.50%: the outcome of the impairment test highlighted a recoverable value of the company higher than the carrying amount.

SECTION 11 TAX ASSETS AND TAX LIABILITIES - ITEM 110 OF ASSETS AND ITEM 60 OF LIABILITIES

11.1 Deferred tax assets: breakdown

The types of temporary differences that have led to the posting of 'Deferred tax assets' concern:

Through the Income Statement	Total 2018
Loans	28,322
Tangible fixed assets	474
Provisions for risks and charges	8,027
Tax losses	2,892
Administrative expenses	48
Other items	
TOTAL	40,850

Through Equity	Total 2018
Negative reserves for HTCS financial assets	9,061
Severance indemnity (TFR)	44
Other items	162
TOTAL	9,266

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

Advance taxes are recognised on the basis of the probability of sufficient future taxable income being generated to cover the recovery of values not deducted in previous financial years.

Unlike the case for adjusted write-downs and adjustments on receivables from customers not deducted and in place until 31 December 2015, these were in any case recognised taking into account the possibility of carrying out the conversion into tax credits in the presence of statutory or tax losses.

The item Receivables includes advance taxes relative to:

- Write-downs and impairments on receivables from customers which can be transformed in tax credits, independently of the future profitability of the company, both in the hypothesis of statutory and IRES tax losses or the negative value of production (art. 2, paragraphs 56-bis/56-bis.1, Italian Law Decree no. 225 of 29 December 2010, as modified by Law no. 214/2011) for EUR 24,000 thousand.

11.2 Deferred tax liabilities: breakdown

Through the Income Statement	Total 2018
Tangible fixed assets	378
Capital gains by instalments	-
Other items	1,301
TOTAL	1,680

Through Equity	Total 2018
Positive reserves for HTCS financial assets	481
Intangible assets deriving from the allocation of the cost of purchase	9,704
TOTAL	10,185

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.
Deferred tax liabilities with an impact on equity amounted to EUR 9,673 thousand, calculated on the intangible assets with a definite and indefinite life deriving from the allocation of the cost of purchase.

11.3 Changes in advance taxes (through the Income Statement)

	Total 2018	Total 2017
1. Opening amount	26,336	2,573
2. Increases	38,650	3,046
2.1 Advance taxes recorded in the year	28,506	848
a) relating to previous years	-	-
b) due to changed accounting criteria	-	-
c) write-backs	-	-
d) other	28,506	848
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	10,144	2,198
3. Decreases	24,136	2,413
3.1 Advance taxes cancelled in the year	24,136	2,413
a) reversals	24,109	2,413
b) write-downs for uncollectible amounts	-	-
c) due to changed accounting criteria	-	-
d) other	27	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases:	-	-
a) transformation into tax credits under law 214/2011	-	-
b) other	-	-
4. Closing amount	40,850	26,336

11.4 Changes in advance taxes according to Law 214/2011

	Total 2018	Total 2017
Opening amount	19,055	20,839
2. Increases	5,426	-
3. Decreases	-	1,784
3.1 Reversals	-	1,784
3.2 Transformation into tax credits	-	-
a) deriving from losses for the year	-	-
b) deriving from tax losses	-	-
3.3 Other decreases	-	-
4. Closing amount	24,481	19,055

The table shows changes in advanced taxes recognised on value adjustments of receivables from customers pursuant to Law no. 214/2011, calculated against adjustments of impairment on receivables. Due to the effect of the discipline introduced with Law no. 145/2018, there were no reversals relative to adjustments on receivables from customers pursuant to Law no. 214/2011 in the financial period.

11.5 Changes in deferred taxes (through the Income Statement)

	Total 2018	Total 2017
1. Opening amount	3	-
2. Increases	2,552	3
2.1 Deferred taxes recorded in the year	193	-
a) relating to previous years	-	-
b) due to changed accounting criteria	-	-
c) other	193	3
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	2,359	-
3. Decreases	875	-
3.1 Deferred taxes cancelled in the year	875	-
a) reversals	875	-
b) due to changed accounting criteria	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing amount	1,680	3

11.6 Changes in advance taxes (through Equity)

	Total 2018	Total 2017
1. Opening amount	2,805	1,414
2. Increases	9,266	2,762
2.1 Advance taxes recorded in the year	9,266	2,366
a) relating to previous years	-	-
b) due to changed accounting criteria	-	-
c) other	9,266	2,366
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	396
3. Decreases	2,805	1,371
3.1 Advance taxes cancelled in the year	2,409	1,371
a) reversals	2,409	1,371
b) write-downs for uncollectible amounts	-	-
c) due to changed accounting criteria	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	396	-
4. Closing amount	9,266	2,805

11.7 Changes in deferred taxes (through Equity)

	Total 2018	Total 2017
1. Opening amount	8,679	2,027
2. Increases	2,548	8,679
2.1 Deferred taxes recorded in the year	2,548	1,042
a) relating to previous years	-	949
b) due to changed accounting criteria	-	-
c) other	2,548	93
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	7,637
3. Decreases	1,042	2,027
3.1 Deferred taxes cancelled in the year	949	2,027
a) reversals	949	2,027
b) due to changed accounting criteria	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	93	-
4. Closing amount	10,185	8,679

Advance and deferred taxes refer to write-downs and revaluations of securities available for sale, respectively. These changes have a counter-entry in the respective Equity reserve.

11.8 Other information

Breakdown of current taxes	IRES / IRPEG	IRAP	OTHER	Total
Current tax liabilities (-)	(15,959)	(2,876)	(1,560)	(20,395)
Advances paid (+)	11,247	2,017	-	13,264
Other tax credits (+)	319	0	-	319
Withholding taxes incurred (+)	14	-	-	14
Tax credits under law 214/2011 (+)	-	-	174	174
BREAKDOWN OF CURRENT TAXES	(4,380)	(859)	(1,386)	(6,624)
of which debt balance of item 60 a) of liabilities	(6,088)	(1,743)	(1,560)	(9,391)
of which credit balance of item 100 a) of assets	1,708	884	174	2,767
Tax credits that cannot be offset: capital portion	21	-	-	21
Tax credits that cannot be offset: interest portion	-	-	-	-
Balance of tax credits that cannot be offset	21	-	-	21
Credit balance of item 100 a) of assets	1,729	884	174	2,788

SECTION 12 NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR DISPOSAL AND ASSOCIATED LIABILITIES - ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

12.1 Non-current assets and groups of assets held for disposal: breakdown by type of asset

The tables of this section do not contain information and therefore were not filled in.

12.2 Other information

The tables of this section do not contain information and therefore were not filled in.

SECTION 13 **OTHER ASSETS - ITEM 120**

13.1 Other assets: breakdown

	Total 2018	Total 2017
Tax receivables from tax authorities and other tax bodies	22,285	17,546
Cheques to be settled at the Clearing House or with Associates	118,219	-
Items in transit - other	-	-
Work in progress	61,793	56,487
Adjustments for illiquid items in the portfolio	17,076	14,425
Other debtors for security transactions	-	1,116
Customers and revenue to be collected	31,883	30,231
Prepayments and accrued income not capitalised	13,198	7,115
Improvement and enhancement expenses on separable assets	92	-
Advances to suppliers	438	147
Intrinsic value of securities transactions and exchanges to be settled	30	21
Consolidation adjustments - assets	-	-
Other lenders	26,749	-
TOTAL	291,763	127,088

PART B INFORMATION ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES

Section 1	Financial liabilities measured at amortised cost Item 10
Section 2	Financial liabilities held for trading Item 20
Section 3	Financial liabilities measured at fair value Item 30
Section 4	Hedging derivatives Item 40
Section 5	Adjustment of the financial liabilities subject to macro-hedging Item 50
Section 6	Tax liabilities Item 60
Section 7	Liabilities associated to assets held for disposal Item 70
Section 8	Other liabilities Item 80
Section 9	Provision for severance indemnity Item 90
Section 10	Provisions for risks and charges Item 100
Section 11	Technical provisions Item 110
Section 12	Repayable shares Item 120
Section 13	Equity Items 120, 130, 140, 150, 160, 170 and 180
Section 14	Third party minority interests Item 190

Other information

1. Commitments and financial guarantees issued (other than those measured at fair value)
2. Other commitments and guarantees issued
3. Asset-backed own liabilities and commitments
4. Information on operating leases
5. Breakdown of investments relating to unit-linked and index-linked policies
6. Management and intermediation on behalf of third parties
7. Financial assets which are offset or subject to framework offsetting agreements or similar agreements
8. Financial liabilities which are offset or subject to framework offsetting agreements or similar agreements
9. Securities lending transactions
10. Information on joint operations

SECTION 1 **FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - ITEM 10**

1.1 Financial liabilities measured at amortised cost: breakdown by category of due to Banks

Transaction type/Group components	Total 2018				Total 2017			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	297,177	X	X	X	299,450	X	X	X
2. Due to banks	2,314,912	X	X	X	3,150,124	X	X	X
2.1 Current accounts and deposits on demand	1,433,194	X	X	X	2,157,409	X	X	X
2.2 Fixed-term deposits	812,588	X	X	X	986,959	X	X	X
2.3 Loans	69,130	X	X	X	5,756	X	X	X
2.3.1 Repos payables	45,770	X	X	X	-	X	X	X
2.3.2 Other	23,360	X	X	X	-	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X	5,756	X	X	X
2.5 Other payables	-	X	X	X	-	X	X	X
TOTAL	2,612,089	-	-	2,612,089	3,449,574	-	-	3,449,574

The repos payables implemented against financial assets transferred but not derecognised are reported in Part E - Section E of the Explanatory Notes.
This item includes the due to banks in whatever form (deposits, current accounts, loans…).
In consideration of the main short-term duration of the due to banks, the related fair value is considered by convention to be equal to the carrying amount.
The analyses carried out on Due to banks did not highlight variations in fair value deemed to be material.

1.2 Financial liabilities measured at amortised cost: breakdown by category of due to customers

Transaction type/Group components	Total 2018				Total 2017			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and deposits on demand	321,042	X	X	X	320,440	X	X	X
2. Fixed-term deposits	35,943	X	X	X	38,890	X	X	X
3. Loans	2,041,812	X	X	X	682,880	X	X	X
3.1 repos payables	2,040,923	X	X	X	682,505	X	X	X
3.2 Other	889	X	X	X	375	X	X	X
4. Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Other payables	280,748	X	X	X	210,369	X	X	X
TOTAL	2,679,545	-	-	2,723,984	1,252,579	-	-	1,252,579

The sub-item 'Other payables' includes banker's drafts issued and not yet produced for payment (EUR 175,871 thousand) and funds on prepaid cards in circulation (EUR 97,429 thousand).
The repos payables under sub-item 3.1 exclusively concern the transactions with a forward resale obligation by the assignee for the assets subject to the transaction, since the Bank does not have any transaction in place that gives the assignee the right of forward resale. The existing transactions at year-end were stipulated on the MTS Repo platform and their counterparty is Cassa Compensazione e Garanzia. The item saw an increase of EUR 1,358.4 million, mainly in relation to the increase in loans to banks as part of the 'Collateral Account' service commented on in Section 4 of Assets.
The repos payables implemented against financial assets transferred but not derecognised are reported in Part E - Section E of the Explanatory Notes.

1.3 Financial liabilities measured at amortised cost: breakdown by category of debt securities in issue

Type of securities/Values	Total 2018			
	CA	Fair value		
		L1	L2	L3
A. Securities				
1. bonds	3,026	-	3,080	-
1.1 structured	-	-	-	-
1.2 other	3,026	-	3,080	-
2. other securities	81,062	-	81,062	-
2.1 structured	-	-	-	-
2.2 other	81,062	-	81,062	-
TOTAL	84,088	-	84,142	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.
This item includes issued securities measured at amortised cost. Securities that at the date of the financial statements are expired but still not repaid are included. The portion of own issue debt securities not yet placed with third parties is excluded.
The fair value used for valuation of the financial liabilities measured at amortised cost (debt securities in issue), included only for the purpose of fulfilling reporting requirements, is broken down into levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process. For more details, please refer to Part A – Accounting policies, A.2 - Part regarding the main items in the accounts - 15 - Other information.

1.4 Details of subordinated debts/securities

A subordinated nature characterises the payables whose right to reimbursement, in the event of liquidation of the issuing entity or if it is subject to other bankruptcy proceedings, can be exercised by the creditor only after other creditors who are not equally subordinated. Equity instruments which, according to international accounting standards, have equity characteristics, are excluded.
In relation to debt securities in issue, note that Table '3.1 Debt securities in issue: breakdown by category' sub-item 1.2 'Bonds - Other' includes a subordinated security issued by a Group Bank for EUR 3,026 thousand.
For details of the characteristics please refer to the specific section in Part F 'Information on equity' - Section 2 'Regulatory capital and adequacy ratios' - at the bottom on sub-section 2.1 'Regulatory capital - A. Information of a qualitative nature'.

1.5 Details of structured debts

The tables does not contain information and therefore were not filled in.

1.6 Payables for finance leases

	31.12.2018	
	Minimum payments	Actual value of minimum payments
Payables to banks for finance leases		
Up to 3 months	-	-
From 3 months to 1 year	-	-
From 1 to 5 years	-	-
Beyond 5 years	-	-
Total value of gross / net investment	-	-
- of which: Unguaranteed residual values accruing to the benefit of the lessor	-	-
Deferred financial profits	-	-
Actual value of receivables for minimum payments due (net lease investment)	-	-
Payables to customers for finance leases		
Up to 3 months	27	-
From 3 months to 1 year	118	-
From 1 to 5 years	638	-
Beyond 5 years	1,702	-
Total value of gross / net investment	2,485	-
- of which: Unguaranteed residual values accruing to the benefit of the lessor	-	-
Less: deferred financial profits	-	-
Actual value of receivables for minimum payments due (net lease investment)	2,485	-

SECTION 2 FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 Financial liabilities held for trading: breakdown by category

Transaction type/Values	Total 2018					Total 2017				
	NV	Fair value			Fair value*	NV	Fair value			Fair value*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
TOTAL A	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments										
1. Financial derivatives	X	-	11,596	-	X	X	-	11,341	-	X
1.1 Trading	X	-	11,594	-	X	X	-	11,338	-	X
1.2 Connected to the fair value option	X	-	2	-	X	X	-	3	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
TOTAL B	X	-	11,596	-	X	X	-	11,341	-	X
TOTAL (A+B)	X	-	11,596	-	X	X	-	11,341	-	X

The amount under letter B point 1.1 refers to derivative contracts with negative value stipulated with known leading counterparties and CR-BCCs, for the 'matched trading' activity where Cassa Centrale Banca stipulates a derivative contract or a forward transaction with an institutional counterparty in relation to a mirrored derivative contract/forward transaction entered into with a CR-BCC or leading customers.

2.2 Details of 'Financial liabilities held for trading': subordinated liabilities

The tables does not contain information and therefore were not filled in.

2.3 Details of 'Financial liabilities held for trading': structured debts

The tables does not contain information and therefore were not filled in.

SECTION 3

FINANCIAL LIABILITIES MEASURED AT FAIR VALUE – ITEM 30

3.1 Financial liabilities measured at fair value: breakdown by category

Transaction type/Values	Total 2018				
	NV	Fair value			Fair value
		L1	L2	L3	
1. Due to banks	-	-	-	-	-
1.1 Structured	-	-	-	-	X
1.2 Other	-	-	-	-	X
of which:					
- commitments to issue funds	-	X	X	X	X
- financial guarantees issued	-	X	X	X	X
2. Due to customers	-	-	-	-	-
2.1 Structured	-	-	-	-	X
2.2 Other	-	-	-	-	X
of which:					-
- commitments to issue funds	-	X	X	X	X
- financial guarantees issued	-	X	X	X	X
3. Debt securities	8,900	-	9,449	-	9,449
3.1 Structured	-	-	-	-	X
3.2 Other	8,900	-	9,449	-	X
TOTAL	8,900	-	9,449	-	9,449

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

3.2 Details of 'Financial liabilities measured at fair value': subordinated liabilities

As at the date of the financial statements there are no subordinated financial liabilities measured at fair value.

SECTION 4

HEDGING DERIVATIVES - ITEM 40

The Section does not contain information and therefore was not filled in.

SECTION 5

ADJUSTMENT OF THE FINANCIAL LIABILITIES SUBJECT TO MACRO-HEDGING - ITEM 50

The Section does not contain information and therefore was not filled in.

SECTION 6

TAX LIABILITIES - ITEM 60

For information on tax liabilities reference is made to Section 14 of the Assets.

SECTION 7

LIABILITIES ASSOCIATED TO ASSETS HELD FOR DISPOSAL - ITEM 70

The tables does not contain information and therefore were not filled in.

SECTION 8

OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

	31.12.2018
Tax payables to tax authorities and other tax bodies for indirect taxes	19,849
Temporary items Centralised Treasury management	3,309
Wire transfers to be settled	
Housing contributions - Public bodies	2,181
Due to suppliers and expenses to be settled	63,552
Collection on behalf of third parties and amounts available to customers or third parties	53,154
Payables for guarantees issued and commitments	
Due to employees	6,919
Due to social security institutions and external pension funds	3,098
Other work in progress	274,236
Accrued expenses and deferred income not attributable to own items	574
Intrinsic value of securities transactions and exchanges to be settled	82
Payables to Depositors' Guarantee Fund	
Consolidation adjustments	
Balance of illiquid items in the portfolio	
Debit items in transit	
Advances received from third parties for property disposals to be completed	
Payables for educational, cultural, charitable and social purposes	
Sundry creditors - other	37,310
TOTAL	464,264

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

This item includes the liabilities that are not attributable to other items in the Statement of financial position liabilities.

Sub-item 'Other work in progress' refers mainly to the negative balance of electronic flows related to transactions not settled yet and that Cassa Centrale Banca sorts on the behalf of CR-BCCs towards the interbanking system and in the opposite direction.

SECTION 9 PROVISION FOR SEVERANCE INDEMNITY - ITEM 90

9.1 Provision for severance indemnity: annual changes

	31.12.2018	31.12.2017
A. Opening balances	6,999	2,419
B. Increases	2,467	4,628
B.1 Allocation for the year	250	39
B.2 Other changes	2,217	4,589
C. Decreases	1,026	48
C.1 Payments made	517	40
C.2 Other changes	509	8
D. Closing balances	8,440	6,999
TOTAL	8,440	6,999

As at the date of the financial statements, the Bank recognised a TFR reserve in accordance with the provisions of IAS 19, therefore item D. 'Closing balances' of the provision recorded coincides with its actuarial value (Defined Benefit Obligation - DBO).

Sub-item B.1 'Allocation for the year' is composed of Net Interest Cost.

Sub-item C.2 'Other changes' includes actuarial gains.

The amount under sub item B.1 is included in the income statement table '9.1 Personnel costs: Breakdown', sub item e) 'provision for severance indemnity'; the amount under sub-item B.2 refers to the 'Valuation reserve: Actuarial gains (losses) on defined benefit plans' (see the Statement of Comprehensive Income).

In terms of operations, the application of the Project Unit Credit Method also required demographic and economic-financial hypotheses applied analytically to each employee. Estimating the charge according to IAS 19 was assigned to an independent and expert external firm. The portion accrued in the year was posted in the Income Statement under 'Personnel costs'.

The actuarial company used the following technical assumptions to define the aggregates:

- annual discount rate: Iboxx Eurozone Corporate AA 1.57%;
- annual inflation rate: 1.50%;
- annual rate of increase in provision for severance indemnity: 2.625%;
- annual increase in employee salaries: 1.00%;
- annual increase in manager salaries: 1.00%;
- annual increase in executive salaries: 2.50%;
- turnover rate; 1.00%;
- frequency of advances; 3.00%.

In particular:

the annual discount rate used to determine the current value of the bond was determined in accordance with par. 78 of IAS 19 with reference to the Iboxx Eurozone Corporate AA index with duration comparable to the duration of the workers' collective agreement subject to valuation.

In conclusion, we provide the sensitivity analyses on the Actuarial Value (Defined Benefit Obligation – DBO) of the Parent Company for the end of the period using:

a discount rate of +0.25% and of -0.25% compared to the one applied:

- in the event of an increase of 0.25%, the TFR provision would equal EUR 2,338 thousand;
- in the event of a decrease of 0.25%, the TFR provision would equal EUR 2,432 thousand;

an inflation rate of +0.25% and of -0.25% compared to the one applied:

- in the event of an increase of 0.25%, the TFR provision would equal EUR 2,414 thousand;
- in the event of a decrease of 0.25%, the TFR provision would equal EUR 2,355 thousand;

turnover rate of +1% and -1% compared to the one applied:

- in the event of an increase of 1%, the TFR provision would equal EUR 2,379 thousand;
- in the event of a decrease of 1%, the TFR provision would equal EUR 2,391 thousand.

SECTION 10 PROVISIONS FOR RISKS AND CHARGES - ITEM 100

10.1 Provisions for risks and charges: breakdown

Items/Components	Total 2018
1. Provision for credit risk relative to commitments and financial guarantees issued	7,813
2. Provision for other commitments and guarantees issued	30
3. Company pension funds	-
4. Other provisions for risks and charges	23,630
4.1 legal and tax disputes	2,497
4.2 personnel expenses	1,039
4.3 other	20,094
TOTAL	31,473

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

10.2 Provisions for risks and charges: annual changes

	Provision for other commitments and guarantees issued	Pension funds	Other provisions for risks and charges	Total
A. Opening balances	15,148	-	13,956	29,104
B. Increases	30	-	11,191	11,221
B.1 Allocation for the year	30	-	1,863	1,893
B.2 Changes due to the passing of time	-	-	-	-
B.3 Changes due to modifications in the discount rate	-	-	-	-
B.4 Other changes	-	-	9,328	9,328
- of which business combinations	-	-	-	-
C. Decreases	7,335	-	1,517	8,852
C.1 Use for the year	-	-	1,517	1,517
C.2 Changes due to modifications in the discount rate	-	-	-	-
C.3 Other changes	7,335	-	-	7,335
- of which business combinations	-	-	-	-
D. Closing balances	7,843	-	23,630	31,473

Sub-item B.1 - Allocation for the year - includes the increase in future estimated debt related to both existing funds and funds established in the year.

Sub-item B.2 - Changes due to the passing of time - includes value reversals linked to the passing of time corresponding to accrued interest, calculated on the basis of the discount rate used in the previous year for the discounting of provisions.

Sub-item B.3 - Changes due to modifications in the discount rate - includes the increases in the value of provisions determined by the application of discount rates lower than those used in the previous year.

Sub-item B.4 - Other increases - includes:

- increases in debt generated in case of payment earlier than at the previously estimated times;
- the portion of the profit for the previous year to be allocated to the provision for charity;

Sub-item C.1 - Use for the year - refers to payments made.

Sub-item C.2 - Changes due to modifications in the discount rate - includes the decreases in the value of provisions determined by the application of discount rates higher than those used in the previous year.

Sub-item C.3 - Other decreases - includes:

- the decrease due to a lower estimate of future debt relative to already existing provisions;
- the decreases in the provision for charity after using the specific allocations.

10.3 Provision for credit risk relative to commitments and financial guarantees issued

	Provision for credit risk relative to commitments and financial guarantees issued			
	First stage	Second stage	Third stage	Total
Commitments to issue funds	4,946	1,952	611	7,479
Financial guarantees issued	77	80	177	334
TOTAL	5,023	2,032	788	7,843

10.4 Provision for other commitments and guarantees issued

The tables does not contain information and therefore were not filled in.

10.5 Defined benefit company pension funds

The tables does not contain information and therefore were not filled in.

10.6 Provisions for risks and charges - other provisions

Provision for future charges for legal disputes, for EUR 2,497 thousand.

The 'Provision for future charges for legal disputes' protects the Bank from probable negative outcomes deriving from court procedures against the Bank and complaints still pending; in detail, it mainly includes provisions for presumed losses from court procedures for around EUR 2 million.

The nature of legal court procedures against the Bank is wide ranging and diversified. In fact, even though they generally have in common a demand for compensation from the Bank, they arise from events which can be very different from each other. Simply put, the most frequent reasons relate to the disputes on interests (compound interest, usury, rate not agreed, etc.), the implementation of investment services and the erroneous negotiation of cheques.

The timings of judgements are difficult to predict. With regard to the amounts of foreseeable disbursements, the hypothesis formulated for judgements with likely negative outcome refers to the overall estimate disbursement. It is specified, also in relation to what stated earlier, that both the amounts and the time of foreseeable disbursement of every individual dispute must necessarily be considered to be indicative as, especially for judgements of a compensatory nature, the judge's discretion in the assessment of the damage is very wide.

Revocatory action disputes are promoted to obtain, with reference to the periods before subjecting the customer to insolvency procedures, an order for the Bank to return sums deposited on current accounts or the declaration of ineffectiveness of acquired guarantees. In relation to negative outcomes provisions are made, on the occurrence of adverse events that may lead to determine reliable predictions of a negative outcome, to the extent of the amount of the anticipated disbursement.

Personnel expenses for EUR 1,039 thousand

The amount recorded in sub-item 4.2 'personnel expenses' - of Table 10.1 refers to:

seniority/loyalty bonuses regarding the financial charge that the Bank must incur in future years in favour of the employees in relation to the seniority of service.

In terms of operations, the application of the Project Unit Credit Method required the defined demographic and economic-financial hypotheses applied analytically to each employee.

Other for EUR 20,094 thousand

The amount recorded in sub-item 4.3 'Other' in table 10.1 is mainly composed of:

- provision for charity for EUR 595 thousand. The provision for charity, which originates from the Articles of Association (art. 49), is included under other provisions. The allocation is determined on an annual basis, at the time of allocation of profits, by the Shareholders' Meeting; the relative use is decided by the Board of Directors. The provision has not been discounted as its use is anticipated in the course of the following year;
- provision for potential requests for intervention on the part of the National Resolution Fund, amounting to EUR 10,299 thousand.

There are also potential liabilities for an amount of around EUR 7.5 million recognised in pursuant to IFRS 3 on business combination operations which took place in the 2018 financial year.

SECTION 11

TECHNICAL PROVISIONS - ITEM 110

The Section does not contain information and therefore was not filled in.

SECTION 12

REPAYABLE SHARES – ITEM 120

The Section does not contain information and therefore was not filled in.

SECTION 13

EQUITY - ITEMS 120, 130, 140, 150, 160, 170 AND 180

13.1 'Capital' and 'Ordinary shares': breakdown

The Group's share capital, amounting to EUR 952,031,808, fully subscribed and paid up, is divided into 18,308,304 shares represented by two separate categories, all with a nominal value of EUR 52.00 each, and to be precise, 18,158,304 ordinary shares and 150,000 preference shares.

There are no shares subscribed and not yet paid-up.

13.2 Capital - Number of shares: annual changes

There were no changes in share capital during the current financial year.

13.3 Capital: other information

The information reported in the previous tables is complete and detailed.

13.4 Profit reserves: other information

There is no other information on reserves.

13.5 Equity instruments: breakdown and annual changes

As at the reporting date for the Group financial statements, the Group had not issued any equity instruments.

13.6 Other information

There is no other information on equity instruments other than the capital and reserves.

SECTION 14 THIRD PARTY MINORITY INTERESTS - ITEM 190

14.1 Details of item 190 'Third party minority interests'

Company name	31.12.2018
Equity investments in consolidated companies with significant third-party interests	
1. CESVE S.p.A. consortile	19,743
2. Phoenix Informatica Bancaria S.p.A.	17,808
3. Informatica Bancaria Trentina S.r.l.	1,995
Other minority interests	1,865
TOTAL	41,411

14.2 Equity instruments: breakdown and annual changes

The Section does not contain information and therefore was not filled in.

Other information

There are no other information relating to third party minority interests to be highlighted.

OTHER INFORMATION

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

	Nominal value of commitments and financial guarantees issued			Total 2018
	First stage	Second stage	Third stage	
Commitments to issue funds	9,700,231	617,754	1,522	10,319,507
a) Central Banks	-	-	-	-
b) Public bodies	6,010	-	-	6,010
c) Banks	9,536,873	616,806	-	10,153,679
d) Other financial companies	16,459	838	-	17,297
e) Non financial companies	129,786	100	1,355	131,241
f) Households	11,103	10	167	11,280
Financial guarantees issued	56,089	2,176	529	58,794
a) Central Banks	-	-	-	-
b) Public bodies	-	-	-	-
c) Banks	27,252	2,133	-	29,385
d) Other financial companies	10,542	-	-	10,542
e) Non financial companies	10,783	43	529	11,355
f) Households	7,512	-	-	7,512

Financial guarantees include the personal guarantees securing the regular fulfilment of the debt service by the ordering entity.

Point 1 'Commitments to issue funds' also includes:

- purchases (spot and forward) of securities not yet settled for EUR 947 thousand;
- deposits and loans to be disbursed on a pre-determined future date for EUR 2,500 thousand;
- margins usable on irrevocable credit facilities for EUR 10,370,009 thousand.

2. Other commitments and guarantees issued

	Nominal value	
	Total 2018	Total 2017
Other guarantees issued	-	-
of which: impaired	-	-
a) Central Banks	-	-
b) Public bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non financial companies	-	-
f) Households	-	-
Other commitments	2,425	26,708
of which: impaired	-	-
a) Central Banks	-	-
b) Public bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non financial companies	2,425	26,708
f) Households	-	-

3. Asset-backed own liabilities and commitments

Portfolios	Amount 31.12.2018
1. Financial assets measured at fair value through profit or loss	-
2. Financial assets measured at fair value through other comprehensive income	182,792
3. Financial assets measured at amortised cost	1,010,646
4. Tangible assets	-
of which: tangible assets that constitute inventories	-

Item 3 includes, in particular, with reference to 31 December 2018, the values of the securities relating to:
- pooling account at Bank of Italy/European Central Bank.

Item 4 includes the values of the securities relating to:
- issue of banker's drafts for EUR 48,793 thousand;
- repurchase agreements with Cassa Compensazione e Garanzia for EUR 958,880 thousand;
- daily margining on positions in derivatives for EUR 2,226 thousand;
- other for EUR 747 thousand.

Item 6 includes the loans granted as guarantee of the Deposits and Loans Fund (CDP) as part of the agreement concluded between the latter and the Italian Banking Association (ABI) to support small and medium sized enterprises (SMEs). This agreement requires the CDP to provide a liquidity 'limit' to the SMEs through the banking system against the latter's commitment to grant these loans as guarantees to the CDP. As at 31 December 2018, the Bank had already returned the liquidity received to CDP.

4. Information on operating leases

The Section does not contain information and therefore was not filled in.

5. Breakdown of investments relating to unit-linked and index-linked policies

The Group did not make any investments relating to unit-liked and index-linked policies.

6. Management and intermediation on behalf of third parties

Type of services	Amount 31.12.2018
1. Execution of orders on behalf of customers	26,735
a) purchases	4,120
1. settled	4,120
2. not settled	-
b) sales	22,615
1. settled	22,338
2. not settled	277
2. Portfolio management	5,526,458
a) individual	5,526,458
b) collective	-
3. Custody and administration of securities	59,067,422
a) third-party securities under custody: connected to the role as depositary bank (excluding portfolio management)	-
1. securities issued by consolidated companies	-
2. other securities	-
b) third-party securities under custody (excluding portfolio management): other	28,387,068
1. securities issued by consolidated companies	971,168
2. other securities	27,415,900
c) third-party securities deposited with third parties	27,407,343
d) own securities deposited with third parties	3,273,011
4. Other transactions	-

7. Financial liabilities which are offset or subject to framework offsetting agreements or similar agreements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c=a-b)	Correlated amount not offset in the financial statements		Net amount (f=c-d-e) 2018	Net amount (f=c-d-e) 2017
				Financial instruments (d)	Cash deposits received as guarantee (e)		
1. Derivatives	12,025	-	12,025	-	-	12,025	10,166
2. Repos	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 2018	12,025	-	12,025	-	-	12,025	X
TOTAL 2017	-	-	-	-	-	X	10,166

8. Financial liabilities which are offset or subject to framework offsetting agreements or similar agreements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c=a-b)	Correlated amount not offset in the financial statements		Net amount (f=c-d-e) 2018	Net amount (f=c-d-e) 2017
				Financial instruments (d)	Cash deposits received as guarantee (e)		
1. Derivatives	11,539	-	11,539	-	-	11,539	10,413
2. Repos	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
TOTAL 2018	11,539	-	11,539	-	-	11,539	X
TOTAL 2017	-	-	-	-	-	X	10,143

9. Securities lending transactions

There are no securities lending transactions in place at the close of the year.

10. Information on joint operations

There are no joint operations in place at year-end.

PART C INFORMATION ON INCOME STATEMENT

Section 1	Interest Items 10 and 20
Section 2	Commissions Items 40 and 50
Section 3	Dividend and similar income Item 70
Section 4	Net result from trading Item 80
Section 5	Net result from hedging activities Item 90
Section 6	Profit (loss) from disposal/repurchase Item 100
Section 7	Net result of other financial assets and liabilities measured at fair value through profit or loss Item 110
Section 8	Net value adjustments/write-backs due to credit risk Item 130
Section 9	Profits/losses from contractual changes without derecognitions Item 140
Section 10	Net premiums Item 160
Section 11	Balance of other income and expenses of insurance management Item 170
Section 12	Administrative expenses Item 190
Section 13	Net allocations to provisions for risks and charges Item 200
Section 14	Net value adjustments/write-backs to tangible assets Item 210
Section 15	Net value adjustments/write-backs to intangible assets Item 220
Section 16	Other operating income/charges Item 230
Section 17	Profits (losses) on equity investments Item 250
Section 18	Net result of fair value measurement of tangible and intangible assets Item 260
Section 19	Adjustments to goodwill Item 270
Section 20	Profit (loss) from disposal of investments Item 280
Section 21	Income taxes for the year on current operating activities Item 300
Section 22	Profit (loss) after tax from discontinued operations Item 320
Section 23	Profit (loss) for the year of minority interests Item 340
Section 24	Other information
Section 25	Earnings per share

SECTION 1 **INTEREST - ITEMS 10 AND 20**

1.1 Interest income and similar revenues: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 2018
1. Financial assets measured at fair value through profit or loss	194	127	-	321
1.1 Financial assets held for trading	-	-	-	-
1.2 Financial assets measured at fair value	193	-	-	193
1.3 Other financial assets obligatorily measured at fair value	1	127	-	128
2. Financial assets measured at fair value through other comprehensive income	5,477	-	X	5,477
3. Financial assets measured at amortised cost	8,961	16,884	X	25,845
3.1 Loans to banks	2,206	611	X	2,817
3.2 Loans to customers	6,755	16,273	X	23,028
4. Hedging derivatives	X	X	24	24
5. Other assets	X	X	6	6
6. Financial liabilities	X	X	X	9,783
TOTAL	14,632	17,011	30	41,456
of which: interest income from impaired financial assets	-	249	-	249

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

1.2 Interest income and similar revenues: other information

1.2.1 Interest income from financial assets in foreign currency

Items/Values	Total 2018	Total 2017
Interest income from financial assets in foreign currency	689	316

1.2.2 Interest income from finance lease operations

At the reporting date, interest income from finance lease operations amounted to EUR 7,380 thousand, mainly relative to operations with a duration of between 3 months and 5 years.
With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

1.3 Interest expenses and similar charges paid: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 2018	Total 2017
1. Financial liabilities measured at amortised cost	(6,330)	(300)	X	(6,630)	(10,933)
1.1 Due to central banks	-	X	X	-	(2,054)
1.2 Due to banks	(4,217)	X	X	(4,217)	(7,913)
1.3 Due to customers	(2,113)	X	X	(2,113)	(666)
1.4 Debt securities in issue	X	(300)	X	(300)	(300)
2. Financial liabilities held for trading	-	-	-	-	(2)
3. Financial liabilities measured at fair value	-	(502)	-	(502)	(488)
4. Other liabilities and provisions	X	X	-	-	(1,425)
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(7,229)	-
TOTAL	(6,330)	(802)	-	(14,361)	(12,848)

1.4 Interest expenses and similar charges paid: other information

1.4.1 Interest expenses from liabilities in foreign currency

Items/Values	Total 2018	Total 2017
Interest expenses from liabilities in foreign currency	(1,174)	(386)

1.4.2 Interest expenses from liabilities for finance lease operations

		31.12.2018				
	Interest expenses from liabilities for finance lease operations by duration/amount of operation category	0-3 months	3 months - 1 year	1 - 5 years	beyond 5 years	Total 2018
By operation category	up to EUR 50 thousand	4	-	-	-	4
	EUR 50-150 thousand	-	-	-	-	-
	EUR 150-250 thousand	-	-	-	-	-
	EUR 250-500 thousand	-	-	-	-	-
	EUR 500-1,000 thousand	-	-	-	-	-
	EUR 1,000-2,000 thousand	-	-	-	-	-
	EUR 2,000-5,000 thousand	-	-	-	-	-
	Over EUR 5,000 thousand;	49	-	-	-	49
	Total interest expenses on finance lease operations	53	-	-	-	53

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

1.5 Differentials relative to hedging transactions

The Group did not enter into 'hedging derivatives' during the course of the year and, as a result, the relative table is not filled out.

SECTION 2 COMMISSIONS - ITEMS 40 AND 50

2.1 Commission income: breakdown

Type of services/Values	Total 2018	Total 2017
a) guarantees issued	369	325
b) credit derivatives	-	-
c) management, trading and consulting services	70,848	51,982
1. trading of financial instruments	75	25
2. foreign currency trading	22	7
3. portfolio management:	49,822	43,400
3.1 individual	49,822	43,400
3.2 collective	-	-
4. custody and administration of securities	3,032	2,050
5. custodian bank	-	-
6. placement of securities	1,576	815
7. order receipt and transmission	4,948	5,028
8. consulting	6,108	130
8.1 pertaining to investments	153	130
8.2 pertaining to financial structures	5,955	-
9. distribution of third party services	5,265	527
9.1 portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	32	31
9.3 other products	5,233	496
d) collection and payment services	48,832	36,540
e) servicing activities for securitisation operations	-	-
f) services for factoring operations	-	-
g) collection and receiving operations	-	-
h) activities for the management of multilateral trading systems	-	-
i) current account maintenance and management	146	139
j) other services	43,644	12,742
TOTAL	163,839	101,728

The amount relative to sub-item j) 'Other services' is composed, in particular, of commissions from payment intermediation services connected to participation in UCITS, centralised securities database, the supply of financial information, Asset Liability Management, Value at Risk, valuation of prices of non-listed securities, brokerage of leases and factoring, structured finance and other residual services.

2.2 Commission expense: breakdown

Services/Values	Total 2018	Total 2017
a) Guarantees received	(48)	(5)
b) credit derivatives	-	-
c) management and trading services:	(39,301)	(33,860)
1. trading of financial instruments	(1,133)	(1,142)
2. foreign currency trading	-	-
3. portfolio management:	(36,968)	(31,751)
3.1 own portfolios	(36,949)	(31,654)
3.2 delegated from third parties	(19)	(97)
4. custody and administration of securities	(1,036)	(732)
5. placement of financial instruments	(164)	(235)
6. out-of-branch offer of financial instruments, products and services	-	-
d) collection and payment services	(23,528)	(19,159)
e) other services	(23,589)	(863)
TOTAL	(86,466)	(53,887)

2.3 Commission income: type and timing of recognition

Type of services/Values	Total 2018		
	At a given moment in time	Over a period of time	Total
a) guarantees issued	-	369	369
b) credit derivatives	-	-	-
c) management, trading and consulting services	70,848	-	70,848
d) collection and payment services	48,832	-	48,832
e) servicing activities for securitisation operations	-	-	-
f) services for factoring operations	-	-	-
g) collection and receiving operations	-	-	-
h) activities for the management of multilateral trading systems	-	-	-
i) current account maintenance and management	146	-	146
j) other services	43,644	-	43,644
TOTAL	163,470	369	163,839

SECTION 3 **DIVIDEND AND SIMILAR INCOME - ITEM 70**

3.1 Dividend and similar income: breakdown

Items/Income	Total 2018	
	Dividends	Similar proceeds
A. Financial assets held for trading	97	-
B. Other financial assets obligatorily measured at fair value	-	-
C. Financial assets measured at fair value through other comprehensive income	389	243
D. Equity investments	-	-
TOTAL	486	243

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

SECTION 4 NET RESULT FROM TRADING - ITEM 80

4.1 Net result from trading: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B)-(C+D)]
1. Financial assets held for trading	71	95	(691)	(23)	(548)
1.1 Debt securities	-	19	-	(4)	15
1.2 Equities	71	76	(691)	(19)	(563)
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
Financial assets and liabilities: exchange rate differences	X	X	X	X	(1,679)
3. Derivative instruments	6,691	4,329	(6,321)	(4,263)	4,424
3.1 Financial derivatives:	6,691	4,329	(6,321)	(4,263)	4,424
- On debt securities and interest rates	6,691	4,329	(6,321)	(4,263)	436
- On equities and stock market indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	3,988
- Other	-	-	-	-	-
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
TOTAL	6,762	4,424	(7,012)	(4,286)	2,197

The 'net result' from 'other financial assets and liabilities: exchange rate differences' reports the positive or negative balance from changes in value of financial assets and liabilities denominated in foreign currencies; they include profits and losses from currency trading.
'Capital gains', 'Capital losses' and 'Trading profits and losses' from derivative instruments also include potential exchange rate differences.

SECTION 5

NET RESULT FROM HEDGING ACTIVITIES - ITEM 90

The Group did not enter into 'hedging derivatives' during the course of the year and, as a result, the relative Section has not been completed.

SECTION 6

PROFIT (LOSS) FROM DISPOSAL/REPURCHASE - ITEM 100

6.1 Profit (loss) from disposal/repurchase: breakdown

Items/Income components	Total 2018		
	Profit	Loss	Net result
Financial assets	-	-	-
1. Financial assets measured at amortised cost	4,853	-	4,853
1.1 Loans to banks	-	-	-
1.2 Loans to customers	4,853	-	4,853
2. Financial assets measured at fair value through other comprehensive income	10,069	(628)	9,441
2.1 Debt securities	10,069	(628)	9,441
2.2 Loans	-	-	-
TOTAL ASSETS	14,922	(628)	14,294
Financial liabilities measured at amortised cost	-	-	-
1. Due to banks	-	-	-
2. Due to customers	-	-	-
3. Debt securities in issue	-	-	-
TOTAL LIABILITIES	-	-	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

The table reports the economic result deriving from the sale of financial assets/liabilities other than those held for trading and those measured at fair value, as well as the result derived from the repurchase of the company's own financial liabilities.

In particular:

- the amount of EUR 4,853 thousand specified in line 1.2 refers to the net profit resulting from the disposal of a portfolio of non performing loans (EUR 4,611 thousand) and a bond issued by Funivie Folgarida S.p.A. (EUR 241 thousand);
- the amount of EUR 10,069 thousand specified in line 2.1 represents the profit relative to the transfer of bond securities (in particular, C.T.Z., B.T.P., B.O.T.), as well as losses from disposals of EUR 628 thousand.

With regard to financial liabilities, international accounting standards require that the buyback of a company's financial liabilities must be reported within the financial statements in a manner which gives precedence to substance over form and, as a result, in relation to an actual advance redemption with a value cancellation or impairment for the financial instrument and the consequent realisation of gains or losses.

SECTION 7 NET RESULT OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities measured at fair value

Transactions/Income components	Capital gains (A)	Profit on sale (B)	Capital losses (C)	Loss on sale (D)	Net result
1. Financial assets held for trading	-	-	(234)	(16)	(250)
1.1 Debt securities	-	-	(234)	(16)	(250)
1.2 Loans	-	-	-	-	-
2. Financial liabilities	543	-	-	-	543
2.1 Debt securities in issue	543	-	-	-	543
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities denominated in foreign currency: exchange rate differences	X	X	X	X	-
TOTAL	543	-	(234)	(16)	293

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets obligatorily measured at fair value

Transactions/Income components	Capital gains (A)	Profit on sale (B)	Capital losses (C)	Loss on sale (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	1,204	28	(1,131)	(11)	90
1.1 Debt securities	-	-	-	-	-
1.2 Equities	-	-	-	-	-
1.3 UCITS units	480	28	(517)	(11)	(20)
1.4 Loans	724	-	(614)	-	110
2. Financial assets: exchange rate differences	X	X	X	X	-
TOTAL	1,204	28	(1,131)	(11)	90

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.
Trading profits (losses) and capital gains (losses) from valuations are reported with balances opened by type of financial instrument.
This item includes capital gains and losses that are derived from the fair value measurement of financial assets/liabilities that are classified in the portfolio under item 20.c of Assets.

SECTION 8 NET VALUE ADJUSTMENTS/WRITE-BACKS DUE TO CREDIT RISK - ITEM 130

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

Transactions/Income components	Vale adjustments (1)			Write-backs (2)		Total 2018
	First and second stage	Third stage		First and second stage	Third stage	
		Write-offs	Other			
A. Loans to banks	(4,805)	-	-	1,039	-	(3,766)
- loans	(4,272)	-	-	332	-	(3,940)
- debt securities	(533)	-	-	707	-	174
of which: impaired loans acquired or originated	-	-	-	-	-	-
B. Loans to customers	(4,948)	(175)	(7,218)	2,733	13,783	4,175
- loans	(3,550)	(175)	(7,218)	2,712	13,783	5,552
- debt securities	(1,398)	-	-	21	-	(1,377)
of which: impaired loans acquired or originated	-	-	-	-	-	-
TOTAL	(9,753)	(175)	(7,218)	3,772	13,783	409

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.
Write-backs include write-backs from collection equal to EUR 4.5 million.
Value adjustments within the column 'Third stage – Other' refer to analytical receivable write-offs while those reported in the column 'Third stage – write offs' derive from redemption events. In fact, due to the continuation of the economic crisis, even the Bank of Italy has requested that the banking system apply overall value adjustments on financial assets that are consistent with the current and forecast developments of risk in assets. In addition, the presence of guarantees collected by the CR-BCCs - as a guarantee of exposure - allows for additional guarantees for the recoverability of receivables. The write-backs, in the column 'First and second stage', correspond to the write-backs of performing positions.
For more detailed information pertaining to movements in net adjustments on receivables, refer to Part E of these Explanatory Notes.

8.2 Net value adjustments due to credit risk relative to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income components	Vale adjustments (1)			Write-backs (2)		Total 2018
	Third stage		First and second stage	Third stage	First and second stage	
	Write-offs	Other				
A. Debt securities	(3,342)	-	-	1,849	-	(1,493)
B. Loans	-	-	-	-	-	-
- to customers	-	-	-	-	-	-
- to banks	-	-	-	-	-	-
Of which: impaired loans acquired or originated	-	-	-	-	-	-
TOTAL	(3,342)	-	-	1,849	-	(1,493)

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

SECTION 9

PROFITS/LOSSES FROM CONTRACTUAL CHANGES WITHOUT DERECOGNITIONS - ITEM 140

The amount of EUR 27 thousand refers to the Parent Company Cassa Centrale Banca.

SECTION 10

NET PREMIUMS - ITEM 160

This Section has not been filled in given that there are no insurance companies in the Group as at the reporting date.

SECTION 11

BALANCE OF OTHER INCOME AND EXPENSES OF INSURANCE MANAGEMENT - ITEM 170

This Section has not been filled in given that there are no insurance companies in the Group as at the reporting date.

SECTION 12 ADMINISTRATIVE EXPENSES – ITEM 190

12.1 Personnel costs: breakdown

Types of expenses/values	Total 2018	Total 2017
1) Employees	(58,036)	(17,911)
a) salaries and wages	(40,011)	(12,453)
b) social security charges	(8,302)	(3,331)
c) severance indemnity	(2,269)	(733)
d) social security expenses	(2,577)	-
e) provision for employees' severance indemnity	(331)	(111)
f) allocation to retirement and similar obligations:	-	-
- with defined contribution	-	-
- with defined benefit	-	-
g) payments to external supplementary pension funds:	(1,510)	(544)
- with defined contribution	(1,510)	(544)
- with defined benefit	-	-
h) costs deriving from payment agreements based on own equity instruments	-	-
i) other benefits in favour of employees	(3,036)	(739)
2) Other operating personnel	(107)	(7)
3) Directors and Auditors	(1,334)	(648)
4) Retired personnel	-	-
TOTAL	(59,477)	(18,566)

12.2 Average number of employees by sector

	Total 2018	Total 2017
Employees:	740	224
a) Executives	21	8
b) Middle managers	211	76
c) remaining employees	508	140
Other personnel	25	21

Figures in units

The average number is calculated as the weighted average of employees where the weight is given by the number of months worked per year.

The relative value of 'Other personnel' includes the Directors and the Auditors. The value does not include 'Personnel' and 'Other personnel' relating to the Group's subsidiaries from 31 December 2018, whose economic values accrued in the control period were not consolidated as they were not considered significant.

12.3 Defined benefit company pension funds: costs and revenue

There are no company pension funds with defined benefits in the Group.

12.4 Other benefits in favour of employees

	Total 2018	Total 2017
Miscellaneous personnel costs: allocation of loyalty bonus	(28)	(7)
Miscellaneous personnel costs: insurance	(793)	(293)
Miscellaneous personnel costs: staff leaving incentives	-	-
Miscellaneous personnel costs: meal vouchers	(663)	(234)
Miscellaneous personnel costs: training courses	(346)	(143)
Miscellaneous personnel costs: other benefits	(1,206)	(62)
OTHER BENEFITS IN FAVOUR OF EMPLOYEES	(3,036)	(739)

12.5 Other administrative expenses: breakdown

Administration expenses	Total 2018	Total 2017
Administration expenses	(108,689)	(38,546)
ICT expenses	(47,873)	(6,729)
IT expenses	(22,400)	(181)
Financial information	(2,704)	(2,360)
Data processing	(13,284)	(1,287)
Interbank network costs	(2,160)	(2,008)
Software maintenance	(6,104)	(822)
Telephone expenses	(1,221)	(71)
Advertising and entertainment expenses	(3,208)	(1,594)
Advertising & promotional expenses	(897)	(385)
Entertainment expenses	(2,311)	(1,209)
Expenses for real estate and furnishings	(4,062)	(1,155)
Expenses for real estate	(199)	(5)
Real estate property rentals	(1,267)	(73)
Cleaning	(472)	(133)
Utilities and heating	(789)	(209)
Maintenance	(1,190)	(535)
Other rentals	(144)	(200)
Expenses for security and transportation of valuables	(551)	(176)
Security	(270)	(22)
Counting and transportation of valuables	(281)	(154)
Expenses for insurance	(795)	(279)
Premiums for fire and theft insurance	(309)	(250)
Other insurance premiums	(486)	(29)
Expenses for professional services	(42,758)	(21,698)
Expenses for professional and consulting services	(41,698)	(20,494)
Certifications and ratings	(679)	(685)
Debt collection expenses	(381)	(519)
Association contribution expenses	(3,632)	(3,503)
Association contributions	(1,511)	(819)
Contributions to the National Resolution Fund and to the Deposit Guarantee System	(2,121)	(2,684)
Other expenses for the purchase of goods and services	(5,810)	(3,412)
Stationery	(446)	(275)
Postal and transport expenses	(1,405)	(789)
Other administrative expenses	(3,959)	(2,348)
Expenses for indirect taxes and duties	(11,376)	(9,547)
- of which stamp duty	(10,217)	(8,782)
- of which property taxes	(219)	(107)
- of which substitute tax Presidential Decree 601/73	(461)	(362)
- other taxes	(479)	(297)
TOTAL OTHER ADMINISTRATIVE EXPENSES	(120,065)	(48,093)

The increases in 'other administrative expenses' are mainly attributable to professional costs and investments in the ICT infrastructure, incurred following the constitution of the new Cooperative Banking Group.

SECTION 13 NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 200

13.1 Net allocations for credit risk relative to commitments to issue funds and financial guarantees issued: breakdown

Items	Total 2018		
	Phase 1	Phase 2	Phase 3
	Allocations (Sign -)		
Commitments to issue funds			
- Commitments to issue funds	-	-	-
Financial guarantees issued			
- Financial guarantee contracts	-	-	-
Total allocations (-)	-	-	-
	Reallocations (Sign +)		
Commitments to issue funds			
- Commitments to issue funds	7,095	-	-
Financial guarantees issued			
- Financial guarantee contracts	47	-	-
Total reallocations (+)	7,142	-	-
	Net allocation		
TOTAL	7,142	-	-

With reference to the comparison data for 2017, as illustrated in Part A ‘Accounting policies’, please refer to the information in the financial statements for the period closed as at 31 December 2017.

13.2 Net allocations relative to other commitments and guarantees issued: breakdown

Items	Total 2018		
	Phase 1	Phase 2	Phase 3
	Allocations (Sign -)		
Commitments to issue funds			
- Commitments to issue funds	(30)	-	-
Financial guarantees issued			
- Financial guarantee contracts	-	-	-
Total allocations (-)	(30)	-	-
	Reallocations (Sign +)		
Commitments to issue funds			
- Commitments to issue funds	-	-	-
Financial guarantees issued			
- Financial guarantee contracts	-	-	-
Total reallocations (+)	-	-	-
	Net allocation		
TOTAL	(30)	-	-

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

13.3 Net allocations to other provisions for risks and charges: breakdown

Items	Total 2018		
	Allocations (with sign -)	Reallocations (with sign +)	Net total
Allocations and reallocations to other provisions for risks and charges			
1. for risks on revocatory actions	-	-	-
2. for charity	-	-	-
3. for personnel risks and charges	-	-	-
4. for legal and tax disputes	(1,289)	-	(1,289)
5. for other risks and charges	-	-	-
TOTAL	(1,289)	-	(1,289)

With reference to the comparison data for 2017, as illustrated in Part A 'Accounting policies', please refer to the information in the financial statements for the period closed as at 31 December 2017.

SECTION 14 NET VALUE ADJUSTMENTS/WRITE-BACKS TO TANGIBLE ASSETS - ITEM 210

14.1. Net value adjustments to tangible assets: breakdown

Asset/Income components	Amortisation and depreciation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a + b + c)
A. Tangible assets	-	-	-	-
A.1 Owned	(9,735)	-		(9,735)
- For functional use	(9,735)	-		(9,735)
- For investment	-	-	-	-
- Inventories	X	-	-	-
A.2 Acquired under finance lease	(92)	(2)	-	(94)
- For functional use	(92)	(2)	-	(94)
- For investment	-	-	-	-
TOTAL	(9,827)	(2)		(9,829)

SECTION 15 NET VALUE ADJUSTMENTS/WRITE-BACKS TO INTANGIBLE ASSETS - ITEM 220

15.1 Net value adjustments to intangible assets: breakdown

Asset/Income components	Amortisation and depreciation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a + b + c)
A. Intangible assets	-	-	-	-
A.1 Owned	(6,679)	-	-	(6,679)
- Generated internally by the company	-	-	-	-
- Other	(6,679)	-	-	(6,679)
A.2 Acquired under finance lease	-	-	-	-
TOTAL	(6,679)	-	-	(6,679)

SECTION 16 **OTHER OPERATING INCOME/CHARGES - ITEM 230**

16.1 Other operating charges: breakdown

	Total 2018	Total 2017
Amortisation of improvements to non-separable third-party assets	(7)	-
Charges for treasury contracts with public bodies	-	-
Charges for transactions and indemnities	-	-
Non-existent items and contingencies not ascribable to own items	(64)	(198)
Allowances payable and rounding down	(9)	-
Other operating charges - other	(1,031)	(70)
Consolidation adjustments	(6)	(21)
TOTAL OPERATING CHARGES	(1,117)	(289)

16.2 Other operating income: breakdown

	Total 2018	Total 2017
Recovery of taxes	10,395	8,523
Recovery of insurance premiums	332	-
Receivable rents and payments	114	16
Recovery of other expenses	5,897	-
Non-existent items and contingencies not ascribable to own items	288	209
Badwill from Purchase Price Allocation	31,616	-
Other operating income - other	120,435	711
TOTAL OTHER OPERATING INCOME	169,077	9,459

Recoveries of taxes are mainly ascribable to stamp duties on current accounts, savings accounts and financial products totalling EUR 9,027 thousand, to stamp duties on banker' drafts issued for EUR 784 thousand as well as substitute taxes on medium-long term financing for EUR 461 thousand.
The item Recovery of other expenses refers primarily to the compensation received for the activity of service provider by the service companies, as well as for a minor part to the share ascribable to CR-BCCs for internal audit, compliance and data protection officer services that they outsource to Cassa Centrale Banca.
The item Badwill from Purchase Price Allocation refers to the gain recognised in the Income Statement following the acquisition of the subsidiary Claris Leasing S.p.A.

SECTION 17 PROFITS (LOSSES) ON EQUITY INVESTMENTS - ITEM 250

17.1 Profits (losses) on equity investments: breakdown

Income components/Sectors	Total 2018	Total 2017
1) Jointly-controlled companies	-	-
A. Proceeds	-	514
1. Revaluations	-	514
2. Gains from disposal	-	-
3. Write-backs	-	-
4. Other proceeds	-	-
B. Charges	-	-
1. Write-downs	-	-
2. Value adjustments for impairment	-	-
3. Losses from disposal	-	-
4. Other charges	-	-
NET RESULT	-	514
2) Companies subject to a significant influence	-	-
A. Proceeds	19,736	2,418
1. Revaluations	1,822	2,418
2. Gains from disposal	-	-
3. Write-backs	-	-
4. Other proceeds	17,914	-
B. Charges	(99)	(86)
1. Write-downs	(99)	(86)
2. Value adjustments for impairment	-	-
3. Losses from disposal	-	-
4. Other charges	-	-
NET RESULT	19,637	2,332
TOTAL	19,637	2,846

The item ‘Other proceeds’ relative to section 2 ‘Companies subject to a significant influence’ includes the revaluation, carried out following the acquisition of control, of the equity investments previously held in NEAM S.A and CESVE S.p.A., respectively of EUR 14,266 thousand and EUR 3,648 thousand.

SECTION 18

NET RESULT OF FAIR VALUE MEASUREMENT OF TANGIBLE AND INTANGIBLE ASSETS - ITEM 260

As at the reporting date, the Group did not hold tangible assets and/or intangible assets measured at *fair value*.

SECTION 19

ADJUSTMENTS TO GOODWILL - ITEM 270

The impairment test of the goodwill recognised in the financial statements did not determine value adjustments for the current year. Reference is made to Part A - Accounting policies for a more detailed analysis of the methods for the determination of impairment of goodwill.

Reference is instead made to Part B - Section 10 - Intangible assets for specific references to the same tests on goodwill.

SECTION 20

PROFIT (LOSS) FROM DISPOSAL OF INVESTMENTS - ITEM 280

20.1 Profit (loss) from disposal of investments: breakdown

Income components/Sectors	Total 2018	Total 2017
A. Real estate properties	-	-
- Gains from disposal	-	-
- Losses from disposal	-	-
B. Other assets	25	(1)
- Gains from disposal	30	-
- Losses from disposal	(5)	(1)
NET RESULT	25	(1)

SECTION 21 **INCOME TAXES FOR THE YEAR ON CURRENT OPERATING ACTIVITIES - ITEM 300**

21.1 Income taxes for the year on current operating activities: breakdown

Income components/Sectors	Total 2018	Total 2017
1. Current taxes (-)	(19,620)	(4,543)
2. Changes in current taxes of previous years (+/-)	1,795	11
3. Decrease in current taxes of the year (+)	-	-
4. bis Decrease in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	-	-
5. Change in prepaid taxes (+/-)	(729)	(1,565)
6. Change in deferred taxes (+/-)	682	(3)
7. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(17,872)	(6,100)

Item '4. Change in prepaid taxes' of EUR 5,099 thousand also includes the portion of prepaid taxes recognised in the Income Statement to offset the Equity Reserve due to the effect of the transaction to IFRS 9.

21.2 Reconciliation between the theoretical fiscal charge and the effective fiscal charge in the financial statements

INCOME COMPONENTS	Tax
Item/Values	
IRES income taxes - theoretical fiscal charge:	(20,485)
Effects of decreases in taxable income on IRES	11,704
Effects of increases in taxable income on IRES	(8,450)
A. Effective fiscal charge – current IRES tax	(17,231)
Increases in deferred tax assets	4,235
Decreases in deferred tax assets	(4,827)
Increases in deferred tax liabilities	(178)
Decreases in deferred tax liabilities	770
B. Total effects of deferred IRES taxation	-
C. Changes in current taxes of previous years	1,795
D. Total accrued IRES (A+B+C)	(15,436)
Theoretical fiscal charge for IRAP with application of nominal rate (difference between net interest and other banking income and allowable deductible costs):	(2,374)
Effect of decreases in value of production	867
Effect of increases in value of production	(1,375)
Changes in current taxes of previous years	492
E. Effective fiscal charge – current IRAP tax	(2,390)
Increases in deferred tax assets	-
Decreases in deferred tax assets	(136)
Increases in deferred tax liabilities	(31)
Decreases in deferred tax liabilities	121
F. Total effects of deferred IRAP taxation	(46)
G. Total accrued IRAP (E+F)	(2,435)
H. IRES/IRAP substitute tax for exemption of mismatches	-
TOTAL IRES - IRAP CURRENT TAXES (A+C+E+H)	(17,826)
TOTAL IRES - IRAP ACCRUED TAXES (D+G+H)	(17,872)

SECTION 22

PROFIT (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS - ITEM 320

This Section does not contain information and therefore was not filled in.

SECTION 23

PROFIT (LOSS) FOR THE YEAR OF MINORITY INTERESTS - ITEM 340

The item Profit for the year of minority interests amounts to EUR 3,538 thousand, and mainly refers to the portion pertaining to minority interests of the companies Phoenix S.p.A. for around EUR 3,014 thousand and Informatica Bancaria Trentina S.r.l. for around EUR 671 thousand.

SECTION 24

OTHER INFORMATION

There is no relevant information to highlight in this Section.

SECTION 25

EARNINGS PER SHARE

	Total 2018
Net result of the Group	96,999
Reversal of result of minority interests	-
Net result of the Parent company	96,999
Number of ordinary Parent company shares outstanding*	18,158,304
Number of preference Parent company shares outstanding*	150,000
Number of own shares*	-
Number of shares outstanding*	18,308,304
Income per ordinary share outstanding (Basic EPS) in Euro*	5.30
Income per share outstanding (diluted EPS) in Euro*	5.30

*Figures in units

In particular:

- given that the share capital is also represented by preference shares, the economic result which is attributable to parties owning ordinary equity instruments is given by the profit for the year minus the dividends paid to preference shares;
- given that no financial instruments or operations were issued/implemented during the year with potential diluting effects on net income, the calculation of basic EPS coincides with that of diluted EPS.

PART D
CONSOLIDATED COMPREHENSIVE INCOME

Analytical statement of comprehensive income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

	Items	2018
10.	Profit (loss) for the year	100,537
	Other income components without reversal to the Income Statement	-
20.	Equities measured at fair value through other comprehensive income:	(2,679)
	a) fair value change	(2,679)
	b) transfers and other components of equity	-
30.	Financial liabilities measured at fair value through profit or loss (changes in credit rating):	-
	a) fair value change	-
	b) transfers and other components of equity	
40.	Hedging of equities measured at fair value through other comprehensive income:	-
	a) fair value change (hedged instrument)	-
	b) fair value change (hedging instrument)	-
50.	Tangible assets	-
60.	Intangible assets	-
70.	Defined benefit plans	155
80.	Non-current assets and groups of assets held for disposal	-
90.	Quota of reserves from the valuation of shareholdings measured with the equity method	-
100.	Income taxes on other income components without reversal to the Income Statement	346
	Other income components reversed to the Income Statement:	-
110.	Hedging of foreign investments:	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
120.	Exchange rate differences:	-
	a) value changes	-
	b) reversal to income statement	-
	c) other changes	-
130.	Hedging of cash flows:	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
	of which: result of net positions	-
140.	Hedging instruments: (non designated elements)	-
	a) value changes	-
	b) reversal to income statement	-
	c) other changes	-
150.	Financial assets (other than equities) measured at fair value through other comprehensive income:	(30,644)
	a) fair value changes	(30,644)
	b) reversal to income statement	-
	- adjustments for credit risk	-
	- profits/losses on sale	-
	c) other changes	-
160.	Non-current assets and groups of assets held for disposal:	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
170.	Quota of reserves from the valuation of shareholdings measured with the equity method:	(2,344)
	a) fair value changes	(2,344)
	b) reversal to income statement	-
	- impairment adjustments	-
	- profits/losses on sale	-
	c) other changes	-
180.	Income taxes on other income components with reversal to the Income Statement	6,834
190.	Total other income components	(28,332)
200.	Comprehensive income (Items 10+190)	72,205
210.	Consolidated comprehensive income pertaining to minority interests	3,538
220.	Consolidated comprehensive income pertaining to the parent company	68,667

PART E
INFORMATION ON RISKS AND ON RELATED HEDGING POLICIES

Credit risk

Information of a qualitative nature
1. General aspects
2. Policies for managing credit risk
3. Impaired financial assets
4. Financial assets subject to renegotiations and concessions
Information of a quantitative nature

Section 1 - Accounting consolidation risks

A. Credit quality
B. Disclosure on structured entities (different from securitisation special purpose vehicles)

Section 2 - Prudential consolidation risks

A. Credit quality
B. Distribution and concentration of credit exposures
C. Securitisation operations
D. Disposal transactions
E. Prudential consolidation - Credit risk measurement models

1.2 Market risks
1.2.1 Interest rate risk and price risk - regulatory trading portfolio
1.2.2 Interest rate risk and price risk - Banking book
1.2.3 Exchange rate risk

1.3 Derivative instruments and hedging policies
1.3.1 Trading derivatives
1.3.2 Accounting hedges
1.3.3 Other information on derivative instruments (trading and hedging)

1.4 Liquidity risk

1.5 Operating risks

Section 3 - Risks of insurance companies

Section 4 - Risks of other companies

INTERNAL CONTROL SYSTEM

The principle which serves as the inspiration and basis for the management of the Cassa Centrale Banca Group can be expressed as the pursuit of satisfactory profitability which is based on operations that are compatible with the assumption of risks, both within regulatory limits as well as within those which are sustainable by its financial structure. The Bank has created a structured system of internal controls which, on a daily basis and proportionally to the complexity of the activities carried out, involve the entire organisational structure and conforms to the new legislation governing the 'Internal Control System', reported in Part One, Title IV, Chapter 3 of Circular 285/2013.

It is structured into the following three levels:

- line controls, or first level controls, which are assigned to production facilities and which aim to ensure the correct implementation of operations; they are implemented by means of IT barriers or organisational controls;
- controls on Risk Management and Compliance and Anti-money Laundering or second-level controls, whose objective is to ensure the correct implementation of the risk management process, verify compliance with the limits assigned to operational departments and guarantee the compliance of company operations with the rules, including those of self-regulation and, lastly, the management of the risks of money laundering and terrorism financing; they aim to identify, measure, monitor and manage risks and are assigned to independent structures that are excluded from the operational phase. The Risk Management department is required to monitor risks and verify compliance with the operational limits set by supervisory regulations and by internal regulations, including verification of the exercising of proxies and observance of the Risk Appetite Framework (RAF) at Group level. The department also provides preventive judgments on the consistency of the most significant transactions with the RAF and drafts the ICAAP report. The Compliance department is entrusted with the task of identifying, evaluating, managing and monitoring risks derived from legal and administrative sanctions as well from financial losses or damages to the company's reputation due to external or internal violations of norms; the Anti-Money Laundering department oversees the management of the risks of money laundering and terrorism financing with regards to company activities, through the evaluation of the adequacy of the internal procedures targeted at preventing the violation of the applicable external regulations and provisions of self-regulation;
- the Internal Audit Department is directed, on the one hand, from a third level point of view, to supervise the regular activity of operations and the evolution of risks and, on the other hand, to evaluate the completeness, adequacy, functionality and reliability of the organisational structure and of the other components of the internal control system, bringing to the attention of corporate bodies any possible improvements. In implementation of the plan approved by the Board of Directors, the department conducts checks on the business areas and controls according to a mandatory frequency. The final outcomes of every intervention were reported to the competent departments and to the General Management for the adoption of corrective and improvement measures. The department, in accordance with current regulations, regularly informs the Board of Directors, the Board of Statutory Auditors and the Board's Risks Committee on the outcomes of verifications carried out and the consequent risk valuations.

The role of the Board of Statutory Auditors is also important, as the Body with control function, which is responsible for monitoring the completeness, adequacy, functionality and reliability of the internal control system and the RAF, in compliance with the applicable legislation and the Articles of Association. The Board of Statutory Auditors carries out the functions of the supervisory body - established in accordance with Legislative Decree 231/2001, regarding entities' administrative liability - which oversees the functioning and observance of the organisation and management model for the purposes of said Legislative Decree. In relation to the different responsibilities attributed, this Body is required to ascertain the adequacy of all the Departments involved in the internal control system, the correct fulfilment of tasks and the adequate coordination of said tasks, promoting corrective measures where deficiencies and irregularities are identified. The Board of Statutory Auditors informs the Board of Directors of any deficiencies and irregularities identified, requests the adoption of the appropriate corrective measures and verifies their effectiveness over time.

The organisation of internal controls also ensures - in addition to a separation of operational functions from auditing ones - an adequate degree of risk management through the constant improvement of IT systems and reporting activities.

The Risks Committee – composed of General Manager, Area Managers and a representative of the Risk Management department – is an integral part of the internal control system; Risks Committee meetings are also attended by a representative of the Compliance department to present the topics under its competence. This body is entrusted by the Board of Directors to identify all significant risks to which the Bank is exposed during its operations in addition to formulating policies in relation to risk prevention, measurement or evaluation, management and mitigation. The presence of this body and the interaction that takes place between its members contribute to disseminating within the Bank the risk culture regarding the individual issues. Along this line, the provision has been added which allows the Bank's control functions to directly report their findings to the Board of Directors. Particular attention is also paid to the continuous updating of the Bank's personnel through participation in specialized courses held externally.

In accordance with the Regulatory Provisions for Banks on the matter of 'corporate governance, internal audits, risk management' the Board's Risks Committee (C.R.C.) of the Parent Company was created. The C.R.C. consists of 3 non executive directors, selected among the Directors of the Parent Company, with the majority of them being independent directors, with such knowledge, skills and experience as to be able fully to understand and monitor the Group's risk strategies and guidelines to the various risk profiles. The task of the C.R.C. is to assist the Board of Directors, by gathering facts, advising, and formulating proposals, in performing its duties as the strategic supervision body, as they are defined in regulations in force on the matter of risks and internal audit system, including the determination of the RAF and of the risk governance policies, as well as in the approval of the separate and consolidated financial statements.

The Bank also drafted its recovery plan, according to the guidelines of the competent authorities, which establishes the intervention methods and measures to restore the company solvency profiles in the event of serious deterioration in the financial position. To this end, the scenarios of tension able to highlight the main company vulnerabilities and measure their potential impact on the company's risk profile were identified.

In 2018, Cassa Centrale Banca, as part of the project for the establishment of the Cooperating Banking Group, which was officially launched on 1 January 2019, outsourced the activities for the majority of the Cooperative Credit Banks belonging to the Group of the Internal Audit and Compliance Departments; the Risk Management and Anti-Money Laundering Departments were instead outsourced as of 1 January 2019, in compliance with the provisions of the rules introducing the Cooperative Credit reform. With the launch of the Group, the members of the corporate bodies were re-elected as were the various board Committees; in addition, a new regulation governing Group activities will also be introduced.

CREDIT RISK

INFORMATION OF A QUALITATIVE NATURE

1. General aspects

The sales policy of the Cassa Centrale Group - when implementing credit activities - has constantly pursued objectives and strategies which aim to contain a concentration, within its portfolio, of individual counterparties, economic sectors or geographical areas. The Bank operates primarily in a subsidiary manner with respect to shareholder or customer BCC-CR-RAIKAs by implementing operations targeting their customers; it is not possible to independently operate in relation to the latter due to regulatory and size-specific limits, or for technical reasons. The Cassa Centrale Group applies high standards to the analytical methodologies used to assess the credit repayment capacity of customers and has constantly updated and improved the process for monitoring loan positions, both in relation to commercial and territorial expansion and with reference to the size of the loans. This process was continued from the perspective of involving the proposing banks in the risk by means of pool financing or by issuing at least partial guarantees to back up granted loans.
Credit risk arising from loans disbursed under various forms to financial institutions, in particular to BCC-CR-RAIKAs which have liquidity needs, is managed by utilising an internal calculation model for scoring the financial statements of banks. This value acts as a discriminating factor for the powers delegated in relation to credit to banking counterparties. Additional information is used to evaluate the various risk profiles. The Risks Committee periodically monitors the exposure of the Bank to specific and generic risks, both credit and liquidity risks - which arise from operations with credit institutions.
The Cassa Centrale Banca Group manages the cash deposited at the various BCC-CR-RAIKAs through investment on the collateralised market (MTS-Repo) or based on bilateral agreements with the leading market counterparties which make provision for the exchange of guarantees. These transactions were insignificant during the year, given that the remuneration conditions were in line or worse than those applied by the ECB. The counterparties with which the Finance Area operates, nonetheless, are entrusted with suitable credit limits in advance, following a favourable investigation which is conducted independently by the Credit Area in relation to creditworthiness. The prudent approach adopted by the Bank has, therefore, seen part of the available liquidity invested in the European Central Bank and the remainder has been used to support the loans requested by the BCC-CR-RAIKAs and the purchase of securities in the proprietary portfolio. During 2018, the brokerage activity involving auctions with the European Central Bank, carried out by the Cassa Centrale Group on behalf of the BCC-CR-RAIKAs subscribing to the service, saw an increase in the volumes brokered. This is related to the gradual centralisation of services at the Parent Company by member banks. It should be noted that the loans disbursed, which are charged to the financial statements, are secured by financial collateral securities which result in a significant reduction in risk.
Credit risk can also occur in the portfolio of own securities. The Finance Regulations provide for structured limits and proxies pertaining to the following: the overall amount of the securities portfolio; the ownership of non-listed securities; the stock portfolio; the concentration of risk within asset management companies; net open exchange rate positions; Value at Risk for HTCS and Trading portfolios; maximum losses; amount of the HTC portfolio and potentially related capital losses and risks associated with individual issuers. In the presence of specific market situations, the Risks Committee may establish more stringent limits compared to those provided for in the Regulations. Each quarter, the Board of Directors and - on a weekly basis - General Management are

updated on the movements in the portfolio of securities and on compliance with regulatory limits. Credit risk relative to securities issued by parties other than government or banking entities is marginal. Strategies for the securities portfolio are shared within the Risks Committee, and in specific cases they are subject to the positive and independent analysis of creditworthiness by the Credit Area.

The Cassa Centrale Banca Group is exposed to counterparty risk in relation to OTC derivative activities and repurchase agreements. Operations pertaining to OTC derivatives are almost entirely balanced; there are therefore sporadic operations for the hedging of assets or liabilities which refer to properties while operations of speculative nature are not implemented. Note should be taken of the application of the provisions established by EU Regulation 648/2012 on OTC derivative instruments, central counterparties and the additions reported in Delegated Regulation of the European Commission of 04/10/2016. The limits assigned to BCC-CR-RAIKAs - in relation to their rate hedging activities - and those assigned to institutional counterparties are deliberated by the body of competence following an independent investigation by the Credit Area. Institutional counterparties all have acceptable credit standings, taking into account the generalised decrease in the ratings of financial institutions by the primary rating agencies; an ISDA master agreement was signed with the majority of these counterparties in order to offset mutual receivables in the case of default. In addition, collateralisation agreements were signed with primary institutional partners; these agreements provide for the payment - in cash or securities - of margins as guarantees of credit represented by the market values of the operations being implemented. Even in relation to the dynamics concerning counterparty risk, the Risk Management department periodically updates General Management and the Board of Directors. Collateralisation activities continued in 2018 with client banks in observance of the Delegated Regulation of the European Commission of 04/10/2016, supplementing Regulation (EU) no. 648/2012.

2. Policies for managing credit risk

2.1 Organisational factors

Banks are exposed to the risk of receivables not being paid by the debtors on their expiration dates and that, as a result, they must be booked as losses in the financial statements. A failed or delayed repayment can occur both in traditional credit disbursements to customers as well as in operations that are not booked within the financial statements (e.g., credit commitments). Customer defaults can originate from a lack of liquidity, incapacity to operate, economic events or other internal or external reasons, such as country risk or operating risks. Even activities that differ from traditional lending activities, such as the trading of securities or the underwriting of OTC derivatives, further expose the Bank to credit risk.

In compliance with the new provisions governing 'Internal control system' in Circular 285/13, the Cassa Centrale Banca Group has implemented an organisational structure which is adequate for the activities carried out and which is constantly updated in relation to the market environment. The preliminary evaluation process for investment projects is structured across separate departments which ensure extensive meetings and dialogue on creditworthiness. The same principle of functional separation also regulates the process of completion of loan assignments. The organisational process also includes audits on trends in individual relationships which are implemented by IT procedures and through the systematic and direct monitoring within the territory as well as through the development of relations with the BCC-CR-RAIKAs that are involved in the relationships. In addition to line controls, the second and third level control functions manage the monitoring of risks as well as the accuracy and adequacy of the managerial and operational processes, as outlined previously.

The entire credit process is regulated by the Credit Process Regulations, internal regulations which are approved by the Board of Directors and which contain proxies for credit as well as for economic conditions which are subject to periodical annual audits, or in relation to new laws or regulations or commercial and organisational needs. In particular, it defines the following:

- the exercising of proxies which is managed within the Bank's IT system and which is continually verified, or audited by sampling, by the Risk Management and Internal Audit departments;
- the criteria and methodologies for assessing creditworthiness as well as for the auditing of loans, trend analysis and initiatives to implement in the event anomalies are identified.

The Credit Area is the company body delegated with the governance of the credit process (credit granting and auditing, monitoring, management of disputes) as well as the coordination and development of credit transactions and loans. The allocation of tasks and responsibilities within this Area aims - to the extent that is feasible - to separate activities that are in conflict of interest, particularly through an opportune ranking of authorisation profiles within the IT system.

As part of the regulation of related parties, the Bank is equipped with the appropriate decision-making procedures targeted at monitoring the risk of the closeness of said parties to decision-making centres compromising the impartiality and objectiveness of the decisions relating to the granting of loans among other things. From this perspective, the Bank is also equipped with recognition tools and an IT procedure aimed at supporting the correct and complete registration of related parties. These references were supplemented, through the adoption of specific policies, with organisational structures and internal controls aimed at defining the roles and responsibilities of the company bodies and functions regarding the prevention and management of conflicts of interest, at ensuring the accurate registration of related parties, at monitoring the trend in the associated exposures and constant compliance with the limits defined, and at guaranteeing prompt and proper implementation of the decision-making procedures regulated. The Bank has also defined the levels of risk appetite and tolerance thresholds consistent with its strategic profile and organisational characteristics.

The systematic monitoring of the processes for managing and detecting problematic positions is also guaranteed through the operations of the Risks Committee.

The Risk Management Department is required to carry out controls targeted at periodically verifying that the monitoring of credit exposures, the classification of exposures, allocations and the recovery process, are carried out in compliance with the internal procedures and that these procedures are effective and reliable, with reference to the capacity to promptly report any anomalies that should arise, and to ensure the adequacy of the value adjustments and associated classification as losses.

More generally speaking, the Risk Management Department must periodically monitor and check compliance with the risk objectives, operating limits and risk indicators defined by the Board of Directors according to the methods and timescales defined in the RAF Regulation and in the risk management processes. It also verifies the adequacy of the RAF, also availing itself of the outcomes of monitoring of the risk objectives, limits, risk indicators and the recognition/measurement metrics used.

The Department also provides preventive judgments on the consistency of the most significant transactions with the RAF by acquiring, based on the nature of the transaction, the judgment of the other departments involved in the risk management process. For these purposes, it identifies the risks to which the Bank may be exposed in undertaking the transaction; it quantifies and assesses, based on the data acquired by the competent company departments involved, the impacts of the transaction on the risk objectives, on the tolerance thresholds and on operating limits; it evaluates, based on the aforementioned impacts, the sustainability and consistency of the transactions with the risk appetite defined beforehand by the Board of Directors; it identifies the measures to be adopted to adjust the overall risk governance and management system, including therein the need to update the risk appetite and the system of operating limits.

2.2 Management, measurement and control systems

The credit risk is identified and valuated even through forecasting, at the level of the individual client; periodical analyses focus on the credit repayment capacity of the requesting party over time as well as the validity and sustainability of the entrepreneurial projects, on the historical and future stability of company financial equilibriums. A similar evaluation is applied in addition to offered guarantees, with particular attention to their level of liquidity. The management and control of individual positions is facilitated by a list of trends in anomalies as well as by access to external databases (e.g. a list of adverse acts) and by implementing targeted audits that are adequately spread out over time. The IT system of the Bank reports, in an orderly and synthetic manner, the primary quantitative information for each individual client (profitability, trends in risk levels, operations, central credit register, financial statements). The management and control phase is completed through the periodical auditing of the positions. The portfolio of receivables is subdivided into 5 risk categories (performing, under observation, expired/exceeded limit, unlikely to pay, non performing) on the basis of evaluations provided by the Risks Committee and without prejudice to specific deliberative powers assigned to top corporate boards. Following the transposition by the European Commission of the Implementing Technical Standards (ITS) published by the EBA in October 2013, the definitions of non performing exposures (NPE) and forbearance were introduced, with these profiles integrated within the Bank's IT procedures.

The phases of identification, measurement, management and control of credit risk within the portfolio also include periodical monthly observations on the distribution by sector and business branches as well as by type of use, geographical location and concentrations of amount, paying specific attention to the main sectors of intervention.

The assets of the Bank would allow for the granting of credit to individual clients or to groups of connected clients within the threshold of EUR 230 million (25% of eligible capital); if we exclude the counterparties attributable to the cooperative credit movement and the market there are no positions relating to private entities that qualify as large exposures, i.e. that exceed the 10% threshold at nominal amount level.

The Cassa Centrale Banca Group has resolved to:

- adopt the standardised methodology for the calculation of the minimum capital requirement for credit risk (First Pillar);
- utilise the creditworthiness evaluations issued by ECAI DBRS for the determination of weighting factors for positions included within the following portfolios:
  - "Central Administrations and Central Banks" as well indirectly for those included in the portfolios "Monitored Intermediaries", "Entities of the public sector" and "Territorial entities";
  - as well as the evaluations issued by the ECAI Moody's Investors Service for the determination of weighting factors for positions included within the following portfolios:
  - 'Exposures with respect to Multilateral Development Banks';

- 'Exposures with respect to Collective Investment Undertakings';
- 'Positions relative to securitisations'.

With regard to exposures that fall within all other portfolios, diversified weighting coefficients are applied, in accordance with the aforementioned prudential regulations and within the domain of the standardised methodology (Part two, Chapter 3, Section I, Circular 285/13).

With reference to internal capital adequacy assessment process (ICAAP) that is required by the Second Pillar of currently effective prudential regulations, and in execution of the principles of proportionality and graduality, the Bank has drafted the ICAAP report of 31.12.2017 by adopting the methodologies which the Supervisory Board requires for class 2 intermediaries.

With regard to this point, the Cassa Centrale Banca Group adopts the following methodologies:

- in order to quantify internal capital in connection with the risk of concentration for individual counterparties or groups of related clients, a simplified algorithm is utilised to determine the Granularity Adjustment through the Herfindahl index (Part One, Title III, Chapter 1, Annex B, Circ. 285/13); as of the reporting of December 2010, the model developed within ABI by the 'Laboratory for Geo-Sectorial Concentration Risk' and its subsequent amendments will also be utilised;
- in order to determine internal capital in connection with interest rate risk for the banking book, a simplified algorithm is utilised to determine the change in the economic value of the banking book in the case of rate shock of 200 basis points (Part One, Title III, Chapter 1, Annex C, Circular 285/13);
- in order to define procedures for measuring and controlling liquidity risk, the guidelines proposed by the Supervisory authorities are followed.

With reference to the performance of stress tests, the following methodologies were applied:

- with regard to concentration risk for individual counterparties or groups of related clients, an increase in the rate of classification of non performing loans within the portfolio was assumed and based on the worst rate of decline recorded on the historical series available for an individual branch of economic activity;
- in relation to the implementation of the stress test relative to interest rate risk for the banking book, an increase of 50 basis points - with respect to the threshold of 200 basis points for the ordinary scenario - was applied;
- in relation to credit risk, the stress test is performed as follows: the level of risk of the banking book is identified, redefined on the basis of the relationship between impaired positions and company loans (values net of write-downs or provisions for risks) verified in the worst credit period experienced by the Bank over the last 10 years. Based on the risk of the portfolio, the new requirements in terms of coverage to be allocated in the income statement can then be estimated on the one hand and, on the other, the effects of the reduction in net exposures in calculating the requirement can be quantified.

Stress tests are conducted on the basis of forecasted data, which includes the possibility of development of assets that are prepared at the time of definition of the company budget.

With regard to investment activities for the portfolio of own securities, periodical evaluations are performed on the instruments that are present within the portfolio, both within the Finance Area as well as within the Risks Committee. Compliance with the limits and proxies that are assigned in this area are verified on a weekly basis.

The entire credit risk process is periodically checked by the Internal Audit Department.

2.3 Measurement methods of expected losses

IFRS 9 introduced, for instruments measured at amortised cost and at fair value through equity (other than equity instruments), a model based on the concept of 'expected loss', replacing the 'incurred loss' approach of IAS 39. The amendments introduced by IFRS 9 are characterised by a prospective view which, in given circumstances, may require the immediate recognition of all expected losses over the life of a loan. In particular, unlike IAS 39, it will be necessary to recognise, immediately and regardless of the presence or not of a so-called trigger event, the initial amounts of expected future losses on own financial assets, and this estimate must be continuously adjusted also in consideration of the counterparty credit risk. In order to prepare this estimate, the impairment model must not only consider past and present data, but also information relating to future events.

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

The perimeter of application of the new model for the measurement of expected losses on loans and securities subject to impairment adopted by the Cassa Centrale Banca Group refers to financial assets (loans and debt securities), commitments to disburse funds, guarantees and financial assets not subject to measurement through FVTPL.For credit exposures falling within the perimeter of application[1] of the new model, the accounting standard provides for the allocation of the individual positions in one of the 3 stages based on the changes in credit quality, defined on a 12-month expected credit loss model or lifetime expected credit loss model in the event a significant increase in risk has been verified (lifetime).In particular, three different categories are envisaged, which reflect the model of impairment of credit quality from the initial recognition, which make up the stage allocation:

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

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

- stage 1, expected loss must be calculated on a time horizon of 12 months[3];
- stage 2, expected loss must be calculated by considering all the losses that are expected to be incurred over the entire life of the financial asset (lifetime expected loss): therefore, with respect to the calculation performed in accordance with IAS 39, entities will move from the estimate of incurred loss over a time horizon of 12 months to an estimate that takes into consideration the entire residual life of the loan; in addition, given that IFRS 9 requires entities to also adopt forward-looking estimates for the calculation of the lifetime expected loss, it will therefore be necessary to consider the scenarios connected with macro-economic variables (e.g. GDP, unemployment rate, inflation, etc.) which, through a macro-economic statistical model, are able to estimate the forecasts over the residual duration of the loan;

[1] The application segments are separated into ordinary customers, interbank segment and securities portfolio.
[2] Non performing loans concern: impaired past due and/or overrun, 'unlikely to pay' and non performing exposures.
[3] The calculation of Expected Loss for the purposes of the calculation of collective impairment for said exposures is carried out on a 12-month 'Point in Time' basis.

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

The risk parameters (PD, LGD and EAD) are calculated by the impairment models; in order to improve the coverage of positions not covered by ratings at origin, which originated after 2006, the default rates made available by the Bank of Italy were used[4]. It should be underlined that the Bank calculates the ECL based on the allocation stage, per individual position, with reference to cash and off-balance sheet exposures.

<u>Ordinary customer segment</u>

The drivers common to all approaches identified for the construction of the PD to be used concern:

- estimate of the 12-month PD developed through the construction of a consortium type model, on a statistical basis, appropriately segmented on the basis of the counterparty type, for the evaluation of creditworthiness by adhering to the market best practices and the rules dictated by the legislator in relation to IFRS 9;
- the inclusion of forward-looking scenarios, through the application of multipliers defined by the 'Satellite Model' to the PD PiT and the definition of a series of possible scenarios capable of incorporating current and future macroeconomic conditions;
- the transformation of the 12-month PD to lifetime PD, in order to estimate the PD term structure over the entire residual life class of the loans.

The drivers common to all approaches identified for the construction of the LGD to be used concern:

- a consortium type model which is composed of two parameters: the Danger Rate (DR) and Non performing LGD (LGS);
- the parameter Danger Rate IFRS 9 is estimated starting from a set of matrixes of transition between the administrative statuses with an annual observation horizon. These matrixes were calculated on a set of counterparties with a segmentation in line with that utilised for developing PD models. The DR parameter, as with the PD, is subject to the economic cycle, based on possible future scenarios, in order to incorporate the assumptions of future macroeconomic conditions;
- the nominal LGS parameter is calculated as the arithmetic mean of the nominal LGS, segmented by guarantee type, and subsequently discounted on the basis of the average recovery times observed per cluster of positions consistent with those of the nominal Non performing LGD.

The EAD IFRS 9 model adopted differs depending on the type of technical macro form and based on the stage the exposure belongs to. For the estimate of the EAD parameter over the lifetime horizon of the instalment-based positions, it is necessary to consider the contractual repayment flows, for each residual year of life of the position. An additional element that influences the future EAD values, i.e. the gradual repayment of instalment-based loans on the basis of a contractual repayment plan, is the prepayment rate (parameter that brings together the early and partial settlement events with respect to the contractual maturity).

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

[4] In 2018, the Bank of Italy provided a historical series of default rates from 2006, subdivided by some drivers (region, amount bracket, economic sector...) and constructed on the basis of a broader definition of solely positions classified as non performing.

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the following point;
- in stage 2, positions which, at the reference date, present at least one of the characteristics described below:
  - a significant increase in credit risk from the disbursement date has been identified, defined in accordance with the operating methods set out in the appropriate technical documentation;
  - positions which, at the valuation date, are classified to 'watch list', i.e. 'performing under observation';
  - positions which, at the valuation date, present an increase of 200% in the PD with respect to that at origination;
  - presence of a 'forborne performing' attribute;
  - presence of past due amounts and/or overrun by more than 30 days;
  - positions (without 'lifetime PD' at the disbursement date) that, at the measurement date, do not present the characteristics to be identified as 'Low Credit Risk' (i.e. performing positions that, at the measurement date, present the following characteristics: absence of 'PD lifetime' at the disbursement date and rating class at the reporting date less than or equal to 4);[5]
- in stage 3, non performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and non performing exposures.

<u>Interbank segment</u>

The bank adopts different models, developed on a statistical basis. For Cooperative Credit Banks, two models are envisaged, one complete (for banks that are members of the Cassa Centrale Cooperative Banking Group) and a reduced one (for other Cooperative Credit Banks). For other institutions, the PD parameter is provided by an external provider and extrapolated from listed credit spreads or listed bonds. For institutions without listed credit spreads, the PD parameter is always provided by an external provider, however calculated based on comparable approaches, constructed on external information (financial statements, external ratings, economic sector).

The LGD parameter is established prudentially through the basic application of the regulatory level set forth in the IRB domain at 45%, with subsequent increases to take account of the different levels of seniority of the securities.

For the EAD, similar approaches are applied to those envisaged for the ordinary customer model. It should be noted that a prepayment parameter of zero was applied to interbank positions, consistent with the underlying technical forms and relating to the specific characteristics of the positions underlying said segment.

The Bank made provision for the allocation of the individual positions to the 3 stages, consistent with the approach to loans to customers. The application of the 'Low Credit Risk' concept is defined on performing positions that possess the following characteristics at the measurement date: absence of 'lifetime PD' at the disbursement date and Point in Time PD of less than 0.3%.

[5] The rating model provides 13 classes.

Securities portfolio

The PD parameter is provided by an external provider based on two approaches:

- exact: the default probability term structure for each issuer is obtained from the listed credit spreads (CDS) or listed bonds;
- ccomparable: where the market data do not permit the use of specific credit spreads, given absent, illiquid or insignificant, the default probability term structure associated to the issuer is obtained through the proxy methodology.This methodology connects the issuer measured to a comparable issuer for which specific credit spreads are available or to a reference cluster for which it is possible to estimate a representative credit spread.

The LGD parameter is assumed to be constant for the time horizon of the financial asset under analysis and is obtained on the basis of 4 factors: issuer type and instrument, instrument ranking, rating of the instrument and issuer country. The minimum level starts from 45%.

The Bank has made provision for the allocation of the individual tranches of purchase of the securities into 3 stages.

The following are placed in the first stage of creditworthiness: the tranches which are classifiable as 'Low Credit Risk' (i.e. that have a PD below 0.26% at the reporting date) and those which, at the measurement date, have not experienced a significant increase in credit risk with respect to the moment of purchase.

The tranches that, at the measurement date, present an increase in credit risk with respect to the purchase date, are placed in the second stage.

The third and final stage includes tranches for which the ECL is calculated using a probability of default of 100% (therefore in default).

Leasing transactions

As regards the application of IFRS 9 by the subsidiary Claris Leasing, the financial instruments were classified into three levels based on the worsening in credit quality with respect to the initial recognition. A different allocation level is envisaged for each stage.

- Stage 1: includes financial instruments not subject to a significant increase in credit risk with respect to the initial date of origination, or financial instruments that present low credit risk at the reporting date.For these instruments, the Expected Loss is calculated on a time horizon of 12 months for the subsequent calculation of the value adjustments to loans with an impact on the income statement of the financial statements;
- Stage 2: this includes financial instruments that, following initial recognition, have suffered a significant deterioration in creditworthiness and fall under the management status known as 'underperforming'.In that case, all losses that it is presumed will be incurred during the entire life of the financial asset must be accounted for (lifetime expected loss or also LEL). Therefore, entities will move from an estimate of expected loss over a time horizon of 12 months to an estimate that takes into consideration the entire residual life of the loan. In addition, the new accounting standard requires entities to also adopt forward-looking estimates for the calculation of the lifetime expected loss, it will therefore be necessary to consider the scenarios connected with macro-economic variables (e.g. GDP, unemployment rate, inflation, etc.) which, through a macro-economic statistical model, are able to estimate the forecasts over the residual duration of the loan;

- Stage 3: classifies the financial instruments whose credit risk has significantly worsened with respect to the valuation at the time of disbursement, therefore the instrument is considered impaired. For loans classified in this level, the expected loss is calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss is analytical. Modest increases are expected in allocations due to the adoption of a forward-looking forecast estimate on positions classified as default.

In relation to the parameters used to calculate expected loss (EAD, PD and LGD), the PD parameter is provided by Assilea Servizi which prepares this information on the basis of the historical performance (last 5 years) of ASSILEA's Central Credit Register. The LGD parameter is instead calculated internally based on a historical series of recovery amounts, both for non performing and unlikely to pay positions. Not only 'closed' contracts with defined loss are considered, but also positions still 'open' with estimated loss. The EAD, by contrast, corresponds to the carrying amount at the reference date of the loan subject to valuation.

2.4 Techniques for mitigating credit risk

The techniques for mitigating credit risk which are most frequently utilised by the Cassa Centrale Banca Group include the acquisition of collateral securities and personal guarantees of both a financial and non-financial nature.

These forms of guarantee are collected in relation to the results of the creditworthiness assessment of the applicant as well as of the type of loan requested by the customers and duration of the credit line granted. Most of the medium to long-term exposures of the Bank are secured by mortgage guarantees on residential or commercial properties, normally first-ranked.

Over the last few years, as a result of activities connected with the collateral account with the BCC-CR–RAIKAs and the other client banks, notable quantities of securities to guarantee the loans disbursed have been acquired. The securities appear under financial statements assets, given their acquisition adheres to the provisions of Legislative Decree 170/2004 and the provisions of the Bank of Italy, which require, for the purposes of the drafting of the financial statements, the maintenance of the values within the relative financial statements of the BCC-CR–RAIKAs and the client banks, which effectively gain the benefits produced from these values.

Specific attention is given to the process of collection and stipulation of the guarantees so that risks of contractual or operational nature are not incurred during the phase of their potential enforcement; specialised human resources are involved in this process which is structured across several levels of operations and control.

With reference to activities within securities markets, and given that the breakdown of the portfolio primarily targets sovereign issuers, it was not deemed necessary, at the moment, to implement specific forms of credit risk mitigation.

OTC derivative contracts stipulated with institutional counterparties - balancing out the hedging implemented by the Cassa Centrale Banca Group with the BCC-CR-RAIKAs - are regulated by ISDA framework agreements which allow for compensation in the case of default. In addition, collateralisation agreements have already been stipulated, as of 2010, with certain counterparties, providing for the creation of a guarantee in cash or securities for the creditor.

With regard to regulatory provisions pertaining to risk mitigation techniques, the Cassa Centrale Banca Group has stated that it will progressively utilise all required Credit Risk Mitigation (CRM) instruments, i.e.:

- financial collateral securities involving cash and financial instruments, and lent through agreements for the pledging and transfer of ownership;
- residential and non-residential real estate mortgages;
- other forms of real protection, represented, e.g., by deposits in cash with third parties, life insurance policies (with the requirements pursuant to Regulation (EU) no. 575/2013, financial instruments issued by monitored intermediaries which the issuer has committed to buy back upon request of the bearer party;

sureties, warranty bonds, guarantees – within the realm of authorized guarantors – from monitored intermediaries;
For the purposes of the benefits provided by CRM, the following are also currently taken into consideration:

a. personal guarantees issued by monitored intermediaries,
b. personal guarantees issued by territorial entities and by the SME Guarantee Fund managed by Mediocredito Centrale,
c. financial collateral pursuant to the provisions of Italian Legislative Decree no. 170 of 21 May 2004,
d. financial (collateral) guarantees involving cash and financial instruments, and lent through repurchase agreements.

The Cassa Centrale Banca Group did not implement any operations on credit derivatives.
In relation to the finance lease transactions carried out by the subsidiary Claris Leasing, it should be noted that, owing to the nature of the transactions themselves, the credit risk is mitigated by the presence of the asset which the lessor retains ownership of until the redemption option is exercised.
However, for greater credit protection and in relation to the economic, equity and financial structure of the customer, additional guarantees to the principal obligation are frequently requested, both collateral (a pledge in the case in point), and personal guarantees (surety in the case in point); atypical guarantees are also collected, such as, for example, subrogation or repurchase commitment. In relation to the instruments used, it is specified that internal rating systems for evaluating the creditworthiness of transactions are not currently used by the subsidiary.

3. Impaired financial assets

3.1 Management strategies and policies

The Cassa Centrale Banca Group's objective is to gradually reduce the stock of impaired exposures in the financial statements. This is also necessary to comply with the guidelines set by the Supervisory Authorities. Also in 2018, the coordination of large-scale transfers of non performing loans continued, in order to provide the client banks with the necessary tools to pursue a reduction in the stock of NPLs. The Bank participated in one of these transactions, arranging for the sale of some positions that have already been widely written down.
Alongside this transaction, additional positions were transferred on an individual basis, either with a specialised market operator or in favour of private entities that expressed an interest in acquiring the assets pledged as guarantee underlying the loans.
The actions undertaken allowed an overall reduction in the stock of impaired exposures of approximately Euro 34 million, therefore in line with the forecasts set out at the start of the year.
The classification, management and control of receivables are organised by the Bank through IT facilities and procedures. On each date of the financial statements, and in accordance with IAS/IFRS, the presence of objective elements of a decline in value (impairment) is verified for each financial instrument or for each group of financial instruments.

The 7th update of 20 January 2015 of Bank of Italy Circular no. 272/2008 transposed, for financial statements purposes as well, the new definitions of Non performing exposures and of Forbearance introduced by the technical implementation regulations pertaining to the supervisory statistical reports defined by the European Banking Authority, approved by the European Commission on 9 January 2015, with Regulation (EU) no. 227/2015: the purpose of this is to continue to have a single notion of impaired financial assets applicable to all monitored intermediaries, valid both within the field of reporting (supervisory, statistical and Central Credit Register), and within disclosure (financial statements and reporting to the public).

The new scope of impaired financial assets, corresponding to the Non performing exposures aggregate as per the ITS, no longer contemplates watch-list exposures and restructured exposures, because they have been abolished; the 'unlikely to pay' category was introduced. It consists of credit exposures, other than non performing loans, for which the Bank deems it unlikely that, without initiating actions like the enforcement of guarantees, the debtor will fully comply with his credit obligations (principal and/or interest). Instead, positions in a state of insolvency or in substantially comparable situations, for which it is deemed that the normal capacity for repayment of credit no longer exists due to the worsening of the economic/financial situation or due to the effect of the enforcement actions of third parties, are classified as non performing.

The scope of the new categories of impaired financial assets includes cash assets (loans and debt securities) and 'off-balance-sheet' assets (guarantees issued, irrevocable and revocable commitments to disburse funds), other than the financial instruments allocated in the accounting portfolio of 'Financial assets held for trading' and than derivative contracts. For the purposes of the classification of the financial assets among impaired ones, the existence of any guarantees (collateral or personal guarantees) securing the asset is not considered.

In addition, non-impaired past due exposures include both individual exposures that are overdue and/or overrun for over 90 days which are not considered impaired (e.g. because they do not exceed the threshold of significance set within the approach for each individual debtor), and those that have not been overdue and/or overrun for less than 90 days.

Potential re-classification as performing positions of 'non performing' and 'unlikely to pay' positions is only authorised by means of a resolution of the Executive Committee; this resolution is typically only approved following repayment of past credit due to the Bank and following a significant resolution of disputes with respect to the system or creditors that are qualitatively or quantitatively significant. In addition, the current and future normality of the entity's financial and economic situation must be demonstrated.

The Credit Area is responsible for the overall management of impaired positions. A specific office was set up in the Area for managing these positions. With regard to positions classified as non performing, and for which legal debt recovery actions have been initiated, management of the position can also be implemented in collaboration with external legal firms. The resolutions of the Board of Directors always serve as the basis for decisions which are also assumed following a prior analysis of the Risks Committee, which discusses and proposes both a correct classification for the positions as well as the most appropriate solutions for improving their status.

The activities of the Credit Area primarily involve:

- monitoring impaired positions, in compliance with the Risk Management department;
- applying the measures recommended by the Risks Committee or resolved by the Board of Directors in order to restore regularity in payments or a return of the credit;

- reporting forecasts for losses on positions to the Risk Management department and the Risks Committee, and presenting them for approval to the Board of Directors;
- proposing – to the Board of Directors – the re-classification as non performing of those positions which – due to new difficulties – are not expected to normalise.

The evaluation of impaired positions is implemented in an analytical manner and whose level of intensity is proportional to the results which emerge from the monitoring process.
Company policy in relation to adjustments is particularly strict, and the continuation of the effects of a difficult economic period has seen the company take an especially prudent approach to the determination of write-down policies.
During the analysis of individual positions, assumptions relative to the depreciation of the realisable value of collateral security were applied while, in the case of personal guarantees, the financial profile of the guarantor was taken into account. In addition, the time periods for recovery of credit were identified, adding additional discounting losses to the calculation.

3.2 Write-offs
In 2018, the Bank did not adopt a specific internal regulation relating to write-off policies. Moreover, a document was prepared which governs these procedures in view of the launch of the Cooperative Banking Group.
As regards the application of write-offs of impaired loan positions, the Bank partially adopted this option for 9 positions for which it became certain that the credit would not be recovered. It should be noted that the positions written off were already widely written down and, therefore, there were no significant impacts on the income statement.

3.3 Impaired financial assets acquired or originated
Acquisitions of impaired financial assets do not fall under the Bank's business model.

4. Financial assets subject to renegotiations and concessions
The category of 'forborne non performing exposures' was introduced; it is not a distinct and additional category of impaired exposures with respect to the ones referenced above (non performing, unlikely to pay and overdue-overrun), but only a sub-set of each of them, which includes cash exposures and commitments to disburse funds that are forborne ('forborne exposures'), if they meet both of the following conditions:

a. the debtor is in a situation of economic-financial hardship that does not allow him fully to comply with the contractual commitments in his debt agreement and that puts him in a state of 'credit deterioration' (classification in one of the categories of impaired exposures: non performing, unlikely to pay, exposures that have been overdue and/or overrun for over 90 days);
b. and the Bank agrees to amend the terms and conditions of that agreement, or to refinance it in full or in part, to enable the debtor to comply with it (there would have been no such forbearance if the debtor had not been in a state of hardship).

Forborne exposures to debtors in a condition of economic-financial hardship that has not reached a state of 'credit impairment' are instead classified in the category of 'forborne performing exposures' and are included among the 'Other non-impaired exposures', or among the 'Non-impaired past due exposures' if they meet the requirements for this classification.

Under the terms of the Bank's internal regulation, after having ascertained that a forbearance measure meets the forbearance requirements, the forborne exposure attributed is structured into:

- 'forborne performing' if both the following conditions are met:
  - the debtor was classified as ordinary performing or under observation before approval of the forbearance measure;
  - the debtor was not reclassified under impaired counterparties by the Bank due to the forbearance measures agreed;
- 'forborne non performing' if both the following conditions are met:
  - the debtor was classified under impaired exposures before approval of the forbearance measure;
  - the debtor was reclassified under impaired exposures, due to the forbearance measures agreed, including therein the assumption in which (aside from the other regulatory cases), significant impairment emerges as a result of the evaluation performed.

For a credit exposure classified as forborne non performing to move to forborne performing, the following conditions must be simultaneously satisfied:

- passage of at least 1 year from the assignment of the forborne non performing attribute (so-called'cure period');
- absence of the conditions for classifying the debtor as impaired;
- absence of past due amounts on all existing debtor positions with the Bank;
- presumed capacity of the debtor, based on the documentary evidence, to fully meet its contractual obligations based on the reimbursement conditions determined on the basis of the forbearance measure; this prospective reimbursement capacity is considered to be verified when both the following conditions are satisfied:
  - the debtor has repaid, through regular payments made under the renegotiated terms, an amount equal to that which was past due (or which was cancelled) at the moment of the forbearance measure;
  - the debtor has observed the post-forbearance measure payment terms over the last 12 months.

A credit exposure classified as forborne performing becomes forborne non performing when even just one of the following conditions is satisfied:

- the conditions for the classification of the counterparty under impaired loans are met;
- the credit exposure was previously classified as impaired with the forborne non performing attribute and subsequently, when the conditions are met, the financed counterparty was brought back to under observation (with the simultaneous transfer of the relevant line to forborne performing), but: i) one of the credit lines of the financed counterparty has accrued, while it remained in forborne performing, an amount past due by more than 30 days; or ii) the counterparty holding the relevant credit line, while classified as forborne performing, was subject to the application of additional forbearance measures.

For a credit exposure classified as 'forborne performing' to lose said attribute, with the subsequent return to a state of solely ordinary performing or performing under observation, the following conditions must be simultaneously satisfied:

- at least 2 years have passed since the assignment of the forborne performing attribute (so called 'probation period');
- the debtor has, subsequent to application of the forbearance measure, made regular principal or interest payments on the credit line subject to the forbearance measure for a total amount equal to at least 5% of the residual principal payable recognised at the moment of application of the forbearance measure; these payments must have been made in accordance with the timescales and methods as such to allow full observance of the contractual obligations for a period, including non-continuous, equal to at least half of the 'probation period';
- the debtor does not present any amount past due for more than 30 days on any of the existing positions at the Bank at the end of the 'probation period'.

In 2018, the Bank applied forbearance measures to 27 counterparties, of which 19 already classified under impaired and 8 instead as performing. On the whole, these concerned 43 lines of financing; 3 of these were extinguished during the year. The majority of positions are secured by a mortgage.

With respect to the positions classified as forborne at the end of 2018, roughly two-thirds have a forbearance measure seniority within 4 years. The position subject to the oldest forbearance measure and still outstanding dates back to 2011.

SECTION 1 ACCOUNTING CONSOLIDATION RISKS

INFORMATION OF A QUANTITATIVE NATURE

A. Credit quality

A.1 Impaired and non-impaired credit exposures: amounts, value adjustments, trend and economic distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amounts)

Portfolios/quality	Non performing	Unlikely to pay	Impaired past due exposures	Non-impaired past due exposures	Other non-impaired exposures	Total
1. Financial assets measured at amortised cost	17,554	32,937	28	4,378	4,503,823	4,558,720
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	1,768,637	1,768,637
3. Financial assets measured at fair value	-	-	-	-	3,098	3,098
4. Other financial assets obligatorily measured at fair value	-	193	-	-	17,765	17,958
5. Financial assets held for disposal	-	-	-	-	-	-
TOTAL 2018	17,554	33,130	28	4,378	6,293,323	6,348,413

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

Portfolios/quality	Impaired				Non-impaired			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Overall partial write-offs*	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortised cost	152,822	102,303	50,519	7,631	4,523,549	15,348	4,508,201	4,558,720
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	1,771,135	2,498	1,768,637	1,768,637
3. Financial assets measured at fair value	-	-	-	-	X	X	3,098	3,098
4. Other financial assets obligatorily measured at fair value	193	-	193	-	X	X	17,765	17,958
5. Financial assets held for disposal	-	-	-	-	-	-	-	-
TOTAL 2018	153,015	102,303	50,712	7,631	6,294,684	17,846	6,297,701	6,348,413

Portfolios/quality	Assets with manifestly poor credit quality		Other assets
	Cumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	12,361
2. Hedging derivatives	-	-	-
TOTAL 2018	-	-	12,361

B. Disclosure on structured entities (different from securitisation special purpose vehicles)

The Section does not contain information and therefore was not filled in.

SECTION 2 **PRUDENTIAL CONSOLIDATION RISKS**

A. Credit quality

A.1 Impaired and non-impaired credit exposures: amounts, value adjustments, trend and economic distribution

A.1.1 Prudential consolidation - Distribution of financial assets by past due bracket (carrying amounts)

Portfolios/risk stages	First stage			Second stage			Third stage		
	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	2,952	2	-	19	1,353	52	15,597	366	24,761
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
TOTAL 2018	2,952	2	-	19	1,353	52	15,597	366	24,761

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued: trend in total value adjustments and total allocations

Reasons/risk stages	Total value adjustments													Total allocations on commitments to disburse funds and financial guarantees issued			Total
	Assets falling under the first stage				Assets falling under the second stage				Assets falling under the third stage								
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Of which: impaired financial assets acquired or originated	First stage	Second stage	Third stage	
Initial overall adjustments	6,840	2,254	-	6,147	6,565	-	-	3,537	126,134	-	75,750	-	-	13,895	993	260	156,941
Increases from financial assets acquired or originated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	(302)	-	-	(302)	(184)	-	-	(184)	(7,109)	-	(7,109)	-	-	-	-	-	(7,595)
Net value adjustments/write-backs due to credit risk	3,644	244	-	3,888	(1,216)	-	-	(1,216)	(3,135)	-	(3,135)	-	-	(8,901)	1,039	527	(7,798)
Contractual changes without derecognitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes of estimate methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	(7,265)	-	(7,265)	-	-	-	-	-	(7,265)
Other changes	-	-	-	-	-	-	-	-	(6,322)	-	(4,611)	-	-	-	-	-	(6,322)
Final overall adjustments	10,182	2,498	-	9,733	5,166	-	-	2,137	102,303	-	53,630	-	-	4,994	2,032	787	127,962
Recoveries from collection on financial assets subject to write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	(1,886)	-	-	-	-	-	-	-	(1,886)

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

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between first and second stages		Transfers between second and third stages		Transfers between first and third stages	
	From first stage to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
1. Financial assets measured at amortised cost	105,308	44,950	950	423	5,457	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued	630,673	39,376	-	-	1,421	-
TOTAL 2018	735,981	84,326	950	423	6,878	-

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

Types of exposures/values	Gross exposure		Total value adjustments and total allocations	Net exposure	Overall partial write-offs*
	Impaired	Non-impaired			
A. Cash credit exposures					
a) Non performing	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Non-impaired past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other non-impaired exposures	X	2,180,975	5,118	2,175,857	-
- of which: forborne exposures	X	-	-	-	-
TOTAL (A)	-	2,180,975	5,118	2,175,857	-
B. Off-balance-sheet credit exposures					
a) Impaired	-	X	-	-	-
b) Non-impaired	X	10,200,912	5,822	10,195,090	-
TOTAL (B)	-	10,200,912	5,822	10,195,090	-
TOTAL (A+B)	-	12,381,887	10,940	12,370,947	-

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

Types of exposures/values	Gross exposure		Total value adjustments and total allocations	Net exposure	Overall partial write-offs*
	Impaired	Non-impaired			
A. Cash credit exposures					
f) Non performing	80,900	X	63,346	17,554	7,631
- of which: forborne exposures	24,417	X	20,452	3,965	-
g) Unlikely to pay	72,071	X	38,941	33,130	-
- of which: forborne exposures	36,392	X	19,778	16,614	-
h) Impaired past due exposures	44	X	16	28	-
- of which: forborne exposures	-	X	-	-	-
i) non-impaired past due exposures	X	4,439	61	4,378	-
- of which: forborne exposures	X	54	2	52	-
j) other non-impaired exposures	X	4,112,955	12,666	4,100,289	-
- of which: forborne exposures	X	13,770	1,104	12,666	-
TOTAL (A)	153,015	4,117,394	115,030	4,155,379	7,631
B. Off-balance-sheet credit exposures					
c) Impaired	2,051	X	787	1,264	-
d) Non-impaired	X	198,207	1,185	197,022	-
TOTAL (B)	2,051	198,207	1,972	198,286	-
TOTAL (A+B)	155,066	4,315,601	117,002	4,353,665	7,631

A.1.6 Prudential consolidation - Cash credit exposures to banks: trend in gross impaired exposures

The tables does not contain information and therefore were not filled in.

A.1.6bis Prudential consolidation - Cash credit exposures to banks: trend in gross forborne exposures broken down by credit quality

The tables does not contain information and therefore were not filled in.

A.1.7 Prudential consolidation - Cash credit exposures to customers: trend in gross impaired exposures

Descriptions/Categories	Non performing	Unlikely to pay	Impaired past due exposures
A. Initial gross exposure	64,807	42,361	1,525
- of which: exposures disposed and not derecognised	-	-	-
B. Increases	48,522	54,992	101
B.1 transfers from non-impaired exposures	2,039	18,675	-
B.2 transfers from impaired financial assets acquired or originated	-	-	-
B.3 transfers from other categories of impaired exposures	13,774	1,525	-
B.4 contractual changes without derecognitions	-	-	-
B.5 other increases	32,709	34,792	101
C. Decreases	32,429	25,282	1,582
C.1 transfers to non-impaired exposures	-	470	47
C.2 write-offs	8,739	430	-
C.3 collections	9,750	8,870	-
C.4 gains from disposal	5,923	-	-
C.5 losses from disposal	-	-	-
C.6 transfers to other categories of impaired exposures	-	13,774	1,525
C.7 contractual changes without derecognitions	-	-	-
C.8 other decreases	8,017	1,738	10
D. Final gross exposure	80,900	72,071	44
- of which: exposures disposed and not derecognised	1,663	14,827	19

A.1.7bis Prudential consolidation - Cash credit exposures to customers: trend in gross forborne exposures broken down by credit quality

Descriptions/Categories	Forborne exposures: impaired	Forborne exposures: non-impaired
A. Initial gross exposure	55,208	17,228
- of which: exposures disposed and not derecognised	-	-
B. Increases	20,708	6,206
B.1 transfers from non-impaired non-forborne exposures	1,022	1,689
B.2 transfers from non-impaired forborne exposures	260	X
B.3 transfers from impaired forborne exposures	X	470
B.4 other increases	19,426	4,047
C. Decreases	15,107	9,610
C.1 transfers to non-impaired non-forborne exposures	X	6,306
C.2 transfers to non-impaired forborne exposures	470	X
C.3 transfers to impaired forborne exposures	X	260
C.4 write-offs	1,643	-
C.5 collections	9,496	3,044
C.6 gains from disposal	1,061	-
C.7 losses from disposal	-	-
C.8 other decreases	2,437	-
D. Final gross exposure	60,809	13,824
- of which: exposures disposed and not derecognised	2,620	617

A.1.8 Prudential consolidation - Impaired cash credit exposures to banks: trend in total value adjustments

The tables does not contain information and therefore were not filled in.

A.1.9 Prudential consolidation - Impaired cash credit exposures to customers: trend in total value adjustments

Descriptions/Categories	Non performing		Unlikely to pay		Impaired past due exposures	
	Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
A. Initial overall adjustments	54,918	19,394	20,637	15,950	195	-
- of which: exposures disposed and not derecognised	-	-	-	-	-	-
B. Increases	35,615	9,264	28,281	11,039	396	-
B.1 value adjustments of impaired financial assets acquired or originated	-	X	-	X	-	X
B.2 other value adjustments	12,384	3,517	19,124	4,407	374	-
B.3 losses from disposal	-	-	-	-	-	-
B.4 transfers from other categories of impaired exposures	2,302	1,067	680	555	-	-
B.5 contractual changes without derecognitions	-	X	-	X	-	X
B.6 other increases	20,929	4,680	8,477	6,077	23	-
C. Decreases	27,188	8,206	9,977	7,211	575	-
C.1 write-backs from valuations	1,844	707	7,108	5,714	13	-
C.2 write-backs due to collection	4,451	679	-	-	-	-
C.3 gains from disposal	4,611	2,383	-	-	-	-
C.4 write-offs	7,010	457	430	430	-	-
C.5 transfers to other categories of impaired exposures	125	-	2,302	1,067	555	-
C.6 contractual changes without derecognitions	-	X	-	X	-	X
C.7 other decreases	9,147	3,981	137	-	7	-
D. Final overall adjustments	63,346	20,452	38,941	19,778	16	-
- of which: exposures disposed and not derecognised	798	273	7,174	1,348	12	-

A.2 Classification of exposures on the basis of external and internal ratings

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

Exposures	External rating classes						Without rating	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost	20,532	-	1,213,791	60,000	-	-	3,281,731	4,576,054
- First stage	20,532	-	1,213,791	60,000	-	-	2,944,853	4,239,176
- Second stage	-	-	-	-	-	-	232,729	232,729
- Third stage	-	-	-	-	-	-	104,149	104,149
B. Financial assets measured at fair value through other comprehensive income	-	-	1,756,365	-	-	-	-	1,756,365
- First stage	-	-	1,756,365	-	-	-	-	1,756,365
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
TOTAL (A+B)	20,532	-	2,970,156	60,000	-	-	3,281,731	6,332,419
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	-	-
C. Commitments to disburse funds and financial guarantees issued								
- First stage	-	-	-	-	-	-	9,756,559	9,756,559
- Second stage	-	-	-	-	-	-	619,930	619,930
- Third stage	-	-	-	-	-	-	2,051	2,051
TOTAL (C)	-	-	-	-	-	-	10,378,540	10,378,540
TOTAL (A+B+C)	20,532	-	2,970,156	60,000	-	-	13,660,271	16,710,959

The ratings assigned by Moody's were used to complete the table. The individual ratings were distributed to the risk categories required by the table, provided by the Joint Final Draft Implementing Technical Standards (Regulation no. 575/2013 - CRR), outlined below:

Risk category	Rating
1	from Aaa to Aa3
2	from A1 to A3
3	from Baa1 to Baa3
4 and 5	from Ba1 to B3
6	from Caa1 to C3

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

The Group does not use classification methodologies based on internal ratings, therefore, the table is not filled in.

A.3 Distribution of secured credit exposures by type of guarantee

A.3.1 Prudential consolidation - Secured cash and off-balance-sheet credit exposures to banks

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Credit commitments				
								Other derivatives								
			Properties - mortgages	Properties - finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other subjects	Public bodies	Banks	Other financial companies	Other subjects	
1. Secured cash credit exposures:	1,660,522	1,656,410	-	892	1,650,475	5,493	-	-	-	-	-	-	-	-	-	1,656,860
1.1 totally secured	1,653,286	1,649,174	-	892	1,650,475	1,913	-	-	-	-	-	-	-	-	-	1,653,280
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	7,236	7,236	-	-	-	3,580	-	-	-	-	-	-	-	-	-	3,580
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. 'Secured off-balance-sheet' credit exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation - Secured cash and off-balance-sheet credit exposures to banks

			Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Derivatives on loans					Credit commitments				
								Other derivatives								
	Gross exposure	Net exposure	Properties - mortgages	Properties - finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other subjects	Public bodies	Banks	Other financial companies	Other subjects	
1. Secured cash credit exposures:	1,055,924	948,449	300,635	393,074	246	147,707	-	-	-	-	-	61,320	39,963	5,124	26,481	974,550
1.1 totally secured	1,020,571	918,209	297,293	393,074	246	143,446	-	-	-	-	-	49,080	35,766	2,653	19,168	940,726
- of which impaired	148,457	49,670	19,642	28,679	-	1,123	-	-	-	-	-	154	72	72	154	49,896
1.2 partially secured	35,353	30,240	3,342	-	-	4,261	-	-	-	-	-	12,240	4,197	2,471	7,313	33,824
- of which impaired	1,502	697	313	-	-	-	-	-	-	-	-	-	-	-	-	313
2. 'Secured off-balance-sheet' credit exposures:	13,510	13,371	-	-	-	300	-	-	-	-	-	2,310	3,625	5,905	4,592	16,732
2.1 totally secured	4,075	3,945	-	-	-	50	-	-	-	-	-	1,693	306	1,806	3,591	7,446
- of which impaired	418	291	-	-	-	-	-	-	-	-	-	5	286	286	5	582
2.2 partially secured	9,435	9,426	-	-	-	250	-	-	-	-	-	617	3,319	4,099	1,001	9,286
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.4 Prudential consolidation - Financial assets and non-financial assets obtained through the enforcement of guarantees received

The tables does not contain information and therefore were not filled in.

B. Distribution and concentration of credit exposures

B.1 Prudential consolidation - Distribution by sector of cash and "off-balance-sheet" credit exposures to customers

Exposures/counterparties	Public bodies		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Cash credit exposures										
A.1 Non performing	-	-	-	-	-	-	15,975	60,261	1,579	3,085
- of which: forborne exposures	-	-	-	-	-	-	3,750	19,504	216	948
A.2 Unlikely to pay	-	-	393	223	-	-	31,053	37,983	1,684	735
- of which: forborne exposures	-	1	393	223	-	-	15,095	19,370	1,126	184
A.3 Impaired past due exposures	-	-	-	-	-	-	12	15	16	1
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	2,987,902	4,200	150,422	457	-	-	913,452	7,769	52,893	299
- of which: forborne exposures	-	-	-	-	-	-	12,133	1,068	585	38
TOTAL A	2,987,902	4,200	150,815	680	-	-	960,492	106,028	56,172	4,120
B. Off-balance-sheet credit exposures										
B.1 Impaired exposures	-	-	-	-	-	-	1,097	787	167	-
B.2 Non-impaired exposures	6,007	3	26,895	844	-	-	145,517	231	18,603	107
TOTAL B	6,007	3	26,895	844	-	-	146,614	1,018	18,770	107
TOTAL (A+B) 2018	2,993,909	4,203	177,710	1,524	-	-	1,107,106	107,046	74,942	4,227

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

Exposures/geographic areas	Italy		Other EU countries		America		Asia		Rest of the world	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Cash credit exposures										
A.1 Non performing	17,554	63,346	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	33,130	38,941	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	28	16	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	4,074,044	12,718	30,498	8	125	1	-	-	-	-
TOTAL A	4,124,756	115,021	30,498	8	125	1	-	-	-	-
B. Off-balance-sheet credit exposures										
B.1 Impaired exposures	1,264	787	-	-	-	-	-	-	-	-
B.2 Non-impaired exposures	197,003	1,185	19	-	-	-	-	-	-	-
TOTAL B	198,267	1,972	19	-	-	-	-	-	-	-
TOTAL (A+B) 2018	4,323,023	116,993	30,517	8	125	1	-	-	-	-

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

Exposures/geographic areas	Italy		Other EU countries		America		Asia		Rest of the world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash credit exposures										
A.1 Non performing	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	2,116,308	5,080	31,556	22	27,556	16	120	-	317	-
TOTAL 2018	2,116,308	5,080	31,556	22	27,556	16	120	-	317	-
B. Off-balance-sheet credit exposures										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Non-impaired exposures	10,192,203	5,804	2,347	17	-	-	4	-	536	1
TOTAL	10,192,203	5,804	2,347	17	-	-	4	-	536	1
TOTAL 2018	12,308,511	10,884	33,903	39	27,556	16	124	-	853	1

B.4 Large exposures

The provision in question is regulated by Circular 285/13 of the Bank of Italy and subsequent updates, Chapter 10, Second Part, and aims to limit the risks of instability derived from the default of a single counterparty to which the Group is exposed in a significant manner; this objective is pursued not only through prudential limits but also organisational controls relating to the assessment of the creditworthiness of customers to which the Group is significantly exposed, as well as the monitoring of the associated positions and recording of interrelationships between customers.

	Total 2018	Total 2018
a) Amount of large exposures		
a1) Carrying amount	14,857,695	15,400,421
a2) Weighted value	785,353	152,481
b) Number of positions of large exposures	50	53

The main positions reported above are with the following counterparties:
• Italian government securities
• ECB/Bank of Italy
• Cassa Compensazione e Garanzia
The remaining ones relate primarily to banking counterparties, almost all CR-BCCs, proof of the commitment made for the pursuit of the development objectives and the support of the cooperative movement, which is part of the typical "mission" of Cassa Centrale Banca.

C. Securitisation operations

C.1 Prudential consolidation – Exposures deriving from primary "own" securitisation operations subdivided by type of securitised asset and type of exposure

In 2015, the Cassa Centrale Banking Group carried out a loan securitisation transaction named 'Claris Lease 2015' via its subsidiary Claris Leasing.
The value of loans shown in the financial statements also includes the amount of the assets transferred relating to the transaction mentioned above, as they are not eligible for derecognition.

Assets disposed but not derecognised	2018			2017
(EUR 000)	Nominal value	Value adjustments	Carrying amount	Carrying amount
Not performing financial assets measured at amortised cost	16,509	7,984	8,525	6,769
Non performing	1,663	798	865	512
Unlikely to pay	14,827	7,174	7,653	6,257
Past due by over 90 days	19	12	7	-
Performing financial assets measured at amortised cost	194,671	2,128	192,543	251,482
Other - performing (current account credit balances)	-	-	-	-
TOTAL LOANS AND ADVANCES	211,180	10,112	201,068	258,251

Following the annual review by the rating company DBRS, as with the previous securitisation, the following upgrade was obtained:
• Senior security from da A to A+,
• Mezzanine security from BBB to BBB+.

C.2 Prudential consolidation - Exposures deriving from primary "third party" securitisation operations subdivided by type of securitised asset and type of exposure

As at 31.12.2018, only the cash exposures below were present.

Type of underlying assets/Exposures	Cash exposures					
	Senior		Mezzanine		Junior	
	Carrying amount	Value adjustments/ write-backs	Carrying amount	Value adjustments/ write-backs	Carrying amount	Value adjustments/ write-backs
Lucrezia Securitisation S.r.l.	898	363	-	-	-	-

C.3 Prudential consolidation - Interests in securitisation special purpose vehicles

Securitisation name/SPV name	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Lucrezia Securitisation S.r.l. - Padovana/Irpinia	Rome		128,620	-	-	155,483	-	-
Lucrezia Securitisation S.r.l. - Crediveneto	Rome		53,711	-	-	59,992	-	-
Lucrezia Securitisation S.r.l. - Teramo	Rome		28,162	-	-	32,461	-	-

C.4 Prudential consolidation - Unconsolidated securitisation special purpose vehicles

The table is not filled out because, on the date of the financial statements, there were no balances ascribable to this item.

C.5 Prudential consolidation- Servicer activities – own securitisations: collections of securitised receivables and reimbursements of securities issued by the securitisation special purpose vehicle

Collections deriving from servicer activities are insignificant.

C.6 Prudential consolidation – Consolidated securitisation special purpose vehicles

The table is not filled out because, on the date of the financial statements, there were no balances ascribable to this item.

D. Disposal transactions

A. Financial assets disposed and not fully derecognised

INFORMATION OF A QUALITATIVE NATURE

Financial assets disposed and not derecognised and financial liabilities related to assets disposed and not derecognised shown in the tables of this Section pertain mainly to repos carried out on own securities recognised as assets in the statement of financial position.

INFORMATION OF A QUANTITATIVE NATURE

D.1. Prudential consolidation - Financial assets disposed and fully booked and associated financial liabilities: carrying amounts

	Financial assets disposed and fully booked				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to sale contracts with repurchase agreement	of which impaired	Carrying amount	of which: subject to securitisation transactions	of which: subject to sale contracts with repurchase agreement
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets obligatorily measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	1,186,718	201,068	985,650	16,509	1,033,411	81,062	952,349
1. Debt securities	985,650	-	985,650	-	952,349	-	952,349
2. Loans	201,068	201,068	-	16,509	81,062	81,062	-
TOTAL 2018	1,186,718	201,068	985,650	16,509	1,033,411	81,062	952,349

D.2. Prudential consolidation - Financial assets disposed and partially booked and associated financial liabilities: carrying amounts

The information and the table are not provided because on the date of the financial statements in question, there were no balances ascribable to this item.

D.3. Prudential consolidation - Disposals with liabilities with reimbursement exclusively on disposed assets and not fully derecognised: fair value

	Recognised in full	Partially recognised	Total	
			2018	2017
A. Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets obligatorily measured at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets measured at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost	201,068	-	201,068	-
1. Debt securities	-	-	-	-
2. Loans	201,068	-	201,068	-
TOTAL FINANCIAL ASSETS	201,068	-	201,068	-
TOTAL ASSOCIATED FINANCIAL LIABILITIES	81,062	-	X	X
NET VALUE 2018	120,006	-	201,068	X

B. Financial assets disposed and fully derecognised with recognition of continuing involvement

The information is not provided because on the date of the financial statements in question, there were no balances ascribable to this item.

D.4 Prudential consolidation - covered bond transactions

On the date of the financial statements in question, there were no balances ascribable to this item.

E. Prudential consolidation - credit risk measurement models

The Group does not apply internal models for credit risk measurement.

1.2 MARKET RISKS

1.2.1 Interest rate risk and price risk - regulatory trading portfolio

The market risks assumed by the Group are attributable to the transactions of Cassa Centrale Banca.

INFORMATION OF A QUALITATIVE NATURE

A. General aspects

The Bank carries out trading activities, on its own behalf, of financial instruments which are exposed to interest rate and price risk. The 'regulatory trading portfolio' is defined in the regulations on the supervisory reporting of market risks in Circular no. 286 'Instructions for the compilation of prudential reports for banks and securities brokerage firms' issued by the Bank of Italy. Trading on own account is primarily based on compliance with treasury requirements while not neglecting to maximise the risk/return profile of portfolio investments for the elements of interest rate risk and credit risk of the counterparty.

The positions held thus far for trading purposes are those which are intentionally allocated for a subsequent short-term disposal or which are acquired for the purposes of benefiting, in the short-term, from differences in acquisition and sales price along with an opportune diversification of investments.

Bond securities and OTC derivatives represent the sources of interest rate risk in the portfolio in question; with regard to operations with derivatives, the Bank does not assume speculative positions but implements transactions with BCC-CR–RAIKAs or customers that are balanced out by complementary transactions initiated with primary counterparties and which aim to hedge against the interest rate risk assumed by these BCC-CR–RAIKAs or customers; these types of transactions allow for a substantial neutralisation of interest rate risk in the specific segment. During 2018, analyses of a portfolio representing OTC derivatives were continued by using Value at Risk techniques.These tests have confirmed that the market risk is effectively residual given the methods and nature of the transactions that were carried out.

The trading of financial instruments on its own behalf exposes the Bank to price risk when investing in debt securities or equities, in UCITS and in derivative contracts on UCITS, equities and stock market indices. Investments in equity instruments almost exclusively refer to listed shares.

The Finance Regulations establishes specific quantitative limits to the trading portfolio; the Risks Committee defines strategies and objectives on the basis of market trends and periodically reviews performance. As at 31 December 2018, an equity asset management line was active and deemed consistent with the investment strategies of the Bank concerning the basket of investable securities, the risk profile and profitability objectives. The performance of this equity asset management is reported to the Board of Directors on a quarterly basis.

B. Management processes and measurement methods for interest rate and price risk

Management of interest rate risk of the trading portfolio is implemented by the Risks Committee on the basis of the limits and proxies established by the Board of Directors, while activities for the measurement, control and verification of interest rate risk are implemented by the Risk Management department which also utilises the documentation produced by the Finance Area.

Management and control of interest rate and price risk for the trading portfolio utilises a series of reports that also include Value at Risk techniques. Calculation of the maximum potential loss of the trading portfolio occurs on a daily basis and over a time period of 10 working days along with a confidence interval of 99%. The model is based on a Montecarlo simulation method. The result is also monitored in order to control the operational limits established in the Finance Regulations.

The objective of the reporting is to supply the information which is necessary for the control and correct management of market risk for operational purposes, in compliance with currently effective regulations. The monitored data may also serve to support decisions relative to the asset allocation of portfolios within the specific quantitative limits established by the Finance Regulations.The utilisation of What-If Analysis for simulation allows for a prior evaluation of the impact of a specific transaction on the potential losses of a portfolio.

The market data utilised by the model are updated on a daily basis. Volatility is of the historical type and is calculated with the exponential moving average method in order to lend greater weight to more recent observations compared to past ones. In this way, it is possible to obtain estimates of VaR values which are more reactive to market shocks and which return to phases of normality in faster time periods compared to the use of volatilities which are calculated with a simple average. The length of the historical data series is 1 year of data. The estimate of the exponential moving average is linked to the decay factor, equal to 0.94, which is deemed a good indicator in the case of calculation of a VaR with a holding period of 10 working days at 99%.The use of the exponential moving average is also utilised for the correlation estimate which is directly implemented within the software used for calculating the VaR. The maximum potential loss is subdivided into various risk factors (interest rate, exchange rate, performance of the stock market, inflation risk, specific risk of the issuer, if available and country risk for Italian government securities) and takes into account their correlations.

The reports that are produced allow for a detailed analysis of the specific risk level of the trading portfolio, not only in terms of VaR, but also in terms of the sensitivity of the specific components to the primary factors of risk, by utilizing numerous statistics and stress scenarios. The maximum potential loss of the trading portfolio is illustrated in detail for each individual security by grouping the various typologies (funds, stocks, government securities with fixed or variable rates, corporate securities, transnational securities, and so forth) in order to highlight the specific risk level for the selected grouping level.

Control over the reliability of the model is implemented through theoretical backtesting activities which verify daily changes in the market value of the trading portfolio, as calculated by the model with an estimate of the expected loss for the day. In the most recent year of data collection, deviations were primarily due to sudden fluctuations in market factors linked in particular to geo-political tensions at international level or monetary policy expectations.
The year 2018 saw a continuation, with respect to VaR, of the quantification of issuer risk for Italian government securities, understood as VaR relating only to the risk factor expressed as the spread between the Italian and German government securities.
The risk measurement model described is not utilised to determine capital requirements (whose calculation is not required by regulations for the portfolio in question) but represents an internal tool to support the management and internal control of risk.
With regard to overall monitoring of (interest rate, price and exchange rate) risk, the Finance Regulations define:
- the maximum sustainable level of loss, calculated as the sum of net income and losses realised in the year and structured according to a network of powers differentiated by competent body;
- the maximum VaR limits in order to set limits on portfolio asset allocation activities by the Risks Committee, and structured according to a network of powers differentiated by competent body.

Information about the VaR calculations for the securities component of the regulatory trading portfolio during the course of 2018 is reported below:

VaR 31.12.2018	Minimum VaR	Maximum VaR
242,508	114,027	283,646

Amounts rounded to nearest Euro

With regard to stress tests, the outcomes of simulations of the impact of different shock scenarios on the theoretical value of the trading portfolio on 31.12.2018 is reported below.The shocks replicate:
1. a period of significant losses: it includes a time period relative to the second half of 2011 in which there were significant increases in interest rates of the Italian government curve and a shock in the markets of the Euro zone which then had a strong impact on the owned portfolio;
2. a specific case of non-parallel shift upwards in the Italian rates curve which was composed of the primary daily changes recorded in various points of the curve in the second half of 2011;
3. a stress on stock market indices: includes a 10% decrease in the primary European stock market indices.

	Theoretical market value change		
Theoretical market value 31.12.2018	Significant losses	Shift in Italian rates curve	Stock market indices -10%
3,311,161	(678,853)	(62,918)	(281,592)

Amounts rounded to nearest Euro

As part of the Asset & Liability Management (ALM) analysis, the valuation of the impact on the interest margin and on Equity - following cases of rate shifts equal to +/- 100 basis points - should be noted. The data reported in the table are based on a dynamic model with constant volumes that assume the regeneration of items which expire during the course of the year so that the asset amounts remain constant during the period of analysis. The time period which was utilised is that of a calendar year and the percentage changes are calculated by taking the Regulatory Capital as a base of reference.

	Increase 100 bp		Decrease 100 bp	
	Impact on interest margin	Change in equity	Impact on interest margin	Change in equity
Trading portfolio: securities (absolute values in thousands of Euro)	-	-	-	-
as percentage of regulatory capital	-	-	-	-

Even with regard to price risk, the trading portfolio is constantly monitored by the Finance Area and by the Risk Management department; the latter monitors that the limits set by the Finance Regulations are not exceeded for investments in securities which expose the Bank to this risk. Reporting information is available on a daily basis and reports details on securities, completed operations and economic results.
The price risk of the trading portfolio is managed by the Finance Area on the basis of structured proxies which limit exposure in terms of total invested amount, listed markets and maximum capital loss amounts.
The price risk measurement model is not utilised to determine capital requirements but represents a tool to support management and internal control.

INFORMATION OF A QUANTITATIVE NATURE

1. Regulatory trading portfolio: distribution by residual duration (re-pricing date) of cash financial assets and liabilities as well as financial derivatives

Type/residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Over 10 years	Indefinite duration
1. Cash assets	564	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	564	-	-	-	-	-	-	-
2. Cash liabilities	-	576,691	167,938	389,715	-	-	-	-
2.1 Repos payables	-	576,691	167,938	389,715	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ Long positions	-	945	270	-	382	291	-	-
+ Short positions	-	947	270	-	382	291	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	2,592	4,892	3,553	6,672	55,430	45,881	23,813	-
+ Short positions	2,592	4,892	3,553	6,672	55,430	45,881	23,813	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	36,042	334,707	94,083	35,975	131,063	63,157	85,487	-
+ Short positions	36,042	334,762	94,038	35,950	131,063	63,157	85,487	-

2. Regulatory trading portfolio: distribution of exposures in equities and stock market indices for the main countries of the listed market

The table is not reported given that a price risk sensitivity analysis for an internal model is supplied.

3. Regulatory trading portfolio: internal models and other methodologies for sensitivity analysis

Information relative to VaR calculations for equities and stock market indices included within the regulatory trading portfolio is reported below:

VaR 31.12.2018	Minimum VaR	Maximum VaR
242,508	114,027	283,646

Amounts rounded to nearest Euro

1.2.2 Interest rate risk and price risk - Banking book

INFORMATION OF A QUALITATIVE NATURE

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

Primary sources of interest rate risk.

Fair value interest rate risk is derived from fixed rate items while interest rate risk from cash flows is derived from variable rate items.

The Bank is exposed to different sources of interest rate risk for the banking book: these include credit, collection and finance processes given that the banking book is primarily composed of funding and loans in the interbank sector as well as financing to customers and various forms of customer deposits.

Items on demand generally include asymmetrical behaviours, depending on whether one considers liability or asset items; the former - being characterised by greater stability - primarily refer to fair value risk while the second are more sensitive to markets changes and therefore ascribable to cash flow risk.

The Bank - during the course of its operations - focuses adequate attention on both asset and liability items in order to determine interest rate risk.

The banking book includes, amongst other items, investments in equities whose purpose is to attain medium to long-term strategic objectives. The banking book therefore also includes - in addition to traditional loans to customers and bond instruments, financial instruments which expose the Bank to price risk, i.e.:

- shareholdings relative to interests in companies promoted by the Cooperative Credit movement or in companies or entities which are instrumental for the development of the Bank's activities or the cooperative movement;
- investment funds;
- stocks.

Internal management processes and measurement methods for interest rate risk

The Cassa Centrale Banca Group implements measures for mitigating and controlling interest rate risk in order to avoid the possibility of assuming positions that exceed a certain level of risk.

These mitigation and control measures are listed within company regulations, with the latter providing for monitoring that is based on position limits as well as systems with alert thresholds that are proportional to regulatory capital; once these thresholds are reached, various corrective actions are initiated.

With regard to this point, the following are defined:

- policies and procedures for managing interest rate risk that are consistent with the nature and complexity of the activity carried out;
- operational limits and internal procedural provisions which aim to maintain exposure within limits that are consistent with the managerial policy and with the alert thresholds pursuant to prudential regulations;
- measurement of risk which generates warning levels and informational flows so as to allow for the prompt identification and initiative of suitable corrective actions.

The Bank has appointed the Finance Area, as well as the Risk Management department and the Risks Committee, as the company bodies which will supervise the process for managing interest rate risk within the banking book.
By means of the 20th update to Bank of Italy Circular no. 285/2013, the ABE guidelines on the management of interest rate risk in the banking book were acknowledged in national legislation. With reference to the measurement of interest rate risk from the perspective of the interest margin or expected profits, the Bank avails itself of the instruments provided by the ALM system for management purposes.
Monitoring exposure to interest rate risk within the banking book is implemented on a quarterly basis, in compliance with regulations, as well as on a monthly basis on a managerial level and on the basis of internal regulations. In addition, specific simulations are prepared before carrying out operations of a certain amount which result in capital requirement increases. The Board of Directors of the Bank has resolved to use the simplified algorithm described in Attachment C, Title III, Chapter 1, Section III of Bank of Italy Circular no. 285/2013 for the methodology used to measure risk and quantify the corresponding internal capital.
The methodology estimates the change in the economic value of the banking book in the case of a hypothetical change in interest rates.
The application of the aforementioned simplified methodology is based on the following logical steps:

1. definition of the banking book: composed of a group of assets and liabilities which are not part of the trading portfolio for supervisory purposes;
2. determination of 'relevant currencies', i.e. currencies whose measured weight - as a percentage of total assets or liabilities of the banking book - is greater than 5%. Each relevant currency defines a group of positions. Currencies whose weight is less than 5% are grouped together;
3. classification of financial assets and liabilities in time periods: 14 time periods are defined. Assets and liabilities with a fixed rate are classified on the basis of their residual useful life, while those with variable rates are classified on the basis of the date of re-pricing of the interest rate. Without prejudice to certain specific classification rules that are explicitly provided for, assets and liabilities are inserted within the maturity ladder according to the criteria pursuant to Circular 115 'Instructions for compiling the supervisory reports of credit institutions on a consolidated basis'. Non performing, unlikely to pay and overdue-overrun positions are re-classified within the relevant brackets of residual life and on the basis of forecasts - for recovery of underlying cash flows – made by the Bank for the purposes of financial statements valuations. Impaired positions for which there are no cash flow recovery forecasts are typically allocated within the various time period sectors on the basis of a proportional allocation, utilising - as a basis for the allocation - the distribution of the recovery forecasts - for the other impaired positions - within the various brackets of residual life (given the same type of impairment);

4. weighting of net positions for each bracket: within each bracket, asset and liability positions are offset, thereby resulting in a net position. The net position per bracket is multiplied by the corresponding weighting factor. Weighting factors per bracket are calculated as a product of the approximated duration - modified in relation to the bracket - and a hypothetical change in rates of 200 basis points for all brackets;
5. sum of net weighted positions for the various brackets: the net weighted position of the individual aggregate values is an estimate - in the case of the forecasted rate shock - of the change in present value of the items denominated in the currency of the aggregated value;
6. aggregation within the various currencies: positive positions relative to individual ‘relevant currencies’ as well as the aggregate value of the ‘non-relevant currencies’ are summed together. The value which is obtained represents the change in company economic value in the case of the forecasted scenario;
7. determination of the risk indicator which is represented by the ratio between the value of the sum obtained and the Regulatory Capital value.

The provisions of prudential regulations which regulate the Internal Capital Adequacy Assessment Process (ICAAP) provide for an alert threshold of the risk indicator equal to 20%.

In the event this indicator exceeds the alert threshold, the Supervisory Body will analyse the results in depth with the Bank and reserves the right to implement the necessary actions. The risk indicator was not exceeded in 2018 for the Cassa Centrale Banca Group, on the four official quarterly calculations.The Bank also carried out annual stress tests through the aforementioned methodology by considering an increase of an additional 50 basis points for the rate shock.

In addition to the monitoring activities for interest rate risk through the methodology described above, the Bank implements operational management activities by availing itself of the support offered by monthly ALM reporting. Within the analysis, assessment of the impact on capital for various cases of rate shocks is illustrated in the Sensitivity Report; the latter estimates the impact of parallel and simultaneous shifts in the yield curve of +/-100 and +/-200 basis points on the present value of assets, liabilities and derivatives. This impact is further broken down by individual type of asset and liability in order to highlight their contribution to overall sensitivity and to understand the various levels of reactivity of items with fixed, variable and mixed rates; in addition, its incidence on the Bank’s capital is reported over time in order to promote systematic monitoring. Additional control activities in relation to overall exposure to interest rate risk on the part of the Bank are implemented through the measurements that are offered within the realm of the ALM Reports. In particular, variability of both the interest margin as well as of Equity is analysed for the different scenarios of changing interest rates and bank growth across a time period of 12 months. The simulation assumes that the Bank maintains constant assets under management during the 12-month period of analysis with gradual changes in interest rates of +/- 100 basis points, thereby isolating the variability of the margin and Equity in different environments.

The ALM analyses are presented by the Risk Management department to the Risks Committee. The Finance Regulations provide for an alert threshold for interest rate risk which is calculated as the net negative value - in the case of a shock increase or decrease of 200 basis points - equal to 25% of the Regulatory Capital.

The Bank holds some bond securities issued by BCC-CR–RAIKAs; in order to specifically hedge against only interest rate risk for these securities, it issued debenture loans with the same characteristics of duration and rate; both asset and liability instruments are classified in the financial statements at their fair value.

In relation to the securities component of the banking book, the calculation of the VaR - subdivided by specific portfolio (HTC, HTCS and Trading) - is available on a daily basis.
With regard to price risk, the Finance Regulations provide for specific limits to operations with stocks and similar instruments (ETFs, Certificates) as well as with investment funds with a stock component, structured by means of a grid of proxies regardless of the IFRS 9 classification category; compliance with regulatory limits is verified with first and second-level controls. Limits to the acquisition of investment funds issued by individual asset management companies are also provided for and also structured on the basis of a network of proxies.
The Risk Management department prepares periodical weekly reports which outline the details of the securities and the economic results which were attained.

B. Fair value hedging activities

Objectives and strategies underlying fair value hedging transactions, types of derivative contracts utilised for hedging and nature of the hedged risk.
The Bank has implemented hedging transactions in order to hedge against changes in fair value; the Fair Value Option provisions are used to book these operations.The strategy adopted by the Bank aims to only contain interest rate risk and to stabilise the interest margin by means of non-listed interest rate swap transactions that are carried out with primary counterparties and in order to specifically hedge against interest rate risk deriving from loans or bond issues with fixed interest rates.
The Bank does not implement fair value hedging transactions that are booked on the basis of fair value hedge accounting.

C. Cash flow hedging

Objectives and strategies underlying cash flow hedging transactions, types of derivative contracts utilised and nature of the hedged risk
The Bank does not implement hedging transactions that are booked with cash flow hedge accounting.

D. Hedging of foreign investments

The Bank does not implement operations for the hedging of foreign investments.

INFORMATION OF A QUANTITATIVE NATURE

1. Banking book: distribution by residual duration (re-pricing date) of financial assets and liabilities - balancing to be verified

Type/residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Over 10 years	Indefinite duration
1. Cash assets	334,007	1,741,952	675,197	927,516	2,143,718	421,495	82,353	-
1.1 Debt securities	-	-	351,019	375,624	1,955,635	383,839	63,058	-
- with option of advance reimbursement	-	-	-	-	9,938	17,112	-	-
- other	-	-	351,019	375,624	1,945,698	366,727	63,058	-
1.2 Loans to banks	135,651	1,005,795	239,668	517,648	134,616	693	-	-
1.3 Loans to customers	198,356	736,157	84,510	34,244	53,467	36,963	19,295	-
- current accounts	24,825	-	-	646	1,732	561	-	-
- other loans	173,531	736,157	84,510	33,598	51,734	36,401	19,295	-
- with option of advance reimbursement	31,441	175,447	75,415	29,293	45,106	33,845	18,148	-
- other	142,090	560,710	9,094	4,305	6,628	2,556	1,148	-
2. Cash liabilities	1,873,016	1,733,458	29,437	51,544	358,358	35,080	38	-
2.1 Due to customers	438,692	1,029,667	3,006	385	265	32,480	38	-
- current accounts	337,350	-	-	38	-	32,309	-	-
- other payables	101,342	1,029,667	3,006	346	265	171	38	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	101,342	1,029,667	3,006	346	265	171	38	-
2.2 Due to banks	1,434,324	703,791	26,431	51,159	358,093	2,600	-	-
- current accounts	1,358,255	-	-	-	-	-	-	-
- other payables	76,070	703,791	26,431	51,159	358,093	2,600	-	-
2.3 Debt securities	-	-	-	6,255	6,219	-	-	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	-	-	-	6,255	6,219	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	13	50,844	16,539	14,670	33,582	2,540	318	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	13	50,844	16,539	14,670	33,582	2,540	318	-
- Options	13	50,813	16,539	14,666	33,564	2,540	318	-
+ Long positions	1	7,424	2,609	12,771	33,564	2,540	318	-
+ Short positions	13	43,389	13,930	1,895	-	-	-	-
- Other derivatives	-	30	-	4	18	-	-	-
+ Long positions	-	26	-	-	-	-	-	-
+ Short positions	-	4	-	4	18	-	-	-
4. Other off-balance-sheet operations	2,500	2,500	-	-	-	-	-	-
+ Long positions	2,500	-	-	-	-	-	-	-
+ Short positions	-	2,500	-	-	-	-	-	-

2. Banking book: internal models and other methodologies for sensitivity analysis

In accordance with what has been reported in the section relative to the regulatory trading portfolio, the measurement of market risk of the banking book is also supported by VaR reporting; information concerning the results, calculated with relation to solely the securities component of the banking book, are provided below:

VaR 31.12.2018	Minimum VaR	Maximum VaR
41,518,308	8,821,538	167,794,562

Amounts rounded to nearest Euro

Control over the reliability of the model is implemented through theoretical backtesting activities which verify daily changes in the market value of the banking book, as calculated by the model with an estimate of the expected loss for the day.In the most recent year of data collection, deviations were primarily due to sudden fluctuations in market factors linked in particular to geo-political tensions at international level or monetary policy expectations; an example of these shocks are those relating to the increase on the spread on Government issues recorded at the end of May in which the maximum value of the VaR reported in the table is registered.

The year 2018 saw a continuation, with respect to VaR, of the quantification of issuer risk for Italian government securities, understood as VaR relating only to the risk factor expressed as the spread between the Italian and German government securities.

With regard to stress tests, the outcomes of simulations of the impact of different shock scenarios on the theoretical value of the portfolio on 31.12.2018 is reported below.For the two scenarios relating to the parallel rate shocks, it was deemed appropriate to maintain the levels of 15 and 30 basis points, more consistent with the current market situation, which is still recording negative rates. The case of upwards shift of the Italian rates curve was assigned new parameters to dampen distorting effects of excessive change of the volatility and of the correlation on the shorter part of the curve.The shocks replicate:

1. a period of significant losses. It includes a time period relative to the second half of 2011 in which there were significant increases in interest rates of the Italian government curve and a shock in the markets of the Euro zone which then had a strong impact on the owned portfolio;
2. a specific case of non-parallel shift upwards in the Italian rates curve which was composed of the primary daily changes recorded in various points of the curve in the second half of 2011;
3. a stress on stock market indices. Includes a decrease in the primary European stock market indices by 10%;
4. parallel rate shocks of +15 and +30 basis points for the primary rate curves that were used in the valuation of securities within the owned portfolio.

	Theoretical market value change				
Theoretical market value 31.12.2018	Significant losses	Shift in Italian rates curve	Stock market indices -10%	Rates curves +15 basis points	Rates curves +30 basis points
3,105,646,573	(219,957,982)	(72,106,417)	(20,811,640)	(10,060,997)	(20,035,526)

Amounts rounded to nearest Euro

For managerial purposes, the Bank also utilises the quantitative results contained in the monthly ALM reporting. On the basis of dynamic ALM analyses with constant volumes as at 31 December 2018 - and given a scenario of an increase in interest rates of +/-100 basis points distributed over a time period of one year and uniformly across the entire rates curve (short, medium and long-term) – the effects on the interest margin and on the Equity are reported in relation to the banking book with a specification of the percentage impact compared to Equity/ regulatory capital.

	Increase 100 bp		Decrease 100 bp	
	Impact on interest margin	Change in equity	Impact on interest margin	Change in equity
Banking book: securities (absolute values in thousands of Euro)	2,970	-45,364	0	12,770
as a percentage of Equity/Regulatory Capital	0.32%	-3.94%	0.00%	1.11%
Banking book: receivables (absolute values in thousands of Euro)	3,030	-9,421	-276	1,641
as a percentage of Equity/Regulatory Capital	0.33%	-0.82%	-0.03%	0.14%
Liabilities (absolute values in thousands of Euro)	7,120	-8,074	-237	0
as a percentage of Equity/Regulatory Capital	0.77%	-0.70%	-0.03%	0.00%

1.2.3 Exchange rate risk

INFORMATION OF A QUALITATIVE NATURE

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

Given its role as currency supplier for BCC-CR–RAIKAs and as a result of transactions with customers, the Bank is exposed to exchange rate risk.

The measurement involves the calculation of the ‘net exchange rate position’, i.e. the balance of all assets and liabilities (in the financial statements and off-statement of financial position) relative to each currency, including operations in Euro which are indexed to currency exchange rate changes. The Bank has, in any case, established a structure of internal limits and operational proxies for both the net exchange rate position at the end of the day as well as for the net position for individual currencies, thereby confirming a strategy which aims to minimise this type of risk; compliance with limits and proxies is continually verified by the Finance Area and, at the end of each day, by the Risk Management department.

During 2018, the analysis based on Value at Risk techniques was continued in order to monitor trends in the risk levels of the net exchange rate position, as defined above. This model is not utilised to determine capital requirements but represents an internal tool to support management and internal control of risk.

B. Exchange rate risk hedging activities

Exchange rate risk hedging activities are implemented through a policy of essentially balancing booked foreign currency positions; for this purpose, during 2018 the Bank has implemented hedging transactions against exchange rate risk by using outright derivative instruments.

INFORMATION OF A QUANTITATIVE NATURE

1. Distribution of assets, liabilities and derivatives by currency

Items	USD	Pound sterling	Swiss Franc	Canadian dollar	Yen	Euro	Other Currencies	Total
A. Financial assets	41,329	1,034	13,158	1,728	4,457	664,288	3,513	729,507
A.1 Debt securities						16,382		16,382
A.2 Equities						1,348		1,348
A.3 Loans to banks	41,260	1,034	13,103	1,728	4,457	75,693	3,513	140,788
A.4 Loans to customers	69		55			529,746		529,870
A.5 Other financial assets						41,119		41,119
B. Other assets	1,744	1,436	1,683	576	424	18,835	1,968	26,666
C. Financial liabilities	95,309	4,262	16,839	3,073	260	526,670	4,236	650,649
C.1 Due to banks	94,531	4,255	16,839	3,073	260	404,488	4,222	527,668
C.2 Due to customers	778	7				88,510	14	89,309
C.3 Debt securities								
C.4 Other financial liabilities						33,672		33,672
D. Other liabilities	28					36,822	1	36,851
E. Financial derivatives	105,796	3,803	10,313	5,305	8,116	-	2,865	136,198
- Options								
+ Long positions								
+ Short positions								
- Other	105,796	3,803	10,313	5,305	8,116		2,865	136,198
+ Long positions	77,297	2,788	6,130	3,029	3,422		863	93,529
+ Short positions	28,499	1,015	4,183	2,276	4,694		2,002	42,669
TOTAL ASSETS	120,370	5,258	20,971	5,333	8,303	683,123	6,344	849,702
TOTAL LIABILITIES	123,836	5,277	21,022	5,349	4,954	563,492	6,239	730,169
IMBALANCE (+/-)	-3,466	-19	-51	-16	3,349	119,631	105	119,533

2. Internal models and other methodologies for sensitivity analysis

Internal models for sensitivity analysis are not utilised.

1.3 Derivative instruments and hedging policies

1.3.1 Trading derivatives

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

Underlying assets/type of derivatives	Total 2018			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With offsetting agreements	Without offsetting agreements	
1. Debt securities and interest rates	-	713,471	54,251	-
a) Options	-	113,495		-
b) Swaps	-	599,976	54,251	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equities and stock market indices	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	-	111,001		-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	111,001	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other	-	-	-	-
TOTAL	-	824,472	54,251	-

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

Type of derivatives	Total 2018		
	Over the counter		
	Central counterparties	Without central counterparties	
		With offsetting agreements	Without offsetting agreements
1. Positive fair value			
a) Options	-	-	-
b) Interest rate swaps	-	11,489	366
c) Cross currency swaps	-	-	-
d) Equity swaps	-	-	-
e) Forwards	-	535	-
f) Futures	-	-	-
g) Other	-	-	-
TOTAL	-	12,024	366
2. Negative fair value			
a) Options	-	-	-
b) Interest rate swaps	-	10,947	33
c) Cross currency swaps	-	-	-
d) Equity swaps	-	-	-
e) Forwards	-	618	-
f) Futures	-	-	-
g) Other	-	-	-
TOTAL	-	11,565	33

A.3 OTC financial trading derivatives: notional values, gross positive and negative fair values by counterparties

Underlying assets	Central counterparties	Banks	Other financial companies	Other subjects
Contracts not part of offsetting agreements				
1) Debt securities and interest rates				
- notional value	X	272,513	-	54,252
- positive fair value	X	9,255	-	336
- negative fair value	X	2,135	-	32
2) Equities and stock market indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	110,463	-	539
- positive fair value	X	535	-	-
- negative fair value	X	592	-	26
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that are part of offsetting agreements				
1) Debt securities and interest rates				
- notional value	-	327,462	-	-
- positive fair value	-	2,234	-	-
- negative fair value	-	8,812	-	-
2) Equities and stock market indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

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

Underlying/residual life	Up to 1 year	From 1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	210,521	146,418	410,783	767,722
A.2 Financial derivatives on equities and stock market indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	110,570	430	-	111,000
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
TOTAL 2018	321,091	146,848	410,783	878,722

B. Credit derivatives

B1. Trading credit derivatives: period-end notional values
At the reference date, the Banking Group does not have any credit derivatives.

B.2 Trading credit derivatives: gross positive and negative fair values - breakdown by product
At the reference date, the Banking Group does not have any credit derivatives.

B.3 OTC trading credit derivatives: notional values, gross positive and negative fair values by counterparties
At the reference date, the Banking Group does not have any credit derivatives.

B.4 Residual life of OTC trading credit derivatives: notional values
At the reference date, the Banking Group does not have any credit derivatives.

B.5 Credit derivatives connected to the fair value option: annual changes
At the reference date, the Banking Group does not have any credit derivatives.

1.3.2 Accounting hedges
The Cassa Centrale Group had no accounting hedge transactions in place at the reference date.

1.3.3 Other information on derivative instruments (trading and hedging)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair values by counterparties

	Central counterparties	Banks	Other financial companies	Other subjects
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	599,976	-	-
- net positive fair value	-	11,489	-	-
- net negative fair value	-	10,947	-	-
2) Equities and stock market indices				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	110,462	-	-
- net positive fair value	-	536	-	-
- net negative fair value	-	618	-	-
4) Commodities				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B. Credit derivatives				
1) Purchase of protection				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
2) Sale of protection				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-

1.4 LIQUIDITY RISK

INFORMATION OF A QUALITATIVE NATURE

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

Liquidity risk is defined as the possibility that the Bank does not manage to maintain its payment obligations due to an incapacity to collect new funds (funding liquidity risk), the incapacity to sell assets on the market to cover an imbalance requiring financing (asset liquidity risk) or the fact that it may be forced to liquidate its assets in unfavourable market conditions, thereby sustaining very high costs in order to meet its commitments (market liquidity risk).

The Board of Directors of the Bank has deliberated in favour of a document named 'Policy for the governance and management of liquidity and of funding' which defines the policies, responsibilities, processes, operational limits and tools for managing liquidity risk, both during normal business operations as well as during potential liquidity crises, thus in line with current liquidity regulations.

The policies include the strategies and organisational measures which serve to promptly contain liquidity risk; the ordinary and stress scenarios which the Bank may encounter are defined. The sources of liquidity risk to which the Bank is exposed can primarily be identified within the Finance/Treasury, Funding and Credit processes.

The Bank has adopted a liquidity risk governance and management system that, in accordance with the provisions of the Supervisory Authorities, pursues the goal of financing the development of its activities at the best market conditions in normal operating circumstances and to guarantee the ability of meeting payment commitments even if a liquidity crisis situation emerges, without interrupting operational continuity or alter the Bank's financial balance.

With the purposes of knowing future liquidity requirements with adequate advance notice, to have available fund supply sources that can be activated within the time intervals and at the costs deemed appropriate, and to carry out the activity efficiently, the management of liquidity risks requires:

1. defining the organisational structure that has to specify and implement the liquidity policy;
2 setting up an adequate information system to:
   - know and measure, at any time, the Bank's current liquidity position and its future evolution;
   - assess the impact of different scenarios, in particular of unforeseen and adverse conditions, on the future evolution of the Bank's liquidity position;
   - monitor the different fund procurement channels, in the evolution of their profiles in terms of times required for activation, amounts and costs;
3. defining a Contingency Funding Plan, to be activated promptly if the Bank experiences a liquidity crisis, establishing the chain of responsibility and the system of initiatives to overcome the crisis situation successfully.

The organisational structure tasked with governing and managing the liquidity risk provides for the operational management of the Bank's liquidity position to be entrusted to the Treasury department, which acts according to the indications given by the Risks Committee. Control activities are carried out by the Risk Management Department in coordination with the Treasury Department. The results of the control activities are passed on to the Risks Committee.

The principles for managing liquidity risk are defined within the liquidity policy.

The Policy for the Governance and Management of Liquidity comprises four processes:

1. Operating Liquidity, whose objective is to assure the ability to meet expected and unexpected payment commitments by maintaining a sustainable ratio between incoming and outgoing cash flows. Management of operational liquidity is carried out by the Treasury Department, according to the indications received and in compliance with the guidelines set by the Risks Committee. Within the analysis of operational liquidity, the Bank monitors intra-day liquidity by using the two indicators derived from the 'Annual report on financial stability' of the Bank of Italy of November 2011 (LCNO – Largest cumulative net out flow and LIIP – Liquidity and intraday payment commitments).To complete the monitoring of the daily liquidity risk, a stress scenario is analysed, constructed according to the model presented in the study of the Bank of England 'Intraday liquidity risk and regulation' of June 2011.Furthermore, to measure and control operating liquidity risk, the Bank uses as a reference the Liquidity Coverage Ratio (LCR).
2. Structural Liquidity, whose objective is to maintain an adequate ratio between medium/long term assets and total liabilities, in order to avoid pressures on current and prospective short-term sources; structural liquidity is managed by the Risks Committee and it is directed at assuring the financial balance of the structure by maturity over a time horizon exceeding one year. Through the analysis of the Bank's structural liquidity position, the ability to finance assets and to meet payment commitments through an adequate balance of the maturity of asset and liability items is assessed. Hence, the main objective is to manage funding through strategic decisions pertaining to funding sources and to the loans to be made in such a way as to prevent the emergence of excessive imbalances deriving from short-term financing of medium-long term operations.To measure and control structural liquidity risk, the Bank uses as a reference the Net Stable Funding Ratio (NSFR) and the due dates Transformation Report.
3. Stress test and scenario analyses, a process during which the financial balance is assessed in plausible, albeit improbable, extreme conditions. The data collected through reports during the year, along with the historic records of the same types of data, provide support in the execution of stress tests and scenario analyses, carried out with the goal of verifying the Bank's ability to address alert and crisis conditions outside normal operations.The procedure for carrying out operational liquidity stress tests entails modifying the profile of incoming and outgoing cash flows on the basis of the effects deriving from the occurrence of stress cases. These cases, tied to factors inside and outside the Bank, are selected taking into consideration scenarios built ad hoc, which can prove to be sufficiently severe, and contemplating even low-probability events. The Treasury Department, in collaboration with the Risk Management Department estimates, on a half-yearly basis, the maximum amount of liquidity that can be obtained under conditions of alert and crisis (back up liquidity estimates).
4. Contingency Funding Plan, or emergency Plan, a process directed at managing the emergence of a severe liquidity crisis of the Bank.

The liquidity risk tolerance thresholds are set by the Board of Directors on the basis of the following limits:

- for Operational Liquidity, the limit is set to the value assumed by the Liquidity Coverage Ratio (LCR) indicator, i.e. the ratio between basic and supplementary liquid assets and total net cash outflows in the 30 subsequent calendar days in a stress scenario.The structure of the indicator is based on Commission Delegated Regulation (EU) 2015/61, supplementing Regulation (EU) no. 575/2013 (CRR) and hence transposes into Italian law the provisions of the Basel Committee in the document "Basel 3 - The Liquidity Coverage Ratio and liquidity risk monitoring tools". At the management level, then, a series of indicators are analysed and monitored;

- for Structural Liquidity, the limit is set at the value assumed by the Net Stable Funding Ratio (NSFR) indicator, i.e. by the ratio between the elements that provide stable financing and the elements that require stable financing.The structure of the indicator is based on the document by the Basel Committee 'Basel III: the Net Stable Funding Ratio', of October 2014.

If the limits are exceeded, the Risks Committee evaluates the possible corrective actions and carries out all actions necessary to restore an exposure to liquidity risk that is consistent with the tolerance thresholds thus defined. In addition, the Risks Committee shall report, as soon as possible, to the Board's Risks Committee and to the Board of Directors the reasons for the failure to comply with the limits and the actions taken to restore the Bank's liquidity position.

Regulation (EU) no. 575/2013 (CRR) prescribes that financial intermediaries shall use additional liquidity monitoring metrics (ALMM) to obtain a full picture of the liquidity risk profile.

Specifically, the Implementing Regulation (EU) 2016/313 prescribes that the following six models must be set up as control information instruments:

- Funding concentration by counterparty: its purpose is to collect information about funding concentration by counterparty of the reporting entities, highlighting the first 10 funding contributors;
- Funding concentration by type of product: its purpose is to collect information about funding concentration by type of product of the reporting entities, broken down by the following types of funding: retail funding and wholesale funding;
- Prices for funding of various durations: its purpose is to collect information about the average value of the transactions and the average prices paid by the entities for funding with duration ranging from overnight to 10 years;
- Renewal of the funding: its purpose is to collect information about the volume of funds due and on the new funding obtained, i.e. on the renewal of funding at the daily level over a one-month time horizon;
- Concentration of the offsetting capacity by issuer/counterparty: its purpose is to collect information about the concentration of the offsetting capacity of the reporting entities with reference to the ten main assets held or liquidity lines granted to the entity for that purpose;
- Maturity Ladder: serves to represent the assets and liabilities expiring, subdivided into a series of time brackets; it is therefore possible to determine any gaps per individual time bracket and compare them with the Bank's offsetting capacity.

These information models are produced on a quarterly basis and the Risks Committee, in relation to possible criticalities, assesses whether to implement adequate governance strategies to prevent the emergence of stress situations.

The monitoring of the Bank's liquidity situation, based on the reports, on the scenario analyses and on the signals provided by the risk indicators, is carried out, according to their related competences and functions, by the Treasury Department, by the Risks Committee and by the Risk Management Department.

The results of the liquidity risk analysis are presented on a monthly basis from the Risk Management department to the Risks Committee; the latter also offers an evaluation in relation to needs deriving from financial flows as well as in relation to the growth plans of the Bank, financing requirements or resources that must be invested in addition to supplying general guidelines for the directly involved organisational units. The positioning of the Bank with regard to operational and structural liquidity is also reported to the Board of Directors on a quarterly basis.

The requirements of the Cassa Centrale Banca Group are largely ascribable to decreases in liquidity available to shareholder banks or clients; the Risks Committee continually evaluates the Bank's capacity to meet its needs, while taking the following into account, in particular:
- availability and price of securities that can be easily liquidated;
- availability of credit within the interbank system;
- potential of institutional bond funding;
- use of other funding tools.

With regard to attainable credit and the potential for bond funding, the Bank adopts the best practices in order to safeguard or improve the ratings attained thus far.
The internal regulation of liquidity risk management meets the requirements set out in the supervisory provisions and guarantees consistency between the management measurements and the regulatory ones.

INFORMATION OF A QUANTITATIVE NATURE

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

Items/Time brackets	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Indefinite duration
Cash assets	348,174	203,661	35,142	273,905	381,068	638,214	1,155,325	2,548,129	872,093	-
A.1 Government securities	-	-	329	-	1,941	354,586	380,381	1,941,309	350,000	-
A.2 Other debt securities	-	-	-	3	530	1,078	2,354	23,005	118,359	-
A.3 UCITS units	49,131	-	-	-	-	-	-	-	-	-
A.4 Loans	299,043	203,661	34,813	273,902	378,597	282,550	772,590	583,815	403,734	-
- Banks	133,625	203,519	34,303	245,809	349,629	240,768	693,148	135,840	935	-
- Customers	165,418	142	510	28,093	28,968	41,782	79,442	447,975	402,799	-
Cash liabilities	2,047,693	526,113	518,920	635,349	556,168	208,140	467,931	418,607	36,821	-
B.1 Deposits and current accounts	1,774,401	3,172	6,170	410,084	283,526	39,799	70,330	103,542	36,611	-
- Banks	1,433,254	3,102	6,170	400,749	281,707	26,477	51,186	58,150	2,600	-
- Customers	341,147	70	-	9,335	1,819	13,322	19,144	45,392	34,011	-
B.2 Debt securities	-	-	-	-	45	-	6,345	12,900	-	-
B.3 Other liabilities	273,292	522,941	512,750	225,265	272,597	168,341	391,256	302,165	210	-
'Off-balance-sheet' operations										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	26,636	18,676	31,519	35,565	9,432	5,269	802	291	-
- Short positions	-	26,702	18,652	31,569	35,529	9,388	5,243	802	291	-
C.2 Financial derivatives without exchange of capital										
- Long positions	11,930	-	-	-	-	-	-	-	-	-
- Short positions	11,081	-	-	1	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	-	-	2,500	-	-	-	-	-	-	-
- Short positions	-	-	2,500	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.5 OPERATING RISKS

INFORMATION OF A QUALITATIVE NATURE

A. General aspects, management processes and measurement methods for the operating risk of an event.

Operating risk is the "risk of sustaining losses deriving from the inadequacy or dysfunction of procedures, human resources and internal systems or those caused by exogenous events". This definition includes legal risk, but not reputational and strategic risk.

Operating risk is a pure risk given that only negative symptoms of the event are linked to it. These symptoms are directly attributable to the activities of the Bank and concern its entire structure (governance, business and support).

Operating risk - which is inherent in the performance of banking activities - is generated across all company processes. In general, the primary sources of operating risk are internal fraud, external fraud, workplace employment and safety reports, professional obligations with respect to clients or the nature and characteristics of products as well as damages from external events and the breakdown of IT systems. Risks related to significant outsourcing activities are relevant in this case. Given that it is a transversal risk across processes, operating risk can be controlled and mitigated through currently effective internal regulations (regulations, executive provisions, proxies) which are drafted primarily for the purposes of prevention. Specific line controls are then set up on the basis of these regulations as a verification and additional system for monitoring this type of risk. Currently effective regulations are also applied to IT procedures with the aim of constantly monitoring the correct assignment of authorisation as well as compliance with functional subdivisions on the basis of company roles.

The Bank mapped the main banking processes, formalising the related controls within a specific database; this is based on the belief that process documentation represents the best answer to the need to monitor operating risks. All phases and activities which form standard operating procedures have been recorded, and the potential risks as well as the first level control contents have been identified for these. Specific audits were implemented with regard to authorisations and access to the company IT system as well as to the internet portal; with regard to this point, criteria and rules for risk containment have been adopted.

The Bank has an "Operational Continuity Plan" which was drafted in order to protect the Bank itself in the case of crises which could damage its full operational capability; it therefore formalised the operational procedures that must be adopted in the crisis scenarios in question and clearly outlined the roles, responsibilities and time schedules of the various parties that are involved.

With regard to organisational safeguards, the Compliance Department - delegated to monitor and control compliance with norms - provides ex ante support to the process of preventing and managing the risk of being subject to judicial or administrative sanctions as well as the risk of reporting significant losses following the violation of external regulations (laws or regulations) or internal ones (Articles of Association, codes of conduct, corporate governance codes), carrying out ex post audit activities according to a risk based approach.

The Security Manager and the ICT Manager are tasked with controlling the risks connected with the management of the IT system.

The Internal Audit Department – which is responsible for third level controls – conducts periodical audits on the overall functionality of the system of controls within the realm of the various company processes.

With regard to the regulatory measurement of the prudential requirement for operating risks, the Bank - given that it does not reach the specific thresholds for accessing the advanced methodologies identified by Supervisory Authorities, and in light of its organisational, operational and size characteristics - applies the Basic Indicator Approach (BIA).
On the basis of this methodology, the capital requirement for operating risks is measured by applying the regulatory coefficient of 15% to the average of the last three data recordings - on an annual basis - of an indicator of the volume of company operations, (so-called 'relevant indicator') relating to the situation at the end of the year (31 December), pursuant to art. 316 of Regulation (EU) no. 575/2013 (CRR).
With regard to the governance of operating risks, importance was attached to the controls adopted on the outsourcing of company functions in accordance with Circular 285/2013 (Part I, Title IV, Chapter 3, Section IV), which defines an organic framework of principles and rules to adhere to when outsourcing company functions, and of the additional, more stringent requirements for the outsourcing of important operational functions. The Circular requires the implementation of specific controls to cover the connected risks, and the maintenance of the capacity to control the work of the supplier and the necessary skills for any re-insourcing, if required, of outsourced activities.
The process of amending the agreements whereby the client banks outsource their own company functions to the Bank continued during the year with the inclusion in the contractual text of the provisions of Circular 285/2013 on the outsourcing of important operational functions.
Within the issues pertaining to the IT systems and business continuity, the Bank, recognising the value of the management of IT risk as a tool to ensure the effectiveness and efficiency of the protection measures of its IT system, defined a method for analysing IT risk and the associated management process which is incorporated within the wider Bank risk management system.
The adoption of this method will make it possible to integrate the management of operating risks by also considering the risks connected to IT and business continuity profiles, and to document the evaluation of IT risk based on the continuous information flows established with the software house.
The adoption of these references is prior to the preparation of the process of verification, at least annually, of the evaluation of IT risk based on the results of the monitoring of the effectiveness of the measures to protect ICT resources.

Year	Amount
December 2018	230,357,870
December 2017	69,079,213
December 2016	69,457,196
Relevant indicator average last 3 years	122,964,759
Capital requirement (15% of the average)	18,444,714

The requirement is calculated by using exclusively the values of the relevant indicator determined in accordance with art. 316 of CRR no. 575/2013.

For the purposes of a more structured evaluation of operating risks, a series of activities have been initiated as of 2009 for the implementation of processes relative to funding as well as the preservation and analysis of internal data relating to the most significant events and operational losses. The use of a database - where events which caused operational losses, even potential, could be registered - was introduced; this tool represents a development in risk assessment methodologies and serves the purpose of identifying and removing process defects which could result in negative events.

Disclosure of information to the public

In accordance with Circular 285/2013 (Part Two, Chapter 13, Section I), it should be known that the Cassa Centrale Banca Group - with reference to the requirement for disclosure of information to the public prescribed by the Third Pillar of Basel 2 - publishes the required information on its website, www.cassacentrale.it.

SECTION 3

RISKS OF INSURANCE COMPANIES

The Section is not applicable, and therefore was not filled in.

SECTION 4

RISKS OF OTHER COMPANIES

No other significant other risks were noted for the remaining companies included in the scope of consolidation, given they do not belong to the banking group nor insurance companies.

PART F INFORMATION ON CONSOLIDATED EQUITY

Section 1 - Consolidated equity

Section 2 - Regulatory capital and adequacy ratios

SECTION 1

CONSOLIDATED EQUITY

One of the consolidated strategic priorities of the Group is represented by the amount and movements of its capital assets in respect of the regulatory constraints and in line with the risk profile assumed. Capital constitutes, in fact, the first control in respect of the risks connected with banking business and the main reference parameter for the assessments of the intermediary's solvency by the regulatory authorities and the market. It also contributes positively to the generation of operating income and makes it possible to cover the Group's technical and financial fixed assets, supports growth in the size of the Group, forming a decisive element in the phases of development.

The equity of the Group is given by the sum of the share capital and of the share premium reserves, profit reserves, valuation reserves, equities, own shares and the profit for the year, for the portion to be allocated to reserves, as indicated in Part B of this section.

The concept of capital that the Group uses in its evaluations is essentially the notion of 'regulatory capital' as established by EU Regulation no. 575/2013 (CRR), structured into the following components:

• Tier 1 capital, composed of Common Equity Tier 1 - CET 1 and Additional Tier 1 – AT1 capital;

• Tier 2 capital – T2.

Capital defined in this way, the main safeguard of company risks according to the regulations for prudential supervision, in fact represent the best reference for effective management, from a strategic perspective, and in terms of current operations, given that it is a financial resource which is capable of absorbing potential losses generated by the Group's exposure to all the risks assumed, thereby assuming a guarantee role with respect to depositing parties and creditors in general.

The supervisory regulation requires the Group to measure total capital adequacy, both current and forward-looking, using internal methodologies, and under stress conditions, to ensure that the available financial resources are adequate to cover all risks, also under adverse economic conditions; this is with reference not only to so-called 'Pillar 1' risks (represented by credit and counterparty risk - measured on the basis of the debtor counterparty category, duration and type of transactions and personal guarantees and collateral securities received - market risks on the trading portfolio and operating risk), but additional risk factors - so-called 'Pillar 2' risks - which impact company business (such as, for example, concentration risk, interest rate risk on the banking book, etc.).

Control of current and forward-looking capital adequacy is therefore developed on the basis of a dual meaning:

• regulatory capital in respect of Pillar 1 risks;

• overall internal capital in respect of Pillar 2 risks, for ICAAP process purposes.

In order to ensure the correct capital performance under ordinary operating conditions, in particular, the Group makes use of self-financing, i.e. the reinforcement of reserves through the allocation of net profits. In fact, the Group allocates a predominant share of net profits for the year to undistributable reserves. Observance of capital adequacy is also pursued through careful policies for the distribution of dividends of the limited available component of profit, prudent management of investments, in particular, loans, based on counterparty risk and the related absorptions, and with strengthening plans based on the issuing of subordinated liabilities or additional equity instruments included in the pertinent regulatory capital aggregates.

In order to maintain its capital position constantly adequate, the Group employs processes and instruments to determine the level of internal capital which is adequate to cover all types of risk assumed, as part of an assessment of current and forward-looking exposure, and under a stress situation, that takes into account the company strategies, development objectives and evolution of the reference context.
On an annual basis, as part of the process of definition of the budget objectives, a careful check is performed on the compatibility of projections: based on the expected trends in capital and economic aggregates, if necessary, the necessary initiatives for ensuring capital equilibrium and the availability of financial resources consistent with the Group's strategic and development objectives are identified at this phase and implemented.
Verification of compliance with supervisory requirements and the consequent adequacy of capital are implemented on a quarterly basis. The elements which are audited primarily include ratios pertaining to the financial structure of the Group (loans, problem loans, fixed assets, total assets) and the degree of hedging of risks.
Additional specific analyses for the prior evaluation of capital adequacy are carried out if necessary, in view of extraordinary transactions, such as mergers and acquisitions, disposals of assets.
As regards minimum capital requirements, reference is made to the mandatory parameters established by the applicable regulatory provisions (art. 92 of the CRR), on the basis of which the common equity CET 1 capital of the Group must account for at least 4.5% of total risk-weighted assets ('CET1 capital ratio'), Tier 1 capital must represent at least 6% of the total of the aforementioned weighted assets ('Tier 1 capital ratio') and total Group regulatory capital must represent at least 8% of total weighted assets ('Total capital ratio').
Following the Supervisory Review and Evaluation Process (SREP) conducted in accordance with art. 97 et seq. of EU Directive no. 36/2013 (CRD IV) and in compliance with the provisions of the EBA in relation to the imposition of additional specific capital requirements in the document 'Guidelines on the common procedures and methodologies for the supervisory review and evaluation process', published on 19 December 2014, the Bank of Italy issues a specific decision annually on the capital requirements that the Group must respect following the (supervisory review and evaluation process - SREP).
In particular, the aforementioned article 97 of the CRD IV establishes that the Bank of Italy must periodically review the provisions, the strategies, the processes and mechanisms that supervised banks implement to monitor the risks to which they are exposed. Therefore, by means of the SREP, the competent authority re-examines and evaluates the capital adequacy determination process carried out within the Group, analyses the Group's risk profiles, both on an individual and aggregate basis, also under stress conditions, evaluates its contribution to systemic risk; it assesses the corporate governance system, the functionality of corporate bodies, the organisational structure and the internal control system; it verifies the observance of the set of supervisory rules.
At the end of this process, the competent Authority, pursuant to art. 104 of the CRD IV, also has the power to request, based on an intermediary's overall risk, for additional capital with respect to the minimum requirements cited above; the capital ratios quantified, taking account of the additional requirements, are binding ('target ratio').

The capital requirements based on the Group's risk profile, pursuant to the measure on capital of 08.05.2017, therefore, consist of binding capital requirements (based on the sum of minimum requirements pursuant to art. 92 of the CRR and additional binding requirements determined in light of the SREP) and the capital conservation buffer requirement applicable in light of transitional provisions in force to the extent of 1.875% (2.5% according to the ordinary criteria, in 2019), as a whole understood as the overall capital requirement ratio - OCR, as indicated below:

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

The capital conservation buffer is entirely covered by CET1.

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

INFORMATION OF A QUANTITATIVE NATURE

B.1 Consolidated capital: breakdown by type of company

Items of Equity	Prudential consolidation	Insurance companies	Other companies	Eliminations and consolidation adjustments	Total 2018	of which third parties
Share capital	960,839	-	-		960,839	8,807
Share premium	19,150	-	-		19,150	121
Reserves	121,214	-	6,590	(6,590)	121,214	26,060
Advances on dividends	-	-	-		-	
Equity instruments	-	-	-		-	
(Own shares)	-	-	-		-	
Valuation reserves:	(10,037)	-	-	-	(10,037)	2,885
- Equities measured at fair value through other comprehensive income	(6,455)	-	-	(46)	(6,501)	1
- Hedges of equities measured at fair value through other comprehensive income					-	
- Financial assets (other than equities) measured at fair value through other comprehensive income	(7,306)			(2,298)	(9,604)	
- Tangible assets		-	-		-	
- Intangible assets		-	-		-	
- Hedging of foreign investments		-	-		-	
- Cash flow hedging		-	-		-	
- Exchange rate differences		-	-		-	
- Non-current assets held for disposal		-	-		-	
- Financial liabilities measured at fair value through profit or loss (changes in credit rating)					-	
- Actuarial gains (losses) relating to defined benefit plans	(182)	-	-	(13)	(195)	7
- Quotas of valuation reserves relative to shareholdings valuated with the equity method:	(2,357)	-	-	2,357	-	
- Special revaluation laws	6,263	-	-		6,263	2,877
Profit (loss) for the year (+/-) of the group and pertaining to minority interests	100,537	-	-		100,537	3,538
EQUITY	1,191,703	-	6,590	(6,590)	1,191,703	41,411

B.2 Reserves from valuation of financial assets measured at fair value through other comprehensive income: breakdown

Assets/Values	Prudential consolidation		Insurance companies		Other companies		Eliminations and consolidation adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	935	(10,539)	-	-	-	-			935	(10,539)
2. Equities	309	(6,810)	-	-	-	-			309	(6,810)
3. Loans	-	-	-	-	-	-			-	-
TOTAL 2018	1,244	(17,349)	-	-	-	-	-	-	1,244	(17,349)

B.3 Reserves from valuation of financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equities	Loans
1. Opening balances	(2,059)	(1,381)	-
2. Positive changes	31,909	846	-
2.1 Fair value increases	19,184	0	-
2.2 Value adjustments due to credit risk	3,326		-
2.3 Reversals of negative reserves from sale to the income statement	235		-
2.4 Transfers to other components of equity (equities)			-
2.5 Other changes	9,164	846	-
3. Negative changes	39,454	5,966	-
3.1 Fair value decreases	11,643	5,394	-
3.2 Write-backs due to credit risk	1,849		-
3.3 Reversals of positive reserves to the income statement: on sale	23,615		-
3.4 Transfers to other components of equity (equities)			-
3.5 Other changes	2,347	572	-
4. Closing balances	(9,604)	(6,501)	-

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

	Total 2018
1. Opening balances	(357)
2. Positive changes	-
2.1 Actuarial gains relating to defined benefit plans	-
2.2 Other changes	-
2.3 Business combinations	112
3. Negative changes	50
3.1 Actuarial losses relating to defined benefit plans	50
3.2 Other changes	-
3.3 Business combinations	-
4. Closing balances	(195)

SECTION 2

REGULATORY CAPITAL AND ADEQUACY RATIOS

Please refer to the disclosure on regulatory capital and capital adequacy in the public disclosure ('Third Pillar').

PART G
BUSINESS COMBINATIONS REGARDING COMPANIES OR BRANCHES

1. Transactions implemented during the year

SECTION 1 TRANSACTIONS IMPLEMENTED DURING THE YEAR

Illustration of the effects of application of IFRS 3

Based on the indications of the accounting policies of Part A of the consolidated explanatory notes, IFRS 3 requires any business combinations to be accounted for using the purchase method, which involves the following phases:
This method makes provision for the following steps:

a. identification of the acquiror and the acquisition date;
b. determination of the cost of the acquisition;
c. recognition and measurement of the identifiable assets acquired and liabilities assumed - allocation of the purchase price (PPA);
d. recognition of the goodwill or a profit deriving from a purchase at favourable prices ('bargain purchase').

a. Identification of the acquiror and the acquisition date

The transactions that, at 31 December 2018, were accounted for according to the provisions of International Reporting Standard 3 (IFRS 3 Business Combination), concerned the acquisitions of:

- Servizi Bancari Associati S.p.A. carried out on 01.07.2018 as a result of which, Cassa Centrale Banca and the shareholders of the company itself reached an agreement for the sale of a further stake of 19% of shares. Therefore, following the aforementioned transaction, Cassa Centrale Banca obtained control of SBA, with a total interest of 68%;
- Claris Leasing S.p.A. carried out on 01.07.2018 as a result of which Cassa Centrale Banca obtained control of 100% of the company in question;
- Nord Est Asset Management S.A. carried out on 01.10.2018 as a result of which Cassa Centrale Banca and the shareholders of Nord Est Asset Management S.A. reached an agreement for the sale of a further stake of 50% of that company (hereinafter also 'NEAM'), in which Cassa Centrale Banca already held a share of 50%: therefore, Cassa Centrale Banca obtained exclusive control of NEAM;
- Cesve Società Consortile S.p.A. carried out on 31.12.2018 following the completion of two consecutive purchases (of 11.15% and 3.92% respectively) by Phoenix Informatica Bancaria S.p.A. and Cassa Centrale Banca: thus, the Group held a total stake of 50.16%, obtaining control of the company in question.

b. Determination of the cost of the acquisition

IFRS 3 requires the cost of a business combination to be determined as the sum of the fair value, at the date of the exchange: (i) of the assets transferred, (ii) the liabilities incurred and (iii) the equity instruments issued by the purchaser in exchange for control of the purchase. A summary table of the main characteristics of the transactions described in the previous paragraph is reported below:

Company name	Transaction date	Transaction cost	% interest acquired	Total Group revenues	Group net profit/loss
Servizi Bancari Associati S.p.A.	01.07.2018	11.1	68%	27.5	0.01
Claris Leasing S.p.A.	01.07.2018	24.0	100%	17.413	9.9
Nord Asset Management S.A.	01.10.2018	36.0	100%	36.5	4.1
Cesve S.p.A. Consortile	31.12.2018	17.7	50.16%	19.9	1.7

Figures in thousands of Euro

c. Recognition and measurement of the identifiable assets acquired and liabilities assumed - allocation of the purchase price (PPA)

Based on the provisions of IFRS 3, the cost of the combination must be allocated to the identifiable assets acquired, liabilities assumed, including contingent, which must be measured on the basis of the respective fair values at the combination date; the value of the minority interests in the acquiree must also be recorded which, for this transaction, was recognised in proportion to the share held in the net identifiable assets of the acquiree. More specifically, the fair value measurement of the identifiable assets acquired and liabilities assumed (including contingent liabilities identified) relating to the acquirees may be represented as follows:

Figures in millions of Euro	Servizi Bancari Associati S.p.A.	Claris Leasing S.p.A.	Nord Asset Management S.A.	Cesve S.p.A. Consortile
Reported shareholders' equity at the acquisition date	0.8	72.3	11.2	12.1
Increase in value of assets				
Implicit intangible assets (item 100 of assets)			5.3	
Measurement of investments held at FV	1.0			5.5
Measurement of loans in the portfolio at FV	0.3			
Decrease in value of assets				
Property (item 90 of assets)				
Measurement of loans in the portfolio at FV		-13.1		
Contingent liabilities		-7.5		
Total difference in fair value (before taxes)	1.3	-20.6	5.3	5.5
Deferred tax assets		7.0		0.1
Deferred tax liabilities	-0.1		-1.7	
Net tax effect	-0.1	7.0	-1.7	0.1
Total difference in fair value (after taxes)	1.2	-13.6	3.6	5.6
Equity expressed at fair value	2.0	58.7	14.8	17.7

Intangible assets (Item 130 of assets)
The measurement of the Customer Relationship of NEAM S.A. net of taxes is EUR 3.6 million.

Measurement of loans in the portfolio and contingent liabilities at FV
The measurement at fair value of the portfolio of loans of the company Claris involved the recognition of value adjustments of roughly EUR 8.6 million.
Contingent liabilities, instead refer to additional provisions for some ongoing legal proceedings relating to the company Claris Leasing S.p.A. and amounted, net of taxes, to roughly EUR 5 million.

Deferred tax assets (item 140 of assets) - Deferred tax liabilities (item 80 of liabilities)
The fair value measurement of assets and liabilities involved the recognition of higher or lower values that, based on the tax neutrality of the contribution transaction, did not involve a corresponding change in the value of said assets and liabilities recognised for tax purposes. Therefore, it was necessary to record deferred taxes on the temporary differences between the new carrying amounts calculated and the tax values. These taxes were calculated on the basis of the rates currently in force and by taking into account the tax treatment of the specific items subject to revaluation/write-down.

d. Recognition of the goodwill or a profit deriving from a purchase at favourable prices ('bargain purchase')
The difference between the cost of the aggregation and the value, measured at fair value, of the identifiable assets acquired and the liabilities assumed, including therein the contingent liabilities, must be recognised:
- as goodwill, if positive;
- as income statement income (so-called 'bargain purchase'), if negative.

In particular, the following goodwill was registered (generated by the difference between the total values attributed to the contributions and the reported equity with values expressed at fair value, in proportion to the respective share of control):
- EUR 21.2 million relating to the acquisition of NEAM S.A.;
- EUR 9.1 million relating to the acquisition of Servizi Bancari Associati S.p.A.

The acquisition of CESVE S.p.A. Consortile led to the emergence of goodwill considered immaterial.
The acquisition of Claris Leasing S.p.A. instead determined the recognition of the bargain purchase for EUR 34.8 million.

Summary of the valuation process performed
The application of IFRS 3 required the performance of complex and widespread valuation activities.
In this context, Cassa Centrale Banca asked PricewaterhouseCoopers Advisory S.p.A. Deals FS for assistance with some phases of the PPA process. More specifically, the activities performed by the advisory firm were as follows:
- analysis of the transaction and of the consistency of the accounting approach adopted with IFRS 3 (identification of the purchaser, determination of the acquisition date, quantification of the consideration transferred, treatment of related costs, etc.);
- determination of the differential between the cost of the transaction and the fair value of the net assets acquired and the definition of the associated accounting treatment;
- identification and valuation of the specific intangible assets through fair value determination models.

PART H
TRANSACTIONS WITH RELATED PARTIES

1. Information on compensation of executives with strategic responsibilities

2. Information on transactions with related parties

1. INFORMATION ON COMPENSATION OF EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Executives with strategic responsibilities are those which retain powers and responsibilities pertaining to the planning, management and control of the company's activities.
In compliance with regulatory provisions pertaining to policies and practices relating to compensation and incentives within banks, and in accordance with the shareholders' meeting resolution of 18 May 2016, the reported compensation refers to executives with strategic responsibilities, i.e. directors and executives in charge of strategic functions.
In addition, the compensation assigned to the members of the Board of Statutory Auditors is reported.
With regard to compensation solely disbursed to said executives during the course of 2018, it should be noted that - in addition to a fixed salary stipulated through individual agreements - there is a variable component which is linked to the attainment of the strategic objectives of the Group. With regard to fixed compensation, it should be noted that the latter includes not only the standard monetary disbursement but also a package of benefits such as a complementary pension fund, a healthcare insurance policy, an accident insurance policy and the potential assignment of a company car for mixed use.
In particular, the following benefits should be noted:

a) Short-term benefits
   Short-term benefits include salaries, social security contributions, fringe allowances for past unused holidays, absences due to disease and benefits such as medical assistance.
b) Benefits relative to the post-employment period
   These include social security, retirement and insurance plans as well as severance indemnity.

Compensation overall disbursed to executives with strategic responsibilities	Total 2018
- Salaries and other short-term benefits	4,496
- Benefits relative to the post-employment period (social security, insurance, etc.)	170
- Other long-term benefits	35
- Termination of employment indemnity	25

Compensation overall disbursed to auditors	Total 2018
- Salaries and other short-term benefits	388
- Benefits relative to the post-employment period (social security, insurance, etc.)	-

The compensation includes attendance fees and the office indemnities that are due. Amounts not paid are considered insignificant.
The compensation reported does not include the expenses incurred by the consolidated company from 31 December 2018, given considered insignificant.

2. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

In accordance with the provisions of currently effective provisions, it should be noted that all operations conducted by the Bank with its related parties were implemented in compliance with the criteria of substantive and procedural fairness and under conditions that are analogous to those applied for operations implemented with independent third parties.

In accordance with IAS 24, information pertaining to financial and economic relations between the related parties of the Bank and Group companies is reported below.

In accordance with the international accounting principle IAS 24, a related party is a person or entity which is related to the entity which drafts the financial statements.

a. A person or close relative of this person is related to the entity which drafts the financial statements if this person:
   I) retains control or joint control over the entity which drafts the financial statements;
   II) retains significant influence over the entity which drafts the financial statements; or
   III) is an executive with strategic responsibilities within the entity which drafts the financial statements or within a parent company of the latter.
b. An entity is related to the entity which drafts the financial statements if any one of the following conditions is applicable:
   I) the entity and the entity which drafts the financial statements are part of the same group (which implies that each parent company, subsidiary and company of the group is related to the others);
   II) an entity is an associate or is part of a joint venture of another entity (or an associate or part of a joint venture which is part of the group to which the other entity belongs);
   III) both entities are joint ventures of the same third party counterparty;
   IV) an entity is part of a joint venture of another entity and the other entity is a related party of the latter entity;
   V) the entity is represented by a plan of benefits relative to the post-employment period and provided to employees of the entity which drafts the financial statements or of an entity related to the latter. If the entity which drafts the financial statements is also a plan of this type, even the employers which sponsor it are related to the entity which drafts the financial statements;
   VI) the entity is controlled or jointly controlled by a person identified under point a);
   VII)a person identified under point a) i) has a significant influence on the entity or is an executive with strategic responsibilities within the entity (or a parent company of the latter).

The statement of financial position and income statement relationships entered into during the year involving related parties are listed below:

	Assets	Liabilities	Guarantees issued	Guarantees received	Revenues	Costs
Subsidiaries	388,261	66,883	4,922	-	15,689	3,029
Associates	27,938	389,094	20	-	104	1,804
Directors and Executives	219	1,065	27	-	-	4,238
Other related parties	35,258	3,445	-	-	6,457	1,155
TOTAL	449,254	460,487	4,969	-	22,250	10,225

The costs of Directors and Executives also include those relating to the salaries reported in the table pursuant to point 1 of this Section.
The 'Revenues' and 'Costs' reported do not include those recorded by the consolidated company from 31 December 2018, given that for these no provision was made for the consolidation of the income statement produced from that date and considered insignificant.
A transaction with a related party is a transaction which involves assuming risk assets as well as the transfer of resources, services or obligations between related parties, regardless of whether a compensation has been stipulated.
Relations and transactions implemented with related parties do not include any critical elements given that they are ascribable to ordinary credit and service activities.
During the course of the year, no atypical or unusual transactions were carried out with related parties which - due to their significance or amount - could have generated doubts in relation to the protection of company assets.
The screening process relative to loan requests from related parties follows the same process used to grant credit to other non-related counterparties with the same creditworthiness level. With regard to transactions with entities that exercise administration, management and control functions within the Bank, Article 136 of Italian Legislative Decree 385/1993 is applicable and, with regard to Directors, Article 2391 of the Italian Civil Code is applied.
Transactions with related parties are regularly implemented under market conditions and, in any case, on the basis of evaluations of economic convenience and always in compliance with currently effective regulations, providing adequate justification of the reasons and justification to complete them.
In particular:

- executives with strategic responsibilities are subject to all the conditions reserved for personnel in general or pursuant to employment agreements;
- directors and auditors are subject to the conditions of clientele of analogous professional positions and standing.

Transactions with related parties do not have a significant incidence on the financial situation, economic result and cash flows of the Bank.
There were no allocations or losses for doubtful receivables relative to related parties recorded in the financial statements.
Only a collective write-down is applied to them.

PART I
PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

Part I is not filled in given that the Group has not entered into any payment agreements based on own equity instruments.

PART L
SEGMENT REPORTING

The Group is not required to fill in this section.

CASSA CENTRALE BANCA BANKING GROUP

Registered office in Via Segantini, 5 – 38122 Trento
Tel. 0461 313111
Publication edited by Cassa Centrale Banca - May 2019
Editorial coordination: Cassa Centrale Banca - Marketing