# Financial Statements
2018

VIVIBANCA
La tua banca per la vita

# COMPANY POSITIONS

**Board of Directors**

| | |
|---|---|
| Chairman | Giuseppe Mazzarello |
| Vice-Chairman | Paolo Avondetto *(1)* |
| Managing Director and CEO | Germano Turinetto |
| Directors | Pierluigi Bourlot<br>Marina Damilano (independent) *(1) (2)*<br>Guido Galavotti (independent) *(1) (2)*<br>Paolo Gesa (since December 2018)<br>Claudio Girardi<br>Ludovico Emiliano Resta (until July 2018)<br>Nicoletta Ughetto (independent) *(2)* |
| Deputy Managing Director | Antonio Dominici |

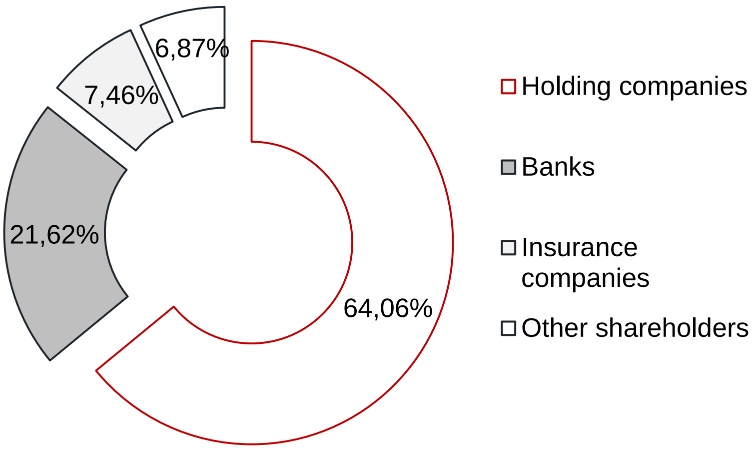
**Board of statutory auditors** (3)

| | |
|---|---|
| Chairman | Franco Vernassa |
| Standing auditors | Donato Carone<br>Francesco Rocchi |
| Alternate auditors | Daniela Bainotti<br>Giuseppe Desiderato |

| | |
|---|---|
| **Independent audit firm** | BDO Italia SpA |

*(1) Member of the remuneration committee*
*(2) Member of the related parties committee*
*(3) To the Board of Statutory Auditors are entrusted the duties and tasks of inspection pursuant to Legislative Decree 231/2001*

# SHAREHOLDING STRUCTURE – 31/12/2018



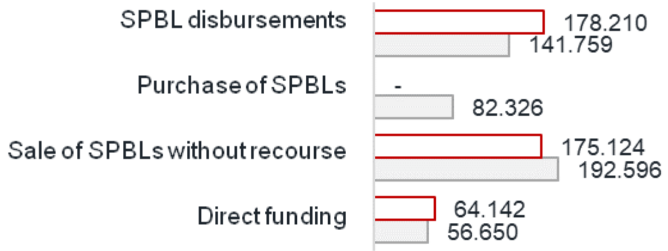

| Shareholder | % Stake | No. of Shares |
|---|---|---|
| Vega Management SpA* | 29.51% | 9,265,533 |
| Finandrea SpA* | 18.17% | 5,705,524 |
| Compagnie Financiére Saint Exupery SA – SICAV * | 16.37% | 5,140,871 |
| Banca Popolare di Bari ScpA | 9.90% | 3,109,877 |
| Banca Alpi Marittime Credito Cooperativo di Carrù ScpA | 8.53% | 2,677,041 |
| Gruppo Net Insurance SpA | 7.46% | 2,342,415 |
| Banca Valsabbina ScpA | 3.18% | 1,000,000 |
| Other shareholders | 6.87% | 2,156,490 |
| **Total** | | **31,397,751** |

**Shareholder agreement*

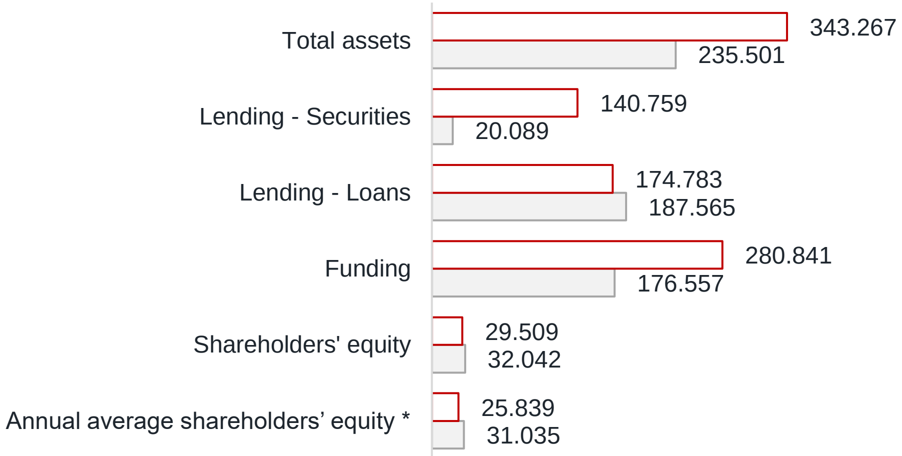
*In the month of February 2019 an increase in ViViBanca's share capital was implemented. The new shares of the shareholders are reported in the section on "Report on operations - Subsequent events"*

# RESULTS

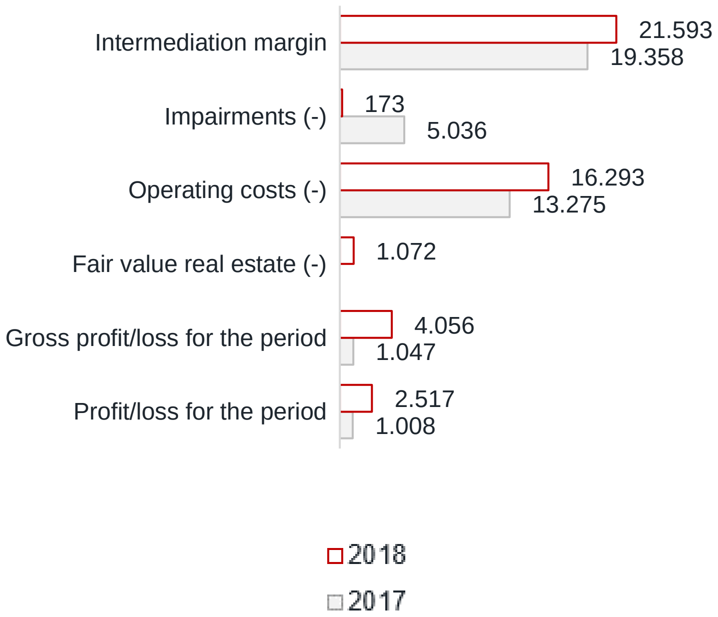
**Flows**
**(€/000)**



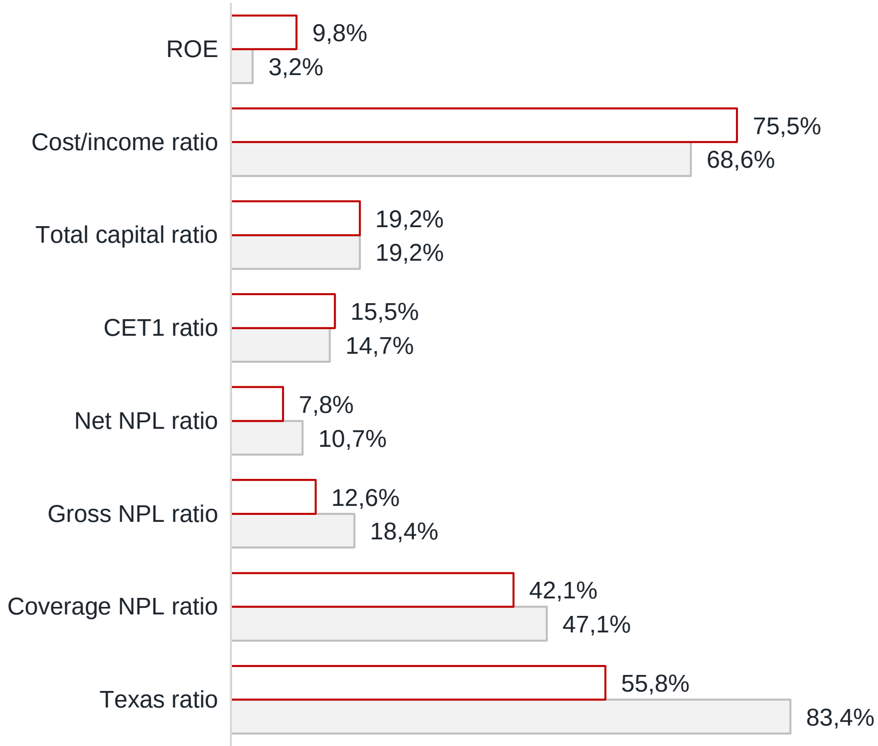

**Financial figures**
**(€/000)**




**Income figures**
**(€/000)**



**Key indicators (€/000)**



# LETTER TO THE SHAREHOLDERS

***Dear Shareholders,***

***The 2018 annual financial statements, which we submit to your attention, are comprised of a balance sheet, an income statement, a statement of comprehensive profitability, a statement of changes in shareholders' equity, a cash flow statement, and the explanatory notes.***

***We also ask you to deliberate on the following topics:***

***1. approval of the annual financial statements as of 31 December 2018;***

***2. allocation of the profit for the period[1] equal to 2,516,841 Euro as follows: distribution:***

***- to the Legal Reserve (5%): 125,842 Euro;***

***- to the Retained Profits Reserve: 2,390,999 Euro.***

***We would also like to sincerely thank all those who collaborated with the company: the shareholders, the supervisory authority, the Board of Statutory Auditors, the independent audit firm, the trade associations (ABI, Assofin, UFI, and Assilea), and all external collaborators. As usual, our thanks also extend in particular to the company's employees for their commitment, professionalism, and loyalty.***

***Turin, 25 March 2019***

***The Chairman***

***On behalf of the Board of Directors***

[1]As mentioned in the Explanatory Notes, under paragraph 14.6 of the Balance Sheet - Liabilities, in compliance with Article 2427, para. 22-septies of the Italian Civil Code.

# 2018 FINANCIAL STATEMENTS

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# REPORT ON OPERATIONS

## *A – Macroeconomic scenario*

### *Global overview*

Following the positive overall progress of the global economy in the first nine months of the year, the last quarter of 2018 exhibited various signs of concern, including a generalised effect of slowing of economic growth, that reflected aspects of a social, political and financial nature.

Many factors disturbed the orderly development of the economy; on a global level, there was the enduring contention between the United States and China, that had world trade and the relative duties as an immediate concern but in reality it implied a cold war, that had global dominance in all fields as its objective, between the superpower par excellence and the new Eastern power. This same Chinese economy, while maintaining significant rates of growth, showed signs of slowing, also in part induced by Government measures, desiring to avoid excessive social imbalances and speculative bubbles.

More generally, practically all emerging countries are feeling the effects of the problems caused both by the evolution of the ever-strengthening dollar, and the regional political situations that are particularly delicate (above all the case of Turkey).

In a nutshell, after a period characterised by a certain global recovery, we have entered into a phase characterised by a great economic uncertainty, that has implications in terms of volatility on the financial markets.

The negative progression of the last quarter of the year has meant that between the 18 global *asset classes*, on a yearly basis, only two have recorded a positive result (US and European governments), in any case inferior to 1%.

### *The Euro area*

Also in the Euro area, after a first part of the year that was economically and financially positive, a general slowing of this growth was observed.

This phenomenon was accentuated by certain elements more specific to the Euro Area, such as the deep uncertainty generated by the methods with which Brexit is to be executed, the political changes in the public opinion, with a crisis of the traditional political parties in favour of a whole plethora of new groups characterised especially by nationalist and sovereignist traits, the decision taken by the Governing Council of the ECB that, while believing that notable progress was made towards the objective of the minimum level of inflation, interrupted the net purchases of securities at the end of the year, even if preserving a wide level of monetary accommodation.

Indeed opposing such development, the ECB has nevertheless offered reassurance regarding the permanence of interest rates on the current low levels and reassured on the possibility of reinvesting the recovered capital of maturing securities, continuing to consider the purchasing programme among the instruments available.

Economic growth of all the main European countries, after an encouraging 2018, underwent an abrupt slowing towards the end of the year, a phenomenon that also involved the driving force of Germany, making the overall picture rather serious and worrying, especially for those countries, like Italy, that strongly depend on exports and in any case are particularly vulnerable in the financial economic field for multiple and never-resolving problems.

### *Italy*

In Italy, after the growth of the GDP was already weakened in the third quarter, the circumstantial indicators available indicate that the activity already decreased in the quarter, bringing the quarterly growth into negative (-0.2%), after three years of uninterrupted growth. Such development brought the reduction of the annual growth to below the calculated estimates, therefore around +0.9%.

The activity was slowed especially by the decrease in investments, in particular in capital goods, but also through the light drop in family expenses. For the commodities sector, industrial activity is that which most felt the decrease in performance, with particular regard to the automotive sector, with the new car registrations that reported a decline for the third consecutive quarter.

In addition to this numerical data - supported by the various questionnaires that the main companies of recognition periodically publish - a whole series of negative signs were reported regarding the confidence of the companies that revealed, especially in the deferment of many of the most significant investments, element that probably will be postponed also during 2019.

Family consumption is also in decline, with available earnings that, in real terms, is reduced by 0.2%.

Employment, after having reached values close to the maximum ones for the beginning of 2008, in the second part of the year were in light decline, even if an increase in work contracts of indefinite duration was reported; nevertheless, overall, the rate of unemployment has slowly begun to climb again, while unemployment of workers under 35 years of age remains stable.

The rate of inflation, after an initial climb in the beginning of the year, which has contributed to the increase in the quotes of energy goods, in December it descended to 1.2%, with an annual average that stabilised at 1.2%, compared with the 1.3% of 2017.

A subject that has monopolised Italy's political and economic attention towards the end of the year, with heavy repercussions also on the European level, was the manoeuvre of stability imposed and brought forward by the government, formed by the M5S or Five Star Movement and Lega Nord (Northern League).

In fact, the budgetary manoeuvre approved for 2019 was the result of a harsh conflict between the Italian government and the European institutions, about the levels of deficit requested and those conceded. The government focused on the expansionary measures (defined by others as relating to welfare) that necessarily implied the lack of respect of commitments previously undertaken regarding the reduction of the deficit/GDP ratio and the government debt/GDP ratio.

The strong points of the manoeuvre were based on a loosening of the pension obligations introduced by the so-called Fornero Law (Quota 100 has become the new parameter to calculate the right to a pension) and of the granting to a broad audience of people in economic difficulty of a citizenship income, pending substitution of this subsidy with a work income.

After a long debate, a compromise was finally reached with the EU for a deficit level of 2% of the GDP, but there are strong uncertainties regarding the basic data on which the figures were calculated, in terms of number of citizens that can use the aforementioned measures and the relative costs, but especially on the macroeconomic size used, that presuppose a GDP growth in 2019, which is highly unlikely, considering the current phase of economic stagnation, if not an actual recession towards which not only the Italian economy is moving, but also to some degree the rest of Europe. It should be noted that, other than the significant uncertainty due to the outcome of Brexit, May 2019 would see the elections that will renew the entire Strasbourg Parliament, in a situation that is impossible to predict at this moment, as to whether the outcome of the vote will reinforce, or as many predict, weaken the European institutions, and possibly irreversibly.

## *B – Sector performance*

### *The financial market*

During the fourth quarter the yield of 10-year public sector securities reduced in all the main economic areas. Of the global causes of the reduction, in the United States were supported by the expectation of a greater graduation in the process of normalisation of monetary policy, in the United Kingdom the uncertainty connected to Brexit. The interest rates of the ten-year German State securities decreased by 23 bps in the fourth quarter, positioning itself at 0.24%.

From the end of the third quarter, the share prices of the main economies also diminished, with a particularly significant decline in the month of December, thus reflecting the worsening of global growth prospects; the quotations then recovered in the beginning of 2019, after the publication of positive data on the American economy and on the prospect of reaching a possible accord between the US and China on the subject of import duties.

The Euro depreciated compared to the dollar and in relation to its main commercial *partners*. The net positions in Euro against the dollar of the non-commercial operators signal that the markets are waiting for a further weakening of the European currency.

From mid-November the premiums for sovereign risk, measured differentially between the yields of the ten-year Italian State securities and the German ones, increased by about 60 basis points, positioning itself little below the 330 points; this reflects both the increase in uncertainty on the Italian budget manoeuvre for 2019 - 2021 and the spread of worse macroeconomic data than expected.

Subsequently, the gradual slowing of the uncertainties on the Italian budgetary policies and the reaching of an accord with the European Commission on the levels of *deficit* predicted, has fostered a marked decline in the differential, that in mid-January returned to levels present at the end of September (262 points).

Finally, the general index of the Borsa Italiana (Italy's main stock exchange) has decreased in an important manner in the last quarter of the year, with particular relevance in December, to then recover in the beginning of 2019. It nevertheless remains a trend characterised by intense volatility, that has affected and continues to affect banking securities in particular.

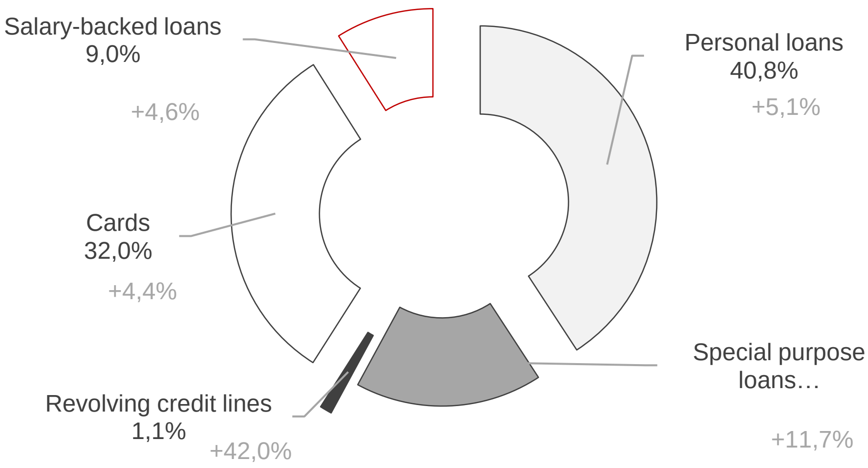
### *The credit market*

The conditions of credit tendering remain good overall, with a cost of credit that remains contained; in fact, the transmission of greater charges for the wholesale recovery of rates on loans was until now slowed by good capitalisation conditions of the banks and the elevated stability of their sources of financing. The incidence of impaired loans on the total of the loans disbursed by the banks has continued to decrease.

Among the Italian banks, ViViBanca places itself in the specific segment of the so-called specialised banks, or credit institutes, generally independent from the large banking groups, specialising in one or more technical forms, such as, for example, factoring (especially of public or health authorities), management of NPLs, salary-deducted loans, etc. These banks are characterised by recovery methods that are essentially *online*, in addition to financial operations that are more traditional (e.g. issue of bonds, securitisations, etc.) and with purposes concentrated in their characteristic activity, that generally present appealing yield rates, based on more contained risks compared with the usual banking loans for companies and families. It is not a coincidence if these types of operators report economic - financial data that is decidedly better than traditional banks, with market value parameters for listed in the stock exchange which are about double compared with the traditional banking sector.

As for ViViBanca, this bank operates in general in the consumer credit market, and more specifically in that of family loans in the technical form of salary and pension backed loans. Among the principal operators of the segment, other than the *business units* of the main general banks, one can recall the leader of the market IBL Banca, Banca Sistema, Banca Progetto and some other financial intermediaries, predominantly possessed by banking groups (Pitagora, Italcredi, Prestitalia etc.).

From a quantitative point of view, with reference to the consumer credit market, a growth in volume was recorded, at +6.2% compared to the corresponding period in 2018 (+10.1% in terms of the number of operations financed). The table below summarises the market trend specified in terms of weight of the individual segments as compared to total volumes, equal to 59.5 billion Euro, with growth recorded over the previous period by individual sector:




With regard more specifically to the market of salary/pension-backed loans, the Bank's sector of reference, the volumes of new disbursements reached 5.3 billion Euro, with an increase of 4.6% over the previous period, while the number of operations was increased by 6.2%, amounting to 305,649 units, with an average amount per operation of approx. 17,500 Euro.

## *C - Significant events of the period*

The following reports the main events that characterised 2018.

### *Lending*

The volume of disbursements executed by the Bank in 2018 are reported in the following table:

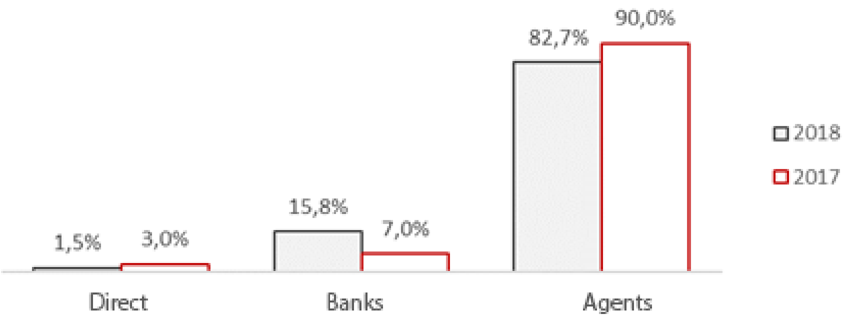
| SPBL | Financing €/000 | | | | No. of transactions | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | Change | %change | 2018 | 2017 | Change | %change |
| Disbursements | 178,210 | 141,759 | 36,451 | 25.7 | 8,398 | 6,192 | 2,206 | 35.6 |
| Purchases | | 82,326 | - 82,326 | (100.0) | | 5,711 | - 5,711 | (100.0) |
| **Total** | **178,210** | **224,085** | **- 45,875** | **(20.5)** | **8,398** | **11,903** | **- 3,505** | **(29.4)** |

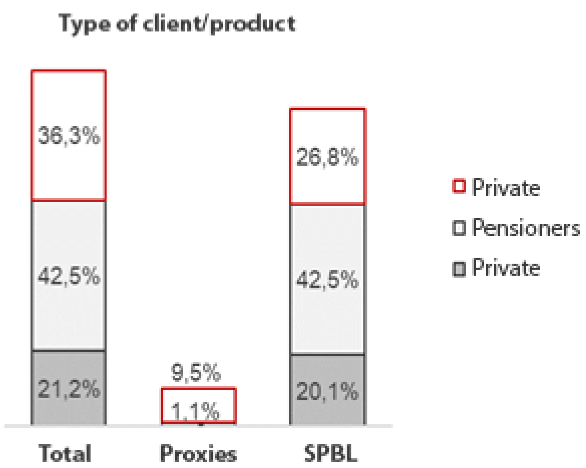
As can be seen, the Bank obtained a performance in terms of direct disbursements, notably superior to those of the market, with a growth of 25.7%, against 4.6% of the market, in terms of volume and of 35.6%, against the 6.2% of the market, in terms of number of loans finalised.

Worth noting is that over the course of 2018, credit purchases from third parties were not made, contrary to that which occurred in 2017.

Hence, the market quota settled at 3.34%.

The result obtained was the fruit of a consolidation of the agency network, that saw the introduction of new actors as partners of the "ViViBanca *Network*" *brand* and of the development achieved on the banking channel, with particular relevance in the agreements with the ICCREA group and Banca Valsabbina.




As for the *mix* of products on the other hand, a concentrated exposure was substantially confirmed with regard to the public/pensioner segments, that expect an approx. 80% of the total.

Worth noting is the commencement of disbursement of private proxies, that present appealing profitability rates, mitigating the superior risk level with a particularly selective underwriting policy.

Finally, it should be noted that the Loans against transfer of severance pay (*Trattamento di Fine Servizio*, TFS) product was officially launched, for which a significant development in the next three years is foreseen.

Worth noting also, is that the commercial network presents the client with a range of complete products (e.g. mortgages, personal loans, etc.) due to a commercial agreement that allows for the intermediation of third party services.

***Funding***

| | 31/12/2018 | 31/12/2017 | Change | %change |
|---|---|---|---|---|
| **Due to bank** | **(96,855)** | **(56,595)** | **(40,260)** | **71.1** |
| Deposits on sight | (42) | (401) | 359 | (89.5) |
| Time deposits | (7,050) | (53,122) | 46,072 | (86.7) |
| Loans | (89,763) | (3,072) | (86,691) | 2,822.0 |
| **Due to customers** | **(170,861)** | **(104,191)** | **(66,670)** | **64.0** |
| Deposits on sight | (28,635) | (27,938) | (697) | 2.5 |
| Time deposits | (142,226) | (76,253) | (65,973) | 86.5 |
| **Securities issued** | **(13,125)** | **(15,771)** | **2,646** | **(16.8)** |
| Bonds | (11,778) | (12,044) | 266 | (2.2) |
| Other securities | (1,347) | (3,727) | 2,380 | (63.9) |
| **Financial liabilities** | **(280,841)** | **(176,557)** | **(104,284)** | **59.1** |

Direct funding reported an increase of approx. 59%, principally attributable to:

- an increase in the term deposits (so-called *time deposit)* for approx. 67 million Euro, through the *online* channel, launched in April; this instrument has allowed the maintenance of a balanced recovery/lending ratio, with remuneration consistent with market conditions;

- a use of the instrument or repurchase agreements (Bank financing with the guarantee of short-term state securities) for approx. 89.8 million Euro, finalised to increase the bank profitability deriving from the rate differential between the asset investment and the relative liability funding, with residual risks.

- a decrease, in countertrend, for the other securities, established by certificates of deposit, for which the Bank expects their natural maturity, considering the characteristic *non-core* of the same with respect to the other technical forms.

***SPBL receivable transfers***

The *pro-soluto* transfer of *performing* SPBL credits, and their subsequent management in the capacity of *servicer*, are an integral part of ViViBanca's *business model*. During 2018 the intermediate volumes were the following:

| Sales | Financing expiring €/000 | | | | No. of transactions | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | Change | %change | 2018 | 2017 | Change | %change |
| ING Bank | 23,828 | 79,297 | (55,469) | (70.0) | 1,136 | 4,421 | (3,285) | (74.3) |
| BCC Alpi Marittime | 52,159 | 8,611 | 43,548 | 505.7 | 2,484 | 368 | 2,116 | 575.0 |
| BCC Don Rizzo | - | 4,226 | (4,226) | (100.0) | - | 181 | (181) | (100.0) |
| **Buyers** | **75,987** | **92,134** | **(16,147)** | **(17.5)** | **3,620** | **4,970** | **(1,350)** | **(27.2)** |
| Eridano II SPV | 99,137 | - | 99,137 | 100.0 | 5,137 | - | 5,137 | 100.0 |
| Eridano SPV | - | 100,462 | (100,462) | (100.0) | - | 4,460 | (4,460) | (100.0) |
| **Securitisations** | **99,137** | **100,462** | **(1,325)** | **(1.3)** | **5,137** | **4,460** | **677** | **15.2** |
| **Total** | **175,124** | **192,596** | **(17,472)** | **(9.1)** | **8,757** | **9,430** | **(673)** | **(7.1)** |

The trend saw a reduction in the absolute values of the *pro-soluto* sales compared to the previous year, but a different *mix* between buyers' banks and securitisation, the latter being an operative instrument that allows a significant reduction in the cost of recovery and consequently the achievement of greater revenues for the bank

In the first three quarters of 2018, ViViBanca operated transfer sales operations to ING Bank and Banca Alpi Marittime; the operations changed in the last quarter during which the second securitisation operation was launched, through the vehicle of Eridano II SPV, with the *Société Générale* as Arranger and Banca IMI as cofounder.

The choice of financial partner was carried out following a competitive *bid* between the principal operators of the Italian and foreign sectors and led to the final choice of the best proposal, not only in economic terms but also operative, taking into account the dimension and the characteristics of the operation.

More details relating to the aforementioned new operation of securitisation are reported in the "Explanatory Notes – Part E – Information on the risks and the relative policies of hedging - C. Securitisation operations"

***NPL receivable transfers***

As outlined in the Action Programme approved by the Supervisory Bodies on the occasion of the operation between Credito Salernitano and Terfinance, in the month of September 2018, the second *tranche* of the *NPL* receivable transfers was concluded (we recall that the first *tranche* of sales, for 18.8 million Euro, was concluded in November 2017), for a total of 12.3 million Euro.

With this operation, that had MBCredit Solutions SpA as counterparty (a company from the Mediobanca group), the commitment assumed by ViViBanca with the Supervisory Authority was concluded with full success, considering also the positive results reached in terms of *cash-in* (1.2 million, for a corresponding GBV realisable value of 10%).

***IFRS 9 Introduction***

ViviBanca, in conformance with the legal provisions, has applied the new IFRS 9 accounting principle, the description of which is frequently referred to in the "Explanatory Notes - Part A – Accounting policies - Section 4 – Other information".

***Inspection of Banca d'Italia***

On 28 May 2018, a broad inspection at ViViBanca was launched by the Banca d'Italia, which concluded at the end of July.

On 5 November 2018, the Report of the Supervisory Body was presented to the Board of Directors, presenting an overall verdict that was partially favourable (level 2 on a scale of 4), without demands for impairments on loans, but with some points of attention on the operative and organisational activities, in particular relating to the protection of the control functions of second and third level. Through the course of the inspection, great attention was given to the activity of safeguarding the customers, in compliance with the positions issued by Banca d'Italia in the first half of 2018.

Having taken note of the subjects highlighted, the Board of Directors, following a deep examination of the points highlighted by Banca d'Italia, on the date 5 December 2018 responded to these through the measures adopted or in the course of being adopted.

## D –2018 results

### D.1 – Reclassified balance sheet (€/000)

| Items | 31/12/2018 | 31/12/2017 | Change | % change |
|---|---|---|---|---|
| Cash and cash equivalents | 130 | 69 | 61 | 89.4 |
| Financial assets - securities | 140,759 | 20,089 | 120,670 | 600.7 |
| Financial assets - loans | 174,783 | 189,508 | (14,725) | (7.8) |
| Tangible assets | 9,342 | 7,941 | 1,402 | 17.6 |
| Intangible assets | 2,529 | 2,067 | 462 | 22.3 |
| Tax assets | 7,121 | 7,184 | (63) | (0.9) |
| Other assets | 8,602 | 8,640 | (37) | (0.4) |
| **Total assets** | **343,267** | **235,497** | **107,769** | **45.8** |
| Financial liabilities | 280,840 | 176,558 | 104,282 | 59.1 |
| Tax liabilities | 958 | - | 958 | 100.0 |
| Other liabilities | 28,202 | 24,257 | 3,945 | 16.3 |
| Employee severance indemnities | 1,137 | 1,130 | 6 | 0.6 |
| Provisions for risks and charges | 2,621 | 1,513 | 1,108 | 73.3 |
| Valuation reserves | 1,286 | (98) | 1,384 | (1,405.2) |
| Reserves | (5,691) | (265) | (5,426) | 2,048.7 |
| Share capital | 31,398 | 31,398 | - | - |
| Profit (loss) for the period (+/-) | 2,517 | 1,008 | 1,509 | 149.7 |
| **Total liability and shareholders' equity** | **343,267** | **235,501** | **107,769** | **45.8** |

***Financial assets - Securities***

| | 31/12/2018 | 31/12/2017 | Change | % change |
|---|---|---|---|---|
| Securities | 140,759 | 20,089 | 120,670 | 601 |

The securities portfolio, equal to 140.8 million Euro, is increased by 120.7 million, by way of the commitments in state securities made in the financial year.

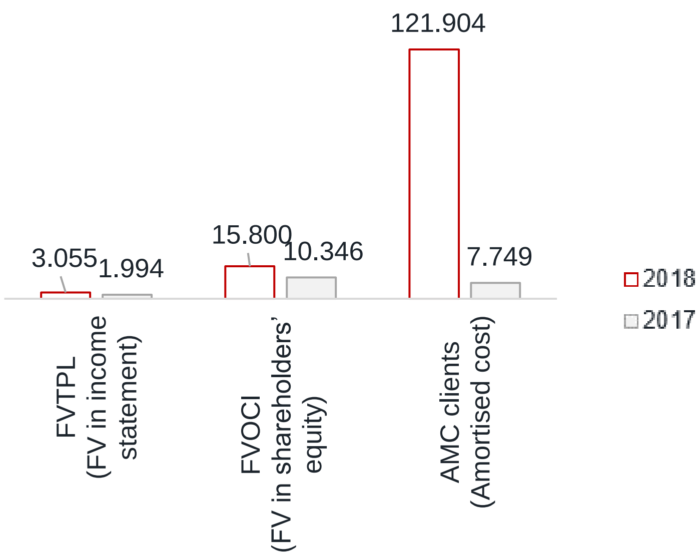
The composition of the *stock* therefore presents the following characteristics:

- unencumbered state securities (classified as FVOCI and AMC according to their purpose): these are destined for the maintenance of suitable levels of liquidity (measured through the LCR and NSFR indicators) and amount to 36.2 million Euro;

- term government securities on banking repurchase agreements (classified as AMC): these tend to maximise the *spread* of the active instruments, compared with the cost of the relative allocated recovery, and amount to approx. 90 million Euro;

- ABS securities deriving from own securitisations (classified as FVTPL and AMC according to their characteristics): these represent the portion of retention rules outlined in the European regulations for the Originator company, equal to 14.3 million

**Composition of the securities portfolio by classification**



Euro (of which 3 million Euro are Junior securities).

***Financial assets - Loans***

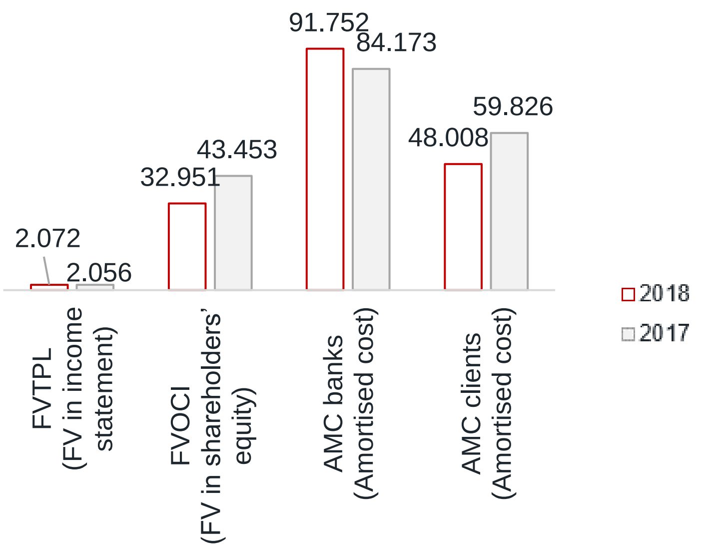
| | 31/12/2018 | 31/12/2017 | Var. | Var. % |
|---|---|---|---|---|
| Finanziamenti | 174.783 | 189.512 | (14.729) | (7,8) |

The loans portfolio equal to 174.8 million Euro decreased by 14.7 million Euro, due to the sales made in the financial year, by virtue of that outlined as follows.

The SPBL loans (classified as FVOCI and AMC according to their purposes) decreased by approx. 4.7 million Euro as a result of the *pro-soluto* transfers made in 2018. From 2019 the *business model* outlined in the new industrial plan provides for a rate of *retention* with gradual growth to reach an ALM (*Asset Liquidity Management*) arrangement better proportioned to the Bank's capital size.

The loans in *run-off,* (classified as AMC) deriving from the old activity of the former Terfinance and the former Credito Salernitano, are composed of a mix of *corporate* and *retail* credit products (e.g. Mortgages, Lease and Personal Loans, etc.). The objective of the management regards the progressive reduction of the residual *stock*.

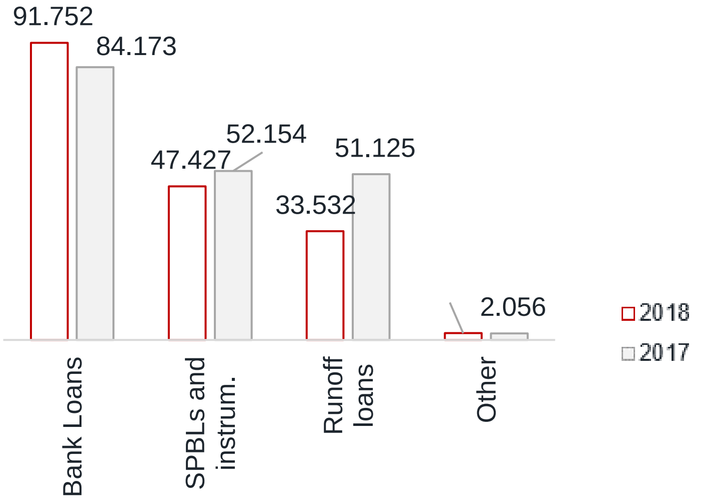
**Composition of the financial portfolio by classification**




During the 2018 financial year a *derisking* was achieved of about 15.7 million Euro, thanks to the combined results of the receipts obtained, from the *pro-soluto* sales of NPLs and the impairments that allowed the alignment of the net weight of the impaired loans at a uniform level compared to the market of reference.

The measures on gross value (receipts, sales and derecognition) had a significant impact also on the gross weight of the impaired portfolio on the books, shown on the relative table below on credit quality.

**Composition of the loans portfolio by nature**

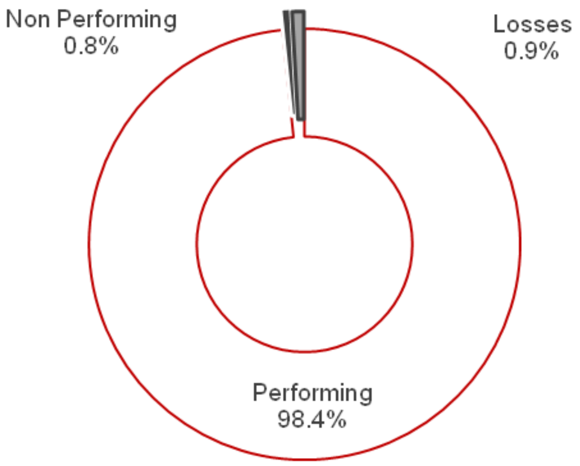


| Credit quality | Gross exposure | Total impairment | Net exposure | %gross weight | %net weight | Hedge % |
|---|---|---|---|---|---|---|
| Unimpaired | 162,627 | (1,450) | 161,177 | 87.4 | 92.2 | 0.9 |
| Impaired | 23,505 | (9,899) | 13,606 | 12.6 | 7.8 | 42.1 |
| *- Past due impaired exposures* | *5,392* | *(2,102)* | 3,290 | 2.9 | 1.9 | 39.0 |
| *- Probable default* | *13,747* | *(4,762)* | 8,985 | 7.4 | 5.1 | 34.6 |
| *-Non-performing* | *4,366* | *(3,035)* | 1,331 | 2.3 | 0.8 | 69.5 |
| **Total 2018** | **186,132** | **(11,349)** | **174,783** | **100.0** | **100.0** | **43.0** |
| Unimpaired | 169,763 | (504) | 169,259 | 81.6 | 89.3 | 0.3 |
| Impaired | 38,263 | (18,014) | 20,249 | 18.4 | 10.7 | 47.1 |
| *- Past due impaired exposures* | *5,907* | *(572)* | 5,335 | 2.8 | 2.8 | 9.7 |
| *- Probable default* | *16,008* | *(4,484)* | 11,524 | 7.7 | 6.1 | 28.0 |
| *-Non-performing* | *16,348* | *(12,958)* | 3,390 | 7.9 | 1.8 | 79.3 |
| **Total 2017** | **208,026** | **(18,518)** | **189,508** | **100.0** | **100.0** | **47.4** |

For further clarification regarding the movement trends of the SPBL portfolio and in run-off, see that shown in the present report in section “C - Significant events that have characterised operations”

## *Securities portfolio*

It should also be noted that the Bank, beyond that shown in its books, develops an important management activity of expired SPBL loans, on behalf of the buyers’ banks / securitisation vehicles, that at the moment are an integral part of the *business model* adopted, namely “*Generate to Distribute*”.




For clarity of information, in the table that follows, we report the summary data relative within the SPBL portfolio managed by the Bank, that, on the 31/12/2018, amounts to a total of 437 million Euro, for a number of active contracts of approx. 26 thousand units.

It has to be considered that the incidence of deterioration of the SPBL product is residual, considering also the amounts subject to insurance claims for which the percentage of recovery is close to 100%, even with time latencies due to the complexity of the operations.

-

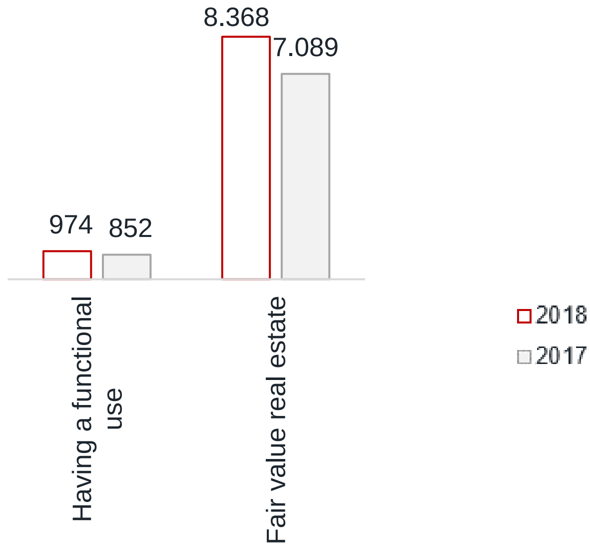
### *Fixed assets*

| | 31/12/2018 | 31/12/2017 | Change | %change |
|---|---|---|---|---|
| Tangible assets | 9,342 | 7,941 | 1,401 | 17.6 |
| Intangible assets | 2,529 | 2,067 | 462 | 22.4 |

Tangible fixed assets are substantially attributable to properties at fair value, repossessed with the objective of divestment in the shortest time possible. The increase of 1.4 million is characteristic of the combined result of the divestment of the property component of a lease contract resolved in February 2018, for 2.3 million Euro, already valuated through lease, at the net of prudential impairments made on the total value of the non-leased properties for 1 million Euro.

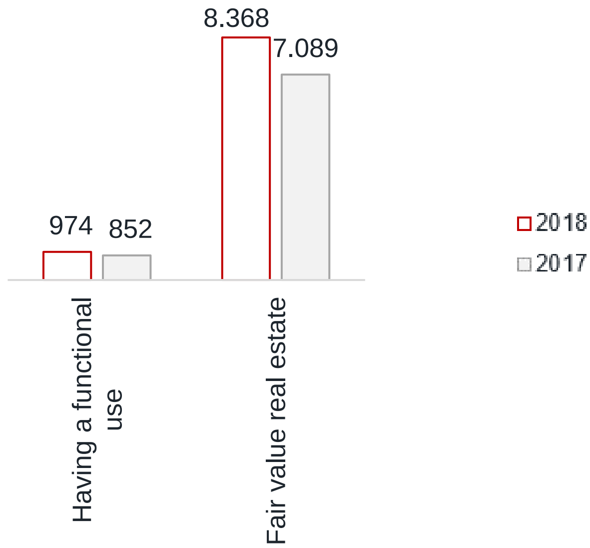
It should further be noted that the book value of these assets is supported by appraisals made annually by independent leading companies and that the relative valuations made at ready value are further reduced for the financial effect due to the non-immediate time periods of the transfers.

**Composition of the tangible assets by nature**




The intangible fixed assets, on the other hand, present a less significant change, deriving from the investments made in *software* instruments in banking activity.

**Composition of the intangible assets by nature**



### *Financial liabilities*

The financial liabilities are all classified as AMC (or, at amortised cost).

For further clarifications on the same see that outlined in the present report in section “C - Significant events that characterised operations”

### *Provisions*

| | 31/12/2018 | 31/12/2017 | Change | %change |
|---|---|---|---|---|
| Severance indemnity | (1,137) | (1,130) | (7) | 0.6 |
| Risks and expenses | (2,621) | (1,513) | (1,108) | 73.2 |

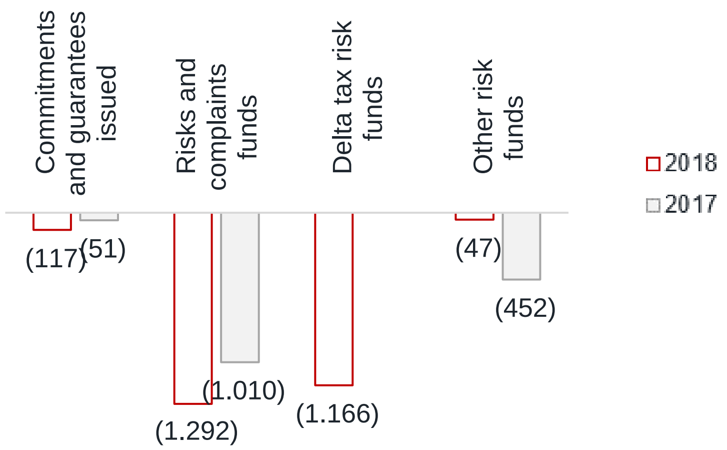
The provisions for risks and expenses are raised by 73.3%; this change was substantially characterised:

- by the integration of the provision destined for claims on *retail* products, for a net change of 0.3 million Euro;

- by the constitution of a hedging provision of the possible rate differential on SPBL loans sold, to move back to buyers in case of early repayments of the same financing, for 1.2 million Euro;

- by the liberation of the supplementary customer indemnity, for 0.4 million Euro, following the external legal evidence obtained by the Bank, relative to the non-applicability of the regulation to the particular contractual case currently underway with the network.

**Composition of the tangible assets by nature**



### *Tax positions*

| | 31/12/2018 | 31/12/2017 | Change | % change |
|---|---|---|---|---|
| Tax assets | 7,121 | 7,184 | (63) | (0.9) |
| Tax liabilities | (958) | - | (958) | 100.0 |

The current tax assets are reduced by 80% following the use of the tax credits deriving from the transformation of the DTA Law 214/2011.

The current tax liabilities exhibit the recognition of the IRAP (Italian regional tax on productive activity) debt for the current taxes.

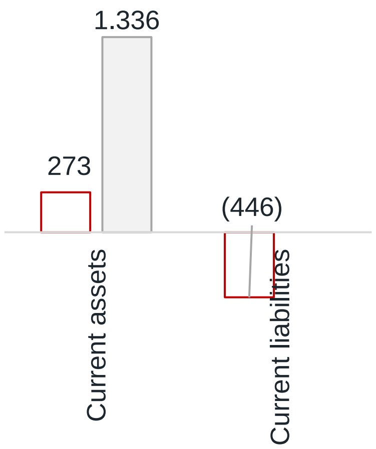
The deferred tax assets, on the other hand, have been subject to;

- the significant influence for the introduction of IFRS 9, for which is observed:
  - an asset value of approx. 2.3 million in the context of first application of the new principle;
  - a liability value of approx. 0.5 million, deriving from the revaluations effectuated on the SPBL portfolio valuated at capital fair value;

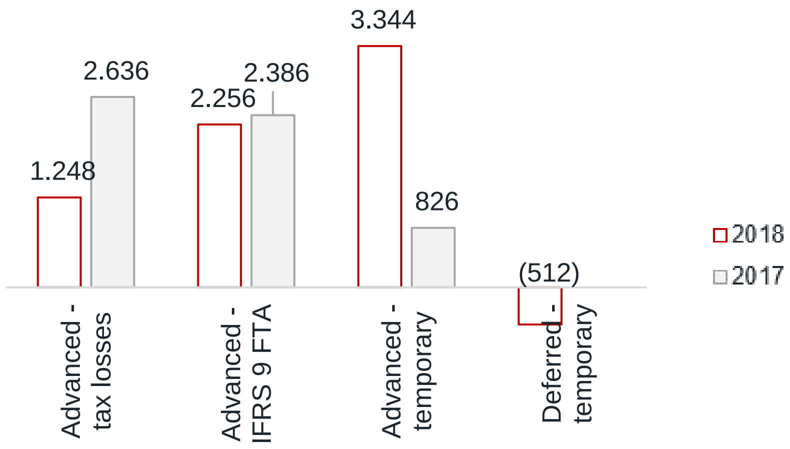
- the use of the tax losses for approx. 1.4 million Euro;

- the recognition of the temporary differences of assets for approx. 1.3 million Euro.

**Composition of the current fiscal assets and liabilities by nature**




**Composition of the expected and deferred taxes by nature**



***Other assets and liabilities***

| | 31/12/2018 | 31/12/2017 | Change | %change |
|---|---|---|---|---|
| Other assets | 8,602 | 8,640 | (38) | (0.4) |
| Other liabilities | (28,202) | (24,257) | (3,945) | 16.3 |

The other assets, that are substantially in line with the preceding financial year, are principally composed of:

- advances to agents and suppliers, down by 33.9%, due to a policy of greater protection of such items, with specific regard to the timings of the amounts accrued;

- sundry receivables, comprising accounts of various natures due for collection; the main item, which determines the increase with regard to the previous year, is related to insurance receivables, consisting in reimbursements of unused premiums by way of early repayments of SPBL contracts generated by ViViBanca;

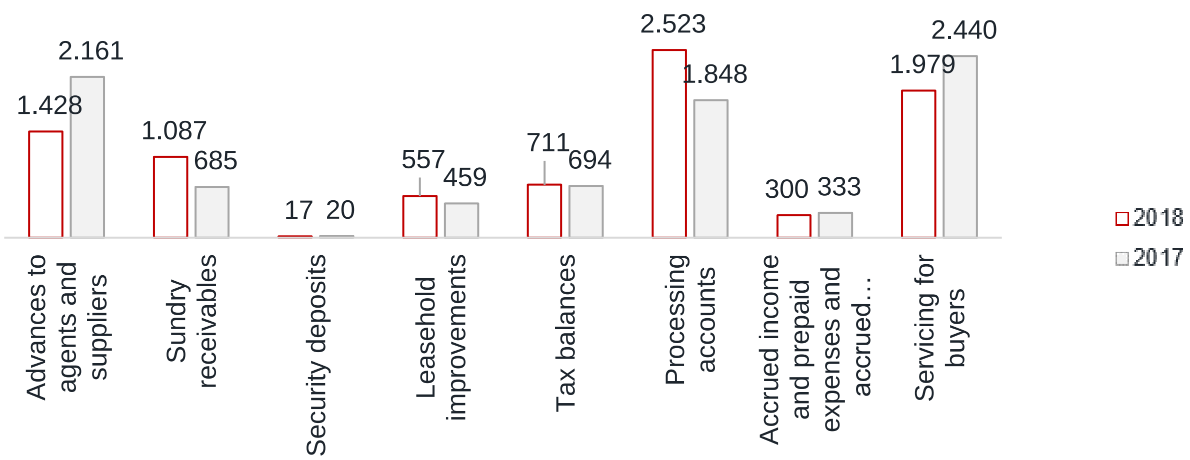
- improvements on third party goods, regarding the completion of work carried out at the Turin registered office;

- tax balances, in line with the preceding financial year, we refer to the expected taxes of the clients, such as for example the stamp duty in the contracts;

- processing accounts, these are related to receipt and payment operations (SEPA transfers, customer debits) of a banking nature, that present an elevated rate of movement trend and are generally closed in the first months of the next year;

- *servicing* for buyers, regarding receipts anticipated by the buyers on SPBL loans (pro solvendo), a decrease of 18.9%, due to a settlement with a buyer of residual dealings.

**Composition of the other assets by nature**




Other liabilities, equal to 28.2 million Euro, increased by 16.3%, are mainly composed of:

- different payables, that mainly comprise suppliers and agents, influenced by greater volumes of disbursements of the SPBL product, with consequent increase in the commissions matured at the end of the year;

- payables to personnel, reported as year end compensation which increased due to the effect of the verification of bonuses to liquidate for personnel during 2019, but which accrued in 2018;

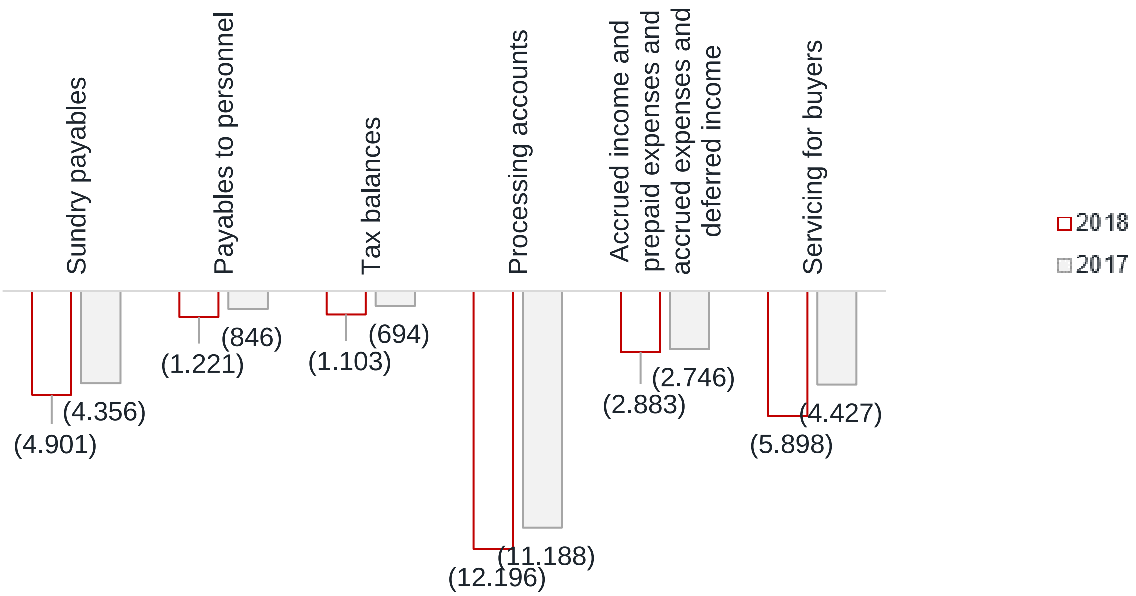
- tax balances, increasing compared to the previous financial year, are the counterparty for the treasury of the recognised components in other assets, for example stamp duties;

- processing accounts have a temporary nature and are substantially constituted by receipts and payments (such as SEPA transfers, customer debits, operational items associated with the CQ product) with elevated rotation; the increase compared to the previous financial year was determined by the growth of the intermediate volumes in the last part of the year;

- accrued expenses and deferred income: these are mainly composed of deferred revenue associated with early repayments regarding SPBLs sold;

- *servicing* for buyers for receipts to return for the management of assets on loans sold; the increase compared to 2018 is in line with the progress of the volumes.

**Composition of the other liabilities by nature**



***Shareholders' equity***

| | 31/12/2018 | 31/12/2017 | Change | % change |
|---|---|---|---|---|
| Share capital | 31,398 | 31,398 | - | - |
| Reserves | (5,691) | (265) | (5,426) | 100.0 |
| Valuation reserves | 1,286 | (98) | 1,384 | (1,412.2) |
| Profit (loss) | 2,517 | 1,008 | 1,509 | 149.7 |
| **Shareholders' equity** | **29,510** | **32,043** | **(2,533)** | **(7.9)** |

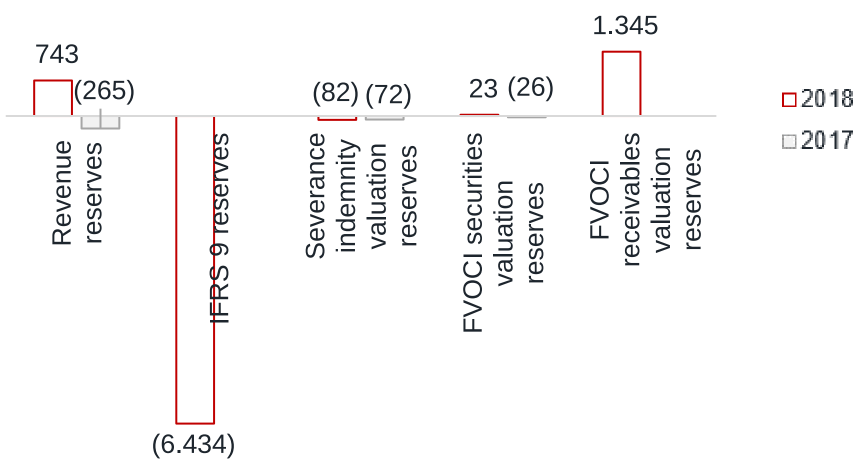
The shareholder's equity, in decline by 7.9%, is characterised:

- by the introduction of the negative reserve, at the net of tax receivables, relative to the *First Time Adoption* of the new IFRS 9 accounting principle, which is referred to in great detail in the "Explanatory Notes - Section 4 - Other information".

- by the destination of the resulting financial year 2017, equal to 1 million Euro, respectively to legal reserve and to retained profits reserve again, in compliance with the shareholders' meeting resolution;

- by the change in the valuation reserves, among which are noted by significance that related to SPBL loans valuated at *fair value*, in portfolio on 31 December 2018: the relative estimates are detailed in the "Explanatory Notes – A.4 – Information on fair value".

**Composition on the reserves by nature**



## *D.2 – Reclassified Income Statement (€/000)*

| Items | 31/12/2018 | 31/12/2017 | Change | % change |
|---|---|---|---|---|
| Net interest income | 2,817 | 2,767 | 50 | 1.8 |
| Net commissions | (1,345) | 316 | (1,661) | (526.4) |
| Profit (loss) from sales/repurchases | 20,243 | 16,281 | 3,962 | 24.3 |
| Other changes | (122) | (6) | (116) | 1,988.5 |
| **Intermediation margin** | **21,593** | **19,358** | **2,235** | **11.5** |
| Net impairments/reversals of net value for credit risk | (173) | (5,036) | 4,864 | (96.6) |
| **Net result of financial management** | **21,420** | **14,322** | **7,098** | **49.6** |
| Personnel expenses | (6,783) | (6,050) | (733) | 12.1 |
| Other administrative expenses | (6,892) | (6,406) | (486) | 7.6 |
| Net allocations to provisions for risks and charges | (1,574) | (598) | (977) | 163.4 |
| Net value adjustments/ re-instatements on fixed | (572) | (403) | (168) | 41.8 |
| Other management income/expenses | (471) | 182 | (653) | (358.8) |
| **Operating costs** | **(16,293)** | **(13,275)** | **(3,018)** | **22.7** |
| Net result of the fair value valuation of tangible and intangible assets | (1,072) | - | (1,072) | 100.0 |
| **Gross profit (loss)** | **4,056** | **1,047** | **3,009** | **287.3** |
| Taxes | (1,539) | (39) | (1,499) | 3,810.8 |
| **Net profit (loss)** | **2,517** | **1,008** | **1,509** | **149.8** |

### *Intermediation margin*

The intermediation margin was recorded at 21.6 million Euro, increasing by 11.5% compared with the previous financial year, composed thus:

*Net interest income*

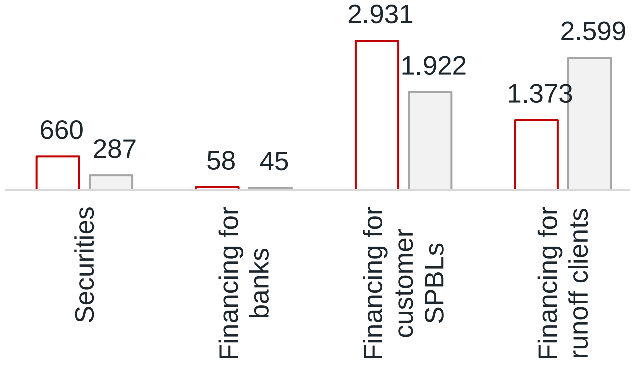
| | 31/12/2018 | 31/12/2017 | Change | % change |
|---|---|---|---|---|
| Interest income and similar income | 5,022 | 4,853 | 169 | 3.5 |
| Interest expenses and similar expenses | (2,205) | (2,086) | (120) | 5.7 |
| **Net interest income** | **2,817** | **2,767** | **50** | **1.8** |

-

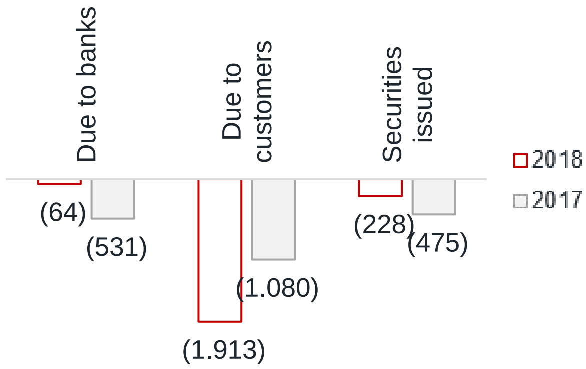
The light increase in the interest margins is the fruit of the combined results of:

- minor interest income on loans in *run off* by the effect of the policy of *de-risking;*
- major interest income for the maintenance of the SPBL loans on the books for a period that is on average longer;
- interest expenses substantially in line, despite average debt being higher, compensated by a decrease in the cost of *funding*.

**Composition of interest income**




**Composition of interest expenses**




*Net commissions*

| | 31/12/2018 | 31/12/2017 | Change | %change |
|---|---|---|---|---|
| Fee and commission income | 6,718 | 6,025 | 692 | 11.5 |
| Fee and commission expenses | (8,063) | (5,710) | (2,353) | 41.2 |
| **Net commissions** | **(1,345)** | **316** | **(1,661)** | **(526.4)** |

The commission income, equal to 6.7 million Euro, is increased by 11.5% and principally refer to:

- investigation fees related to greater product volumes;

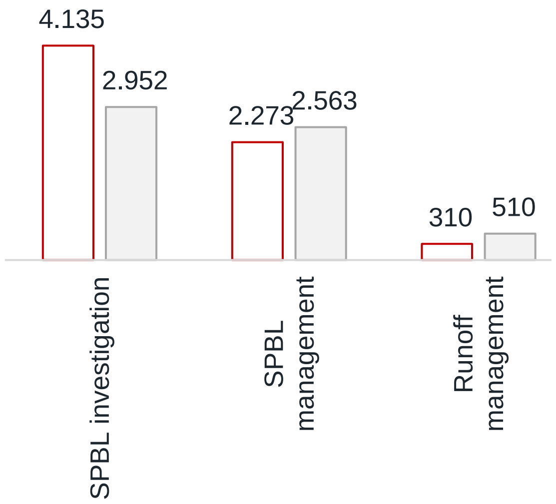
- management fees, which are substantially constant, related to the phenomenon of early repayments of the SPBL product managed.

Commission expenses, equal to 8.1 million Euro, increased by 41.2% and mainly refer:

- to the increase of charges related to the distribution network, both for volume effect, and for the application of the new regulation on the SPBL product (Deliberation of Banca d'Italia 145/2018), that outlines a reduction of the commercial charges turned over to clients in case of renewal; in a market that is particularly competitive, ViViBanca has had to take a partial burden of the minor income of the distribution network, in exchange however for the total fixing of a series of qualitative objectives, geared towards improving the relationship between agent and client, with a view to creating loyalty;

- to the management fees, relating to the early repayments, that are substantially in line with the previous year.

**Composition of commission income**




**Composition of commission expenses**

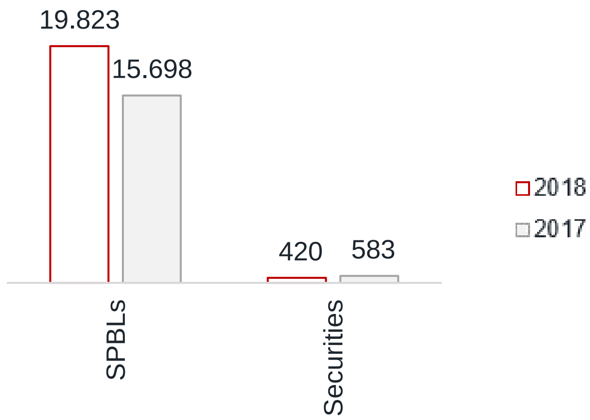

*Profit (loss) from sales or repurchases*

| | 31/12/2018 | 31/12/2017 | Change | % change |
|---|---|---|---|---|
| Profit (loss) from sales or repurchases | 20,243 | 16,281 | 3,962 | 24.3 |

The sale profits, equal to 20.2 million euro, are determined:

- by income originating from pro-soluto divestment of SPBL loans (detailed in the present report in section "C - Significant events of the period").
- by income originating from divestment of state securities with a view to optimising the ALM (*Asset Liquidity Management*)

**Composition of profit (loss) from sales/repurchases**



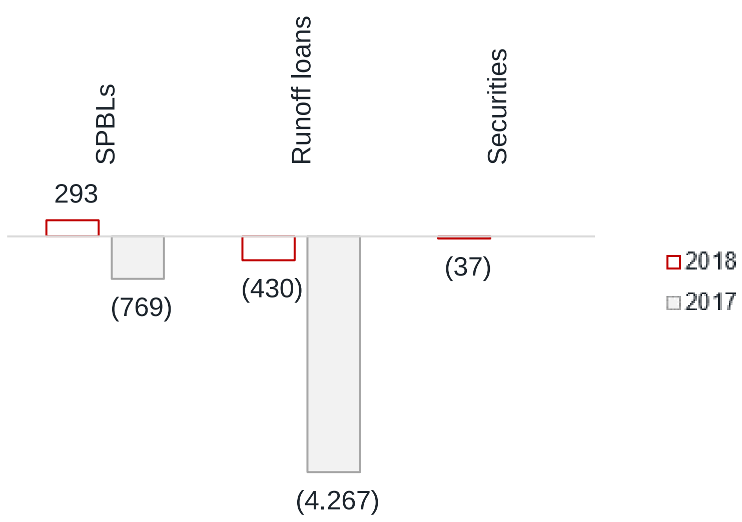
### *Value adjustments*

| | 31/12/2018 | 31/12/2017 | Change | % change |
|---|---|---|---|---|
| Net impairments/reversals of net value for credit risk | (173) | (5,036) | 4,864 | (96.6) |

The adoption of the new IFRS 9 accounting principle that led to the recognition of value adjustments directly to shareholders' equity in the context of FTA (*First Time Adoption*) as a consequence significantly reduced the necessity of further provisions on the income statement in the current financial year.

This phenomenon was further accentuated by the *business model* chosen by the Bank, that saw the development of the SPBL *core business*, and the concurrent *run off* of the traditional credit.

**Composition of value adjustments**

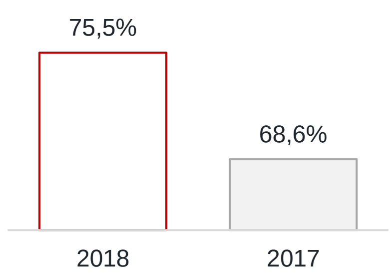



### *Operating costs*

| | 31/12/2018 | 31/12/2017 | Change | % change |
|---|---|---|---|---|
| Personnel expenses | (6,783) | (6,050) | (733) | 12.1 |
| Other administrative expenses | (6,892) | (6,406) | (486) | 7.6 |
| Net allocations to provisions for risks and charges | (1,574) | (598) | (977) | 163.4 |
| Net value adjustments/ re-instatements on fixed assets | (572) | (403) | (168) | 41.8 |
| Other management income/expenses | (471) | 182 | (653) | (358.8) |
| **Operating costs** | **(16,293)** | **(13,275)** | **(3,018)** | **22.7** |

The operating costs, equalling 16.3 million Euro, increased by 3 million Euro, and influenced the *cost/income*, that due to phenomena described hereunder, both regarding the recurring expenses (personnel expenses) and the extraordinary ones (risk funds and *ageing* rationalisations).

Speaking of the first whole year of banking activity, the change reported was physiological. Nevertheless, the commitment of the Bank for the future is focused on an effective control of costs, in addition to the necessary development of the revenue, with the objective to bring the index into levels in line with market *best practice*.

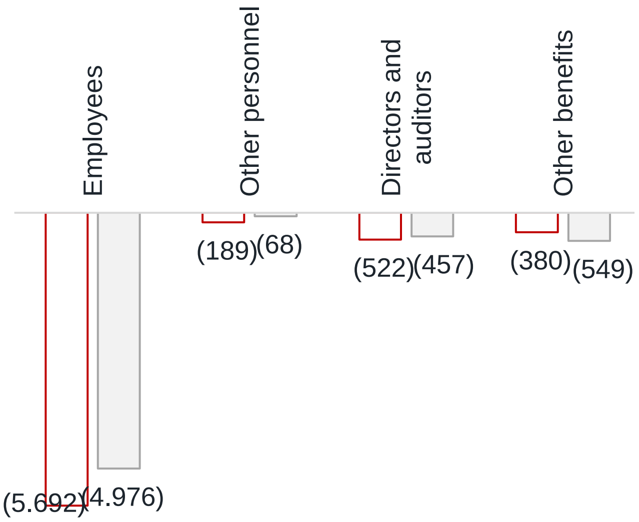



Hereunder are delineated the items that determined such costs.

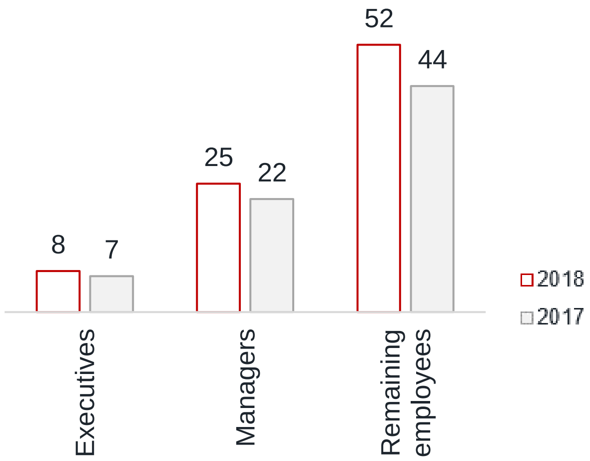
*Personnel expenses*

The aggregate in growth from 12.1% due to a greater organic average (from 73 units in 2017 to 88 in 2018), due to the need for greater protection of banking activity, especially in the area of control.

**Composition of personnel expenses**



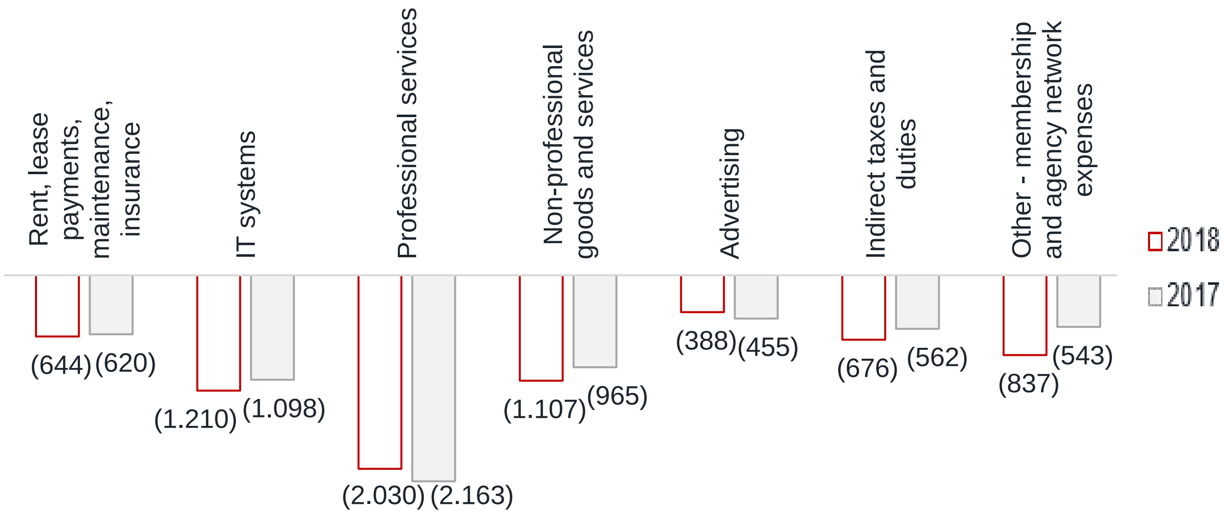

**Annual average number of employees**




*Administrative expenses*

The aggregate, increasing by 7.7% is influenced by greater interventions relative to the regulatory adjustments requested by the inspection system of banking activity, which is ever-more incisive and precise, as well as the management of IT systems.

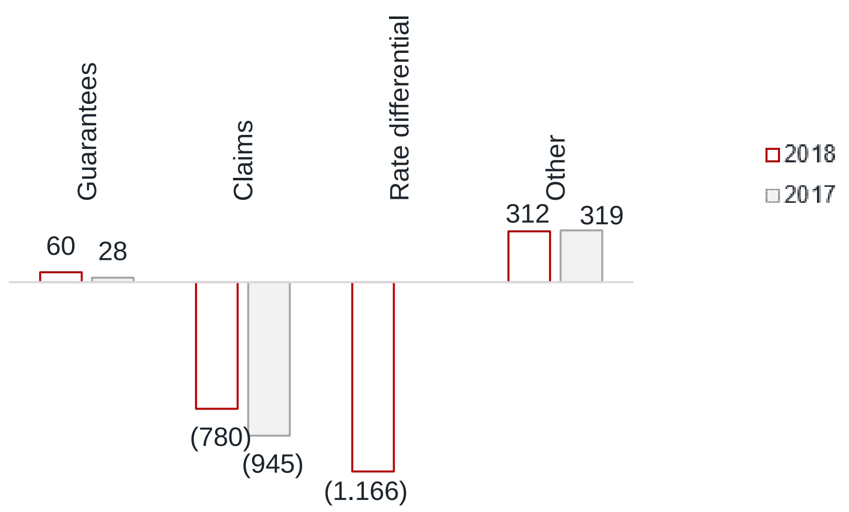
**Composition of administrative expenses**



*Provisions to risk funds and charges*

The item is in increase for non-recurring components, in particular attributable to rate differential on early repayment counts, as already indicated in the relative paragraph dedicated to the risk funds.

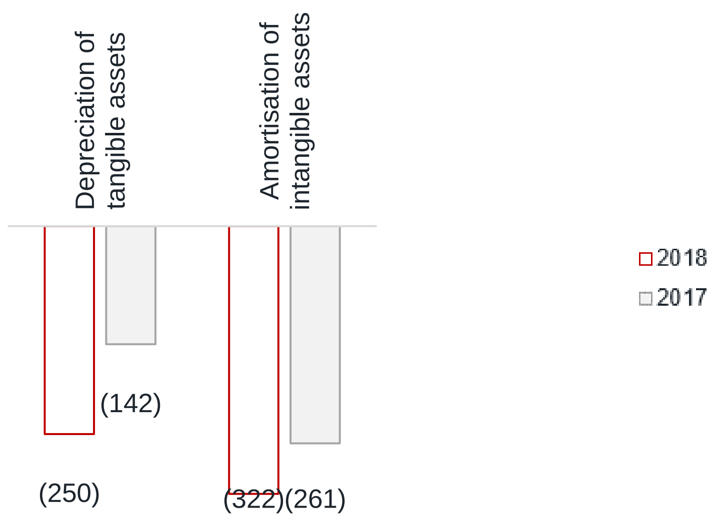
**Composition of net provisions**




*Net value adjustments/ re-instatements on fixed assets*

The changes are substantially attributable to the investments in software sustained during 2018.

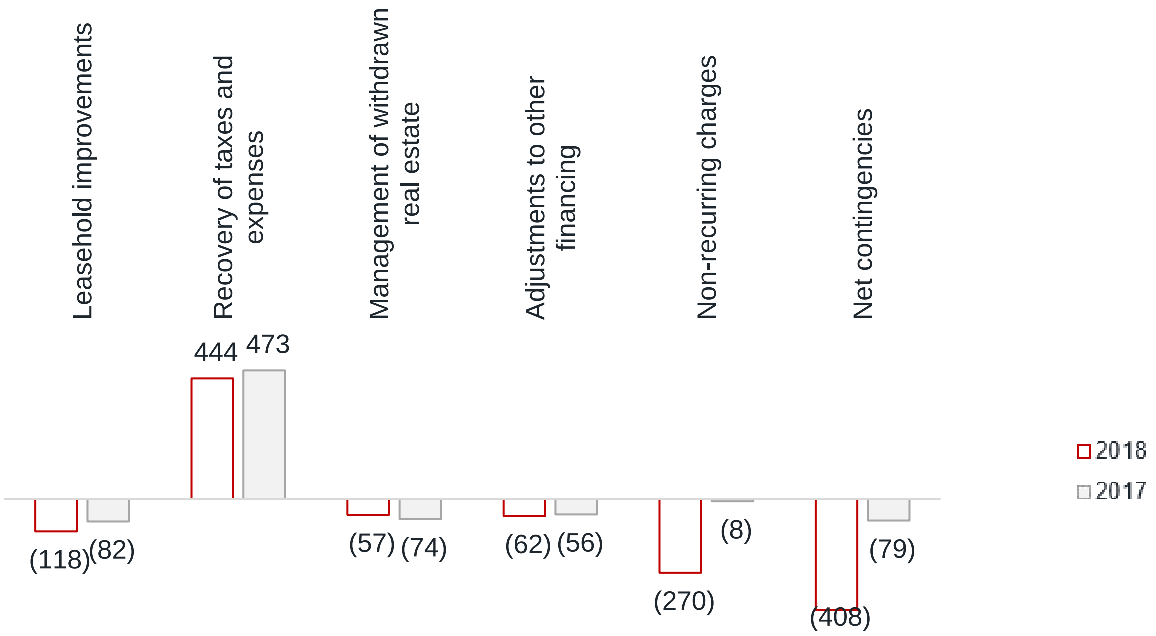
**Composition of net value adjustments on fixed assets**



*Other management income and expenses*

Residual item that includes inherent changes principally at costs and revenue not attributable to its own activity; the negative balance of such item is due to measures geared towards the rationalisation of the activities in the function of the *ageing* of the positions and to extraordinary measures (retroactive adoption of new methodologies of early repayment count on SPBL products and divestment of investments in the secondary branch of Salerno).

**Composition of other income and charges**




***Other income statement items***

| | 31/12/2018 | 31/12/2017 | Change | % change |
|---|---|---|---|---|
| Net result of the fair value valuation of tangible and intangible assets | (1,072) | - | (1,072) | 100.0 |

Over the course of 2018 impairments were recognised in properties, previously under Lease and subsequently repossessed, for the purpose of keeping the relative *fair value* adjustments under consideration. For more detail see the section dedicated to the item “Fixed assets” in the present Report.

***Profit (loss) for the period***

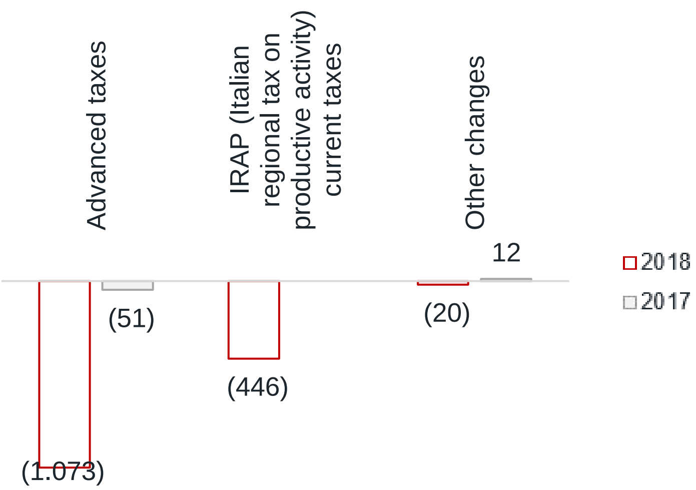
| | 31/12/2018 | 31/12/2017 | Change | % change |
|---|---|---|---|---|
| **Gross profit (loss)** | **4,056** | **1,047** | **3,009** | **287.3** |
| Taxes | (1,539) | (39) | (1,499) | 3,810.8 |
| **Net profit (loss)** | **2,517** | **1,008** | **1,509** | **149.8** |

With reference to the profit (loss) for the period two fundamental aspects are highlighted:

- a result before taxes equal to approx. four times that of 2017, reflecting the positive outcome of the strategic choices which were taken and the efficacy of their execution;

- a net result, in strong improvement compared to the previous financial year, even after the fiscal impact deriving from the arrangements issuing from the last law of the State on financial statements, with particular focus on the deferred deductibility of the taxes on the provisions deriving from the adoption of IFRS 9.

**Composition of taxes by nature**



### *E - Treasury shares*

The Bank does not hold treasury shares (and shares in its parent companies), either through trust companies or through a third party.

### *F - Relations with companies of the group*

The Bank does not have a configuration of "group" and does not present companies subjected to noteworthy influence.

### *G - Research and development activities*

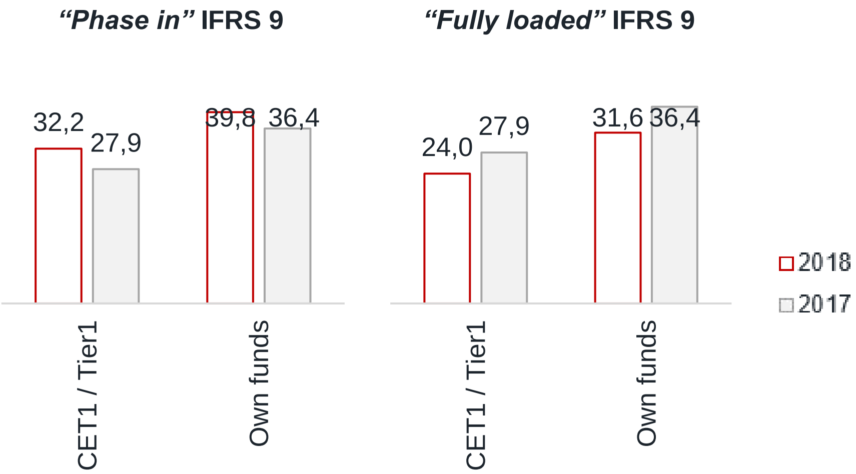
The Bank has not developed research and development activities over the course of the financial year.

## *H – IT on risks and related hedging policies*

The Bank, through the Risk Management unit, consistently monitors the principal risk indicators through suitable monitoring instruments such as the *Risk Appetite Framework (RAF)*. Hereunder are summarised the main descriptions.

### *Capital stability*

The effects of the new IFRS 9 accounting principle are expressed in the reported graphs, both through the effective values applied through the transitional regime being allowed by the European Parliament ("*phase in*") adopted by ViViBanca through the use of the static approach, and in full measure ("*fully loaded*") for informational value.




On the whole the CET1 benefits from the positive result of the financial year and the consequent reabsorption of the expected taxes regarding the tax losses that can be carried forward (those which are calculated to the detriment of the aggregate).

The Own Funds, other than taking into account the effects of the capital on the first level, mark down, further, the amortisation anticipated for the subordinated securities.

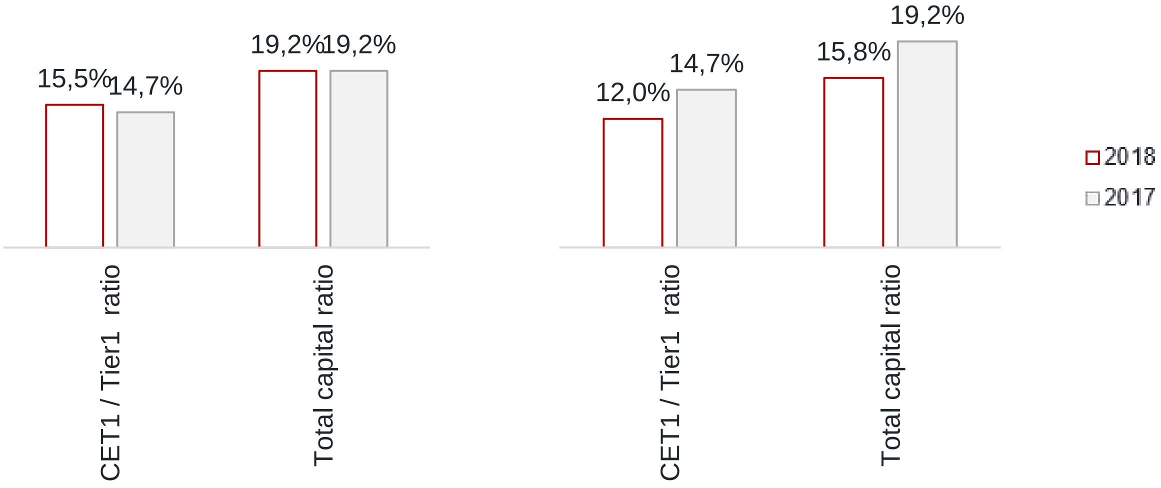
### *Credit and operational risks*

The total RWA, equal to 206 million, are in increase, compared to the preceding financial year, of approx. 16 million through the greater ABS securities portfolio (Eridano and Eridano II).

That notwithstanding, the total values, as denoted by the reported graphs (both in "*phase in"* and in "*fully loaded"*) are congruous compared to the market of reference and to the new *SREP* conditions indicated by the Supervision, that will have validity after the receipt of the provision received on 5 April 2019:

- *CET1 Ratio*: 10.00% previous, 6.89 % new;
- *TIER1 Ratio*: 11.70% previous, 9.20% new;
- *Total Capital Ratio*: 15.60% previous, 12.27% new.

***"Phase in"* IFRS 9** | ***"Fully loaded"* IFRS 9**




***Liquidity risks***

The process of liquidity risk management, in compliance with the *general framework* of management of aforementioned risks, is expressed in the following phases:

1. identification of the risk and the sources generating the risk;

2. risk monitoring, that can be subdivided into management and monitoring deriving from the daily operativity, management and monitoring of the liquidity risks of short and medium term;

3. valuation of the liquidity risk: the indicators can be summed up as follows:
   - *Liquidity Coverage Ratio (LCR);*
   - *Net Stable Funding Ratio (NSFR);*
   - relationship between Direct funding and lending to customers;
   - index of funding concentration;
   - treasury balance (daily *statement*);
   - accumulated index of global liquidity (weekly monitoring of liquidity);
   - liquidity financial plan (*LFP*);
   - differential between the 3M OIS rate and the 3M Euribor rate.

4. mitigation: such principal factors of risk protection deserving mention are the operative limits and the planning and diversifying of the financing sources, in addition to the reserves of liquidity.

The Emergency Plan (or *Contingency funding and Recovery plan*) constitutes an integral part of the regulatory *framework* of the Bank in terms of joint liquidity risk, among others, the "Finance Regulation".

In terms of the bodies involved from the *Contingency funding and Recovery plan* (so-called "Crisis Unit") we must specify that the head of the Finance Function (or the other components of the Financial Risks Committee) if they are relevant to the states of alert defined, involve the bodies outlined by the *CFRP*, namely: the Director of Administration and Finance and the Head of *Risk Management*, Compliance, Planning and Inspection Functions.

***Interest rate risks***

To manage the bank's financial structure, indicators are used that take into account a balancing of interest-bearing assets and interest-bearing liabilities. Regulatory indicators also fall within this context, as do any other indexes used within the context of liquidity risk management and governance process.

ViViBanca thus guarantees its cash flows in an integrated manner, through measurement and control methods that are summarised in detailed reports that are primarily targeted to the following subject areas:

- *maturity ladders*, identifying the sensitivity of the bank's asset liability management to any changes in the interest rate curve;
- *loan to deposit*, i.e., the ratio of customer lending to direct funding, as a general indicator of financial equilibrium;
- financial leverage, defined as the ratio of liabilities to assets (not risk weighted);
- financial *reporting* on expected cash flows/liquidity flows;
- *Counterbalancing capacity* and net balance of the total liquidity.

The most important indicators are integrated into the so-called *Risk Appetite Framework* or *RAF*, i.e., the framework of reference that defines – in compliance with the maximum assumable risk, the *business model*, and the strategic plan – risk appetite, tolerance thresholds, risk limits, risk management policies, and the key processes needed to define and implement them.

The *RAF* is periodically reviewed (normally at the time of approval of the annual *budget*), with a view to ensuring that it remains consistent with the bank's strategy, as well as following any significant changes in the internal context of reference (e.g., significant deviation from objectives), the external context of reference (e.g., emerging financial or regulatory risks), the *business* model, the scale of operations, or funding capacity.

The Finance Management verifies the coherence of the risks assumed with the picture defined in the *RAF*, as the main party responsible for the effective management of risks. In this context, the actions for mitigating the risks are assured being carried out in a correct and timely manner, in coordination with the *Risk Management* department. Further, the inherent evidence on assumed risks are correlated, in order to address the strategies and analyses of risk profiles.

With a view to the internal coordination of financial risks, the Financial Committee provides a consultation and proposal role, supporting guidance, monitoring, and governance of the risks in question, and coordination between areas of operation.

The Committee offers proposals and consultation to top management, which governs the committee itself and summarises the *risk management* process (avoid/reduce/share/transfer/accept risk). For its areas of responsibility, and where established limits are exceeded, it supports the Board of Directors and top management in evaluating the most appropriate measures for restoring previous levels.

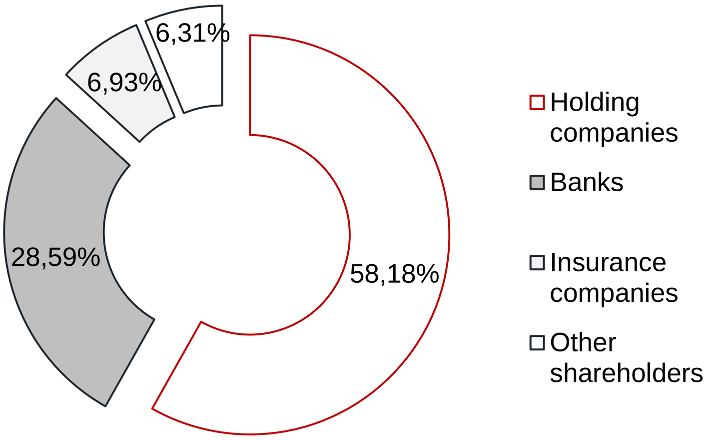
## I - Events after financial year end

### Share capital increase

ViViBanca, in the execution of the deliberation assumed by the extraordinary meeting of shareholders of 4 February 2019, approved the increase of the social capital payment, for nominals of 2.4 million Euro, as well as the additional charge of 1.6 million Euro, for a number of 2,415,211 new common shares with nominal value of 1.00 each, having the same characteristics of those already in circulation, at the price of 1.65 Euro each.

The operation was concluded in the month of February with the underwriting of the entire issue.

The new shareholding structure is shown below:




| Shareholder | % Stake | No. of Shares |
|---|---|---|
| Vega Management SpA* | 26.10% | 8,825,585 |
| Finandrea SpA* | 16.87% | 5,705,524 |
| Compagnie Financiere de Saint Exupery SA – SICAV* | 15.20% | 5,140,871 |
| Banca Popolare di Bari ScpA | 9.90% | 3,349,098 |
| Banca Alpi Marittime Credito Cooperativo di Carrù ScpA | 9.90% | 3,347,483 |
| Banca Valsabbina ScpA | 8.78% | 2,970,063 |
| Gruppo Net Insurance SpA | 6.93% | 2,342,415 |
| Other shareholders | 6.31% | 2,131,923 |
| **Total** | | **33,812,962** |

### Raisin Project

In the second half of 2018, contacts with the intra-European recovery platform were initiated, managed by Raisin (German operator), that after the obtainment of the specific authorisations of the competent bodies, saw the launch of operations in the month of February 2019.

They will allow ViViBanca to diversify their own sources of recovery and at the same time reduce the cost, compared with that of the Italian market.

### *J – Business Outlook*

In the new three-year industrial plan, ViViBanca provides for the 2019 development of commercial activity superior to that of the market, with a subsequent increase in the relative quota.

This objective will be pursued by further strengthening the company network and the banking channel as well as through the launch, in particular, of the direct channel in a significant manner.

Over the course of the financial year the activity of securitisation will be pursued with the vehicle Eridano II, with the objective of obtaining the *rating* on the *Senior* and *Mezzanine* securities.

Simultaneously, the Bank, thanks to greater projected production, presents the objective of increasing the quota of loans deriving from SPBLs kept on the books.

All this should allow a significant improvement of the income results in view of the further creation of value for shareholders.

# FINANCIAL STATEMENT TABLES

## BALANCE SHEET

| | Asset items | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| 10. | Cash and cash equivalents | 129,951 | 68,617 |
| 20. | Financial assets valuated at fair value with impact on income statement | 5,126,659 | 4,050,335 |
| | *c)* other financial assets obligatorily valuated at fair value | 5,126,659 | 4,050,335 |
| 30. | Financial assets valuated at fair value with impact on total profitability | 48,751,225 | 53,799,393 |
| 40. | Financial assets valuated at amortised cost | 261,664,635 | 151,750,738 |
| | *a)* due from banks | 91,752,147 | 84,173,357 |
| | *b)* due from customers | 169,912,489 | 67,577,381 |
| 80. | Tangible assets | 9,342,199 | 7,940,698 |
| 90. | Intangible assets | 2,529,446 | 2,067,428 |
| | of which: | | |
| | - goodwill | 1,235,755 | 1,235,755 |
| 100. | Tax assets | 7,120,975 | 7,184,136 |
| | *a)* current | 272,683 | 1,336,323 |
| | *b)* deferred | 6,848,293 | 5,847,813 |
| 120. | Other assets | 8,602,028 | 8,639,506 |
| | **Total assets** | **343,267,120** | **235,500,851** |

| | Liability and shareholders' equity items | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| 10. | Financial liabilities valuated at amortised cost | 280,839,999 | 176,557,905 |
| | *a)* due to bank | 96,854,696 | 56,595,008 |
| | *b)* due to customers | 170,860,776 | 104,191,497 |
| | *c)* securities issued | 13,124,527 | 15,771,400 |
| 60. | Tax liabilities | 958,023 | - |
| | *a)* current | 446,076 | |
| | *b)* deferred | 511,947 | - |
| 80. | Other liabilities | 28,201,878 | 24,257,219 |
| 90. | Employee severance indemnities | 1,136,831 | 1,130,467 |
| 100. | Provisions for risks and charges | 2,621,324 | 1,512,943 |
| | *a)* commitments and guarantees issued | 116,812 | 51,069 |
| | *c)* other provisions for risks and charges | 2,504,512 | 1,461,874 |
| 110. | Valuation reserves | 1,285,527 | (98,496) |
| 140. | Reserves | (5,691,054) | (264,865) |
| 160. | Share capital | 31,397,751 | 31,397,751 |
| 180. | Profit (loss) for the period (+/-) | 2,516,841 | 1,007,927 |
| | **Total liability and shareholders' equity** | **343,267,120** | **235,500,851** |

## INCOME STATEMENT

| | Items | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| 10. | Interest income and similar income | 5,022,340 | 4,852,846 |
| 20. | Interest expenses and similar expenses | (2,205,154) | (2,085,504) |
| **30.** | **Net interest income** | **2,817,186** | **2,767,342** |
| 40. | Fee and commission income | 6,717,514 | 6,025,301 |
| 50. | Fee and commission expenses | (8,062,716) | (5,709,797) |
| **60.** | **Net commissions** | **(1,345,202)** | **315,504** |
| 70. | Dividends and similar income | 5,196 | 344 |
| 80. | Net result of trading activities | (124) | (126) |
| 100. | Profit (loss) from sales or repurchases of: | 20,243,328 | 16,281,316 |
| | *a)* financial assets valuated at amortised cost | 125,980 | (19,276) |
| | *b)* financial assets valuated at fair value with impact on total profitability | 20,117,348 | 16,300,592 |
| 110. | Net result of financial assets and liabilities valuated at fair value with impact on income statement | (127,496) | (5,856) |
| | *b)* other financial assets which are required to be valuated at fair value | (127,496) | (5,856) |
| **120.** | **Intermediation margin** | **21,592,887** | **19,358,524** |
| 130. | Net impairments/ net value reinstatements for credit risk of: | (172,691) | (5,036,218) |
| | *a)* financial assets valuated at amortised cost | (439,487) | (4,267,091) |
| | *b)* financial assets valuated at fair value with impact on profitability comprehensive | 266,796 | (769,127) |
| **150.** | **Net result of financial management** | **21,420,196** | **14,322,306** |
| 160. | Administrative expenses: | (13,675,556) | (12,456,127) |
| | *a)* personnel expenses | (6,783,251) | (6,050,032) |
| | *b)* other administrative expenses | (6,892,305) | (6,406,095) |
| 170. | Net allocations to provisions for risks and charges | (1,574,432) | (597,650) |
| | *a)* commitments and guarantees issued | 60,025 | 27,945 |
| | *b)* other net provisions | (1,634,457) | (625,595) |
| 180. | Net adjustments/value re-instatements on tangible assets | (249,970) | (141,680) |
| 190. | Net adjustments/value re-instatements on intangible assets | (321,780) | (261,666) |
| 200. | Other management income/expenses | (471,261) | 182,089 |
| **210.** | **Operating costs** | **(16,292,999)** | **(13,275,034)** |
| 230. | Net result of the fair value valuation of tangible and intangible assets | (1,071,632) | |
| **260.** | **Profit (loss) on current operations, gross of taxes** | **4,055,564** | **1,047,272** |
| 270. | Income tax on current operations | (1,538,723) | (39,345) |
| **280.** | **Profit (loss) on current operations, net of taxes** | **2,516,841** | **1,007,927** |
| **300.** | **Profit (loss) for the period** | **2,516,841** | **1,007,927** |

## STATEMENT OF COMPREHENSIVE INCOME

| | Items | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| **10.** | **Profit (loss) for the period** | **2,516,841** | **1,007,927** |
| | **Other income components net of taxes, without reversal to the income statement** | **(9,123)** | **13,662** |
| 70. | Defined benefit plans | (9,123) | 13,662 |
| | **Other income components net of taxes, with reversal to the income statement** | **(263,402)** | **(26,006)** |
| 140. | Financial assets (other than equity securities) valuated at fair value with impact on total profitability | (263,402) | (26,006) |
| **170.** | **Total other income components net of taxes** | **(272,525)** | **(12,344)** |
| **180.** | **Total income (Item 10+170)** | **2,244,316** | **995,583** |

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

### 2018 financial year

| | Figures at 31/12/2017 | Change to starting balances | Figures at 01/01/2018 | Allocation of results from | | Changes in the period | | | | | | Comprehensive income 2018 financial year | Shareholders' equity at 31/12/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Operations on shareholders' equity | | | | | | |
| | | | | Reserves | Dividends and other allocations | Changes in reserves | Issue of new shares | Purchase of treasury shares | Extraordinary distribution of dividends | Change in capital instruments | Other changes | | |
| Share capital:<br>a) common shares<br>b) other shares | 31,397,751 | | 31,397,751 | | | | | | | | | | 31,397,751 |
| Share premium reserve | | | | | | | | | | | | | |
| Reserves:<br>a) profits<br>b) other | (264,865) | (6,434,117) | (6,698,982) | 1,007,927 | | | | | | | | | (5,691,055) |
| Valuation reserves | (98,496) | 1,656,547 | 1,558,052 | | | | | | | | | (272,525) | 1,285,527 |
| Capital instruments | | | | | | | | | | | | | |
| Treasury shares | | | | | | | | | | | | | |
| Profit (loss) for the period | 1,007,927 | | 1,007,927 | (1,007,927) | | | | | | | | 2,516,841 | 2,516,841 |
| **Shareholders' equity** | **32,042,317** | **(4,777,569)** | **27,264,748** | **-** | | | | | | | | **2,244,316** | **29,509,064** |

### 2017 financial year

| | Figures at 31/12/2016 | Change to starting balances | Figures at 01/01/2017 | Allocation of results from | | Changes in the period | | | | | | Comprehensive income 2017 financial year | Shareholders' equity at 31/12/2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Operations on shareholders' equity | | | | | | |
| | | | | Reserves | Dividends and other allocations | Changes in reserves | Issue of new shares | Purchase of treasury shares | Extraordinary distribution of dividends | Change in capital instruments | Other changes | | |
| Share capital:<br>a) common shares<br>b) other shares | 21,276,685 | | 21,276,685 | | | | 1,999,970 | | | | 8,121,096 | | 31,397,751 |
| Share premium reserve | 3,485,893 | | 3,485,893 | | | | | | | | (3,485,893) | | - |
| Reserves:<br>a) profits<br>b) other | 1,965,174 | | 1,965,174 | 1,205,169 | | | | | | | (3,435,208) | | (264,865) |
| Valuation reserves | (46,552) | | (46,552) | | | (39,600) | | | | | | (12,344) | (98,496) |
| Capital instruments | | | | | | | | | | | | | |
| Treasury shares | | | | | | | | | | | | | |
| Profit (loss) for the period | 1,205,169 | | 1,205,169 | (1,205,169) | | | | | | | | 1,007,927 | 1,007,927 |
| **Shareholders' equity** | **27,886,369** | | **27,886,369** | **-** | | **(39,600)** | **1,999,970** | | | | **1,199,995** | **995,583** | **32,042,317** |

## CASH FLOW STATEMENT

### Direct method

| A. OPERATING ACTIVITIES | Amount | |
|---|---|---|
| | 31/12/2018 | 31/12/2017 |
| **1. Management** | **14.522.495** | **9.885.492** |
| - interest income received (+) | 4.873.912 | 3.914.649 |
| - interest expenses paid (-) | (1.191.634) | (1.337.824) |
| - dividends and similar income (+) | 5.196 | 344 |
| - net fees and commissions (+/-) | 1.780.993 | (314.798) |
| - personnel expenses (-) | (6.092.188) | (5.853.339) |
| - other costs (-) | (5.874.450) | (3.839.039) |
| - other revenue (+) | 21.020.665 | 17.315.499 |
| - taxes and duties (-) | | |
| - costs/revenue relative to operational activities ceased at net of the tax effect (+/-) | | |
| **2. Liquidity generated/absorbed by financial assets** | **(114.045.582)** | **(146.720.900)** |
| - financial assets held for trading | | |
| - financial assets designated at fair value | | |
| - other financial assets obligatorily valuated at fair value | (1.203.820) | |
| - financial assets valuated at fair value with impact on total profitability | 5.330.177 | (43.690.320) |
| - financial assets valuated at amortised cost | (117.532.499) | (99.365.018) |
| - other assets | (639.441) | (3.665.562) |
| **3. Liquidity generated/absorbed by financial liabilities** | **101.447.150** | **135.882.106** |
| - financial liabilities valuated at amortised cost | 103.268.574 | 137.928.148 |
| - financial liabilities held for trading | | |
| - financial liabilities designated at fair value | | |
| - other liabilities | (1.821.423) | (2.046.042) |
| **Net liquidity generated/absorbed by operating activities** | **1.924.062** | **(953.302)** |
| **B. INVESTMENT ACTIVITIES** | | |
| **1. Liquidity generated by** | **916** | **-** |
| - sale of investment stakes | | |
| - dividends received on investment stakes | | |
| - sale of tangible assets | 916 | |
| - sale of intangible assets | | |
| - sale of company branches | | |
| **2. Liquidity absorbed by** | **(1.863.520)** | **(980.997)** |
| - purchase of investment stakes | | |
| - purchase of tangible assets | (1.401.501) | (653.954) |
| - purchase of intangible assets | (462.018) | (327.043) |
| - purchase of company branches | | |
| **Net liquidity generated/absorbed by investment activities** | **(1.862.604)** | **(980.997)** |
| **C. FUNDING ACTIVITIES** | | |
| - issue/purchase of treasury shares | | 1.999.970 |
| - issue/purchase of capital instruments | | |
| - distribution of dividends and other purposes | | |
| **Net liquidity generated/absorbed by funding activities** | **-** | **1.999.970** |
| **D=A+/-B+/-C NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD** | **61.459** | **65.671** |

### Reconciliation

| Financial statement items | Amount | |
|---|---|---|
| | 31/12/2018 | 31/12/2017 |
| Cash and liquidity at period start | 68,617 | 3,076 |
| Total net liquidity generated/absorbed during the period | 61,459 | 65,671 |
| Cash and liquidity: effect of exchange rate changes | (124) | (130) |
| **Cash and liquidity at period end** | **129,951** | **68,617** |

# EXPLANATORY NOTES

## Part A – ACCOUNTING POLICIES

### A.1 - GENERAL POLICIES

### Section 1 – Declaration of compliance with International Financial Reporting Standards

On the financial statements, in conformance with Legislative Decree of 28 February 2005 no. 38, and drafted according to the IAS/IFRS accounting principles from the *International Accounting Standards Board* (IASB) and the relative interpretations of the *International Financial Reporting Interpretations Committee* (IFRIC), conforming to the European Commission, as established by the EC Regulation no. 1606 of 19 July 2002, as well as according to the tables and the rules of compilation contained in the Circular of Banca d'Italia No. 262 of 22 December 2005 (5th revision of 22 December 2017).

These financial statements also comply with the IAS/IFRS in force at the reporting date (including the SIC and IFRIC interpretations), as approved by the European Commission.

*New principles and amendments*

The new accounting principles having the greatest significance in relation to the bank's sectors of *business* are outlined below.

**IFRS 16**

The new accounting principle IFRS 16, applicable as of 1st January 2019, introduces significant changes to the recognition of a lessee/user in the financial statements. In particular, the main change consists of removal of the distinction, established under IAS 17, between operating leases and financial leases: all lease agreements must be recognised as financial leases. For lessees/users - profitability and final *cash flows* being equal - this will tend to lead to an increase in the assets recognised on the balance sheet (*assets* under lease), an increase in liabilities (the payable related to the leased *assets*), a reduction in operating costs (lease payments), and an increase in financial costs (for the repayment and remuneration of the payable that was recognised).
In terms of *disclosure*, the minimum information required for lessees includes, among other things:
- the subdivision of the different categories of assets under the lease;
- an analysis, by maturity, of the liabilities related to the lease agreements;
- all the information that may be useful for a better understanding of the entity's activity, with reference to the lease agreements (for example, early repayment or extension options).

Aside from certain increased disclosure requirements, there are no particular changes for lessors, for which the current distinction between operating leases and financial leases remains valid.

On the basis of analyses and implementations effectuated, it is estimated that the impact on the net of taxes, to be recognised with a contra-entry in the shareholders' equity, in the context of first application of the new accounting principle, will be negative for approx. 0.1 million Euro, simultaneously they will be recognised in the Right of Use activity on tangible assets (property lettings) for approx. 3.5 million Euro and a simultaneous liability for approx. 3.6 million Euro.

### Section 2 - General principles for preparation

The financial statements are comprised of a Balance Sheet, an Income Statement, a Statement of Comprehensive Income, a Statement of Changes in Shareholders' Equity, a Cash Flow Statement, prepared using the direct method, and the Explanatory Notes. They are accompanied by the directors' Report on Operations.

All reporting was implemented in compliance with the general principles of IAS 1:

- accrual basis of accounting;
- business continuity;
- understandability;
- significance (materiality);

- reliability of information (faithful representation, substance over form, prudence, neutrality, and completeness);
- comparability.

Regarding the criteria adopted for the drafting of the elaborated, these are not consistent with those of the previous financial year, in virtue of the faculty provided for in section 7.2.15 of IFRS 9 and in sections 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 regulations of measurement and representation requested by the standard - the obligatory restatement is not foreseen on a consistent basis with the comparison data on the financial statements of first application of the new principle. For the purpose of attributing the data comparable with 31 December 2017 in the context of the new official tables included by the 5th revision of the Circular no. 262 of Banca d'Italia, in force from 1 January 2018, the necessary reclassifications were effectuated (see "Section 4 - Other aspects"), without changing values, to allow the inclusion of the new items.

The information reported is consistent with the accounting records. The financial statement tables are prepared in units of Euro and the Explanatory Notes and Report on Operations in thousands of Euro (unless indicated otherwise).

Additional indications are also provided in order to supplement the financial statement figures, even when not specifically required by regulations.

*Content of the financial statements tables*

**Balance sheet and income statement**
The balance sheet and income statement tables are comprised of items, sub-items, and additional information. In the income statement, revenue is shown with no sign, while costs are shown in brackets.

**Statement of comprehensive income**
The statement of comprehensive income has been prepared in accordance with the Bank of Italy's instructions, with reference to the specific disclosures required by IAS 1.
The item "profit (loss) for the period" shows the same amount as reported in the same item of the income statement.
Changes in the asset values recognised during the financial year against the valuation reserves (net of taxes) are recognised in the items relative to "other income components, net of taxes".

**Statement of changes in Shareholders' Equity**
The statement of changes in shareholders' equity has been prepared in accordance with the Bank of Italy's instructions. It provides the composition of and changes in the shareholders' equity items during the financial year of reference, subdivided into share capital, equity-related and income related reserves, and the profit (loss) for the financial year.

**Cash flow statement**
The cash flow statement for the current and prior financial year of reference has been prepared by using the direct method.
Cash flows are subdivided into those deriving from operating activities, those generated by investment activities, and those produced by funding activities.
The cash inflows during the financial year are presented with no sign, while the cash outflows are shown in brackets.

**Content of the explanatory notes**
The Explanatory Notes consist of the information included in the Circular no. 262/2005 of Banca d'Italia and the other information outlined by the International Accounting Principles.

*Audits*

These financial statements are submitted for audit by BDO Italia SpA, to which the audit appointment has been granted for the 2012-2020 period.

## Section 3 - Events after the reporting date

No events took place in the period between the reporting date and the date of approval of the financial statements by the Board of Directors such as would require changes to be made to the financial statement data approved by the Board of Directors, nor did any significant events occur such as would require supplementing the disclosures made herein.

*Business continuity*

With respect to the information supplied in the context of document no. 4 of March 3, 2010, issued jointly by Banca d'Italia, Consob, and ISVAP, having as the subject "Information required in the financial statements regarding *impairment tests*, the contractual clauses of financial liabilities, debt restructuring and *fair value* hierarchy", that makes reference to document no. 2, again jointly issued by the above three Authorities, the Company has a reasonable expectation that it will continue operating into the foreseeable future, and has consequently prepared the report on the assumption of its continuity.

Additional disclosures regarding the main issues and variables affecting the market are provided in the directors' Report on Operations.

## Section 4 - Other aspects

*Use of estimates and assumptions in the preparation of the financial statements*

The preparation of this report also requires the use of estimates and assumptions that may have significant effects on the values reported in the balance sheet and in the income statement, as well as on disclosures relative to contingent assets and liabilities reported in the financial statements. The preparation of these estimates requires the use of available information and the adoption of subjective valuations, including based on historical experience, applied to formulate reasonable assumptions for the recognition of operations. Because of their nature, the estimates and assumptions used may change from period to period. Consequently, it cannot be excluded that, in future periods, actual results may differ from these estimates, including significantly, following a change in the subjective assessments used.

The main aspects requiring the application of subjective assessments by management are:

- the quantification of impairment losses on loans and, in general, other financial assets;
- the use of valuation models for the recognition of the *fair value* of financial instruments not listed on active markets;
- the calculation of provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets.

*The adoption of new accounting principles (effective 1 January 2018)*

### IFRS 9

In 2017, the bank undertook a project involving the implementation of IFRS 9 - *Financial Instruments*, the new accounting standard that replaces IAS 39 as of 1st January 2018 and affects the methods of "classification and measurement" and "*impairment*". Given the significant impacts of IFRS 9 in terms of both *business* and organisation, application, and *reporting*, the Bank was supported in this process by a specialised firm. The purpose of this project was to examine the qualitative and quantitative effects, and to identify and implement the application and organisational measures necessary to ensure the bank's consist, cohesive, and effective adoption of this new standard.

The same methodological approaches were used for classification and measurement and impairment, separated into three micro-phases of activity (preliminary analysis and selection, computer simulations and design of the *target* operational model, and computer development and definition of the operational processes) with a view to proper application of the new principle upon its *first time adoption* (FTA) and continued adoption.

Classification and measurement

The classification of financial assets is guided, on one hand, by the contractual characteristics of the cash flows of financial instruments (*SPPI [solely payments of principal and interest] test*) and, on the other hand, by the intentions of management for which these financial instruments are held (the *business model*):

- *SPPI Test*

  The first classification *driver* involves defining the methods to be adopted based on the composition of currently existing portfolios.

  For securities, a detailed examination of the cash flow characteristics of each individual instrument was carried out in order to identify the assets that do not pass the *SPPI test* and must be measured at their *fair value*, with the resulting effects in the income statement. Based on the analyses performed, a non-significant portion of the portfolio does not pass the *SPPI test*, this portion being primarily attributable to instruments that create concentrations of credit risk (*tranches*) and to open- and closed-ended investment funds in accordance with the recent clarifications provided by the IFRS *Interpretation Committee.*

  For loans, a modular analysis was carried out taking into account the weight of the portfolios and their uniformity, from which the residual reasons for failing the *SPPI test* emerged (such as zero interest renegotiation). As such, for the loans segment as well, no significant impacts are anticipated.

- *Business model*

  The second classification driver involved an inventory and analysis of both the current and prospective *business models*, which were examined at the individual product level. For the "*held to collect*" portfolios, thresholds were defined for the acceptance of frequent but non-significant sales (individually and combined), or infrequent sales, including those having a significant value; at the same time, parameters were established to identify the sales consistent with this *business* model as being attributable to an increase in credit risk.

  The securities portfolios currently classified:
  - at amortised cost generally present reduced movement trends consistent with the "*held to collect*" management strategy;
  - as assets available for sale involved the adoption of a "*held to collect and sell*" management strategy.

  Insofar as pertains to equity securities, the bank will adopt the option of *fair value* classification and recognition under shareholders' equity (*FVOCI* without reversal to the income statement).

  The loans portfolios relative to both *retail* and *corporate* counterparties can be attributed as having a "*held to collect*" management strategy, with the exception of internally produced SPBLs, for which the bank intends to proceed with ongoing divestment with a view to generating income on a secondary market (banking/securitisation with *derecognition*); for this reason, a "*held to collect and sell*" strategy can be attributed to this product, with significant impacts in terms of representation and measurement.

*Impairment*

The following can be considered significant elements:
- methods have been defined for *tracking* the credit quality of financial asset portfolios measured at amortised cost and at *fair value* with a contra-entry under shareholders' equity;
- parameters have been defined to determine any significant deterioration of credit risk, in order to correctly allocate *performing* exposures as *stage* 1 or *stage* 2. With reference, instead, to *impaired* exposures recognised as *stage* 3, the alignment of definitions for accounting and regulatory *defaults* allows for current classification methods to be aligned with future ones. Again in relation to the preceding, the elements that will constitute the main factors to be taken into consideration for the evaluation of movements between the different *stages* are as follows:
  - changes in the probability of a *lifetime default*, as compared to the moment of initial recognition of the financial instrument in the financial statements;

- the presence of an amount at least 30 days past due (without prejudice to the significance thresholds identified in the standard). In such a situation, in other words, the exposure's credit risk is presumed to have "significantly increased", with a resulting movement to *stage* 2 (if the exposure was previously recognised as *stage* 1);
- the presence of any other conditions (e.g., a renegotiation qualified as a *forbearance measure*) that involve classifying the exposure as one in which credit risk has significantly increased, as compared to initial recognition;
- models have been developed (and include *forward-looking* information) for *staging* (relative to use of the *lifetime PD* as an impairment indicator) and for measurement of the *expected credit loss* (ECL) for one year (to be applied to exposures in stage 1) and *lifetime* (to be applied to exposures in *stage* 2 and *stage* 3).

*Effect on the financial statements*

The main effects forecasted for the bank, resulting from the adoption of this new principle, will firstly derive from application of the new accounting model for *impairment* (based on the concept of *expected loss*, rather than on the *incurred loss* approach currently applied under IAS 39), which will result in an increase in impairments, and from application of the new rules for moving exposures between the different classification *stages* established in the new *standard*.
Based on the analyses carried out and changes implemented, the impact on net of taxes, to be recognised as a contra-entry in the shareholders' equity upon initial application of the new accounting principle is negative, in terms of *impairment*, in the amount of 6.4 million Euro and will be positive, in the amount of 1.7 million Euro, due to the effect of measurement reserves on SPBL products. The total net impact (equal to 4.7 million Euro) is not critical in view of current levels of equity and regulatory capital, thanks to the current structure of the own funds and the transitional regime established under "Regulation (EU) 2017/2395 of 12 December 2017, amending Regulation (EU) No. 575/2013, regarding the transitional arrangements geared towards mitigating the impact of the introduction of IFRS 9 on own funds". The bank's static adoption of this standard was communicated to the supervisory authority on 16/01/2017.

The main tables connecting IAS 39 and IFRS 9 are shown below.

*Connection between Accounting Tables published in the 2017 Financial Statements and the Accounting Tables of the IFRS 9 (new Circular No. 262) of 1 January 2018 (IAS 39 reclassification of balances)*

## Asset - balance sheet

| IAS 39 / IFRS 9 | 10. Cash and cash equivalents | 30. Financial assets valuated at *fair value* | 40. Financial assets available for sale | 60. Due from banks | 70. Due from customers | 110. Tangible assets | 120. Intangible assets | 130. Tax assets | 150. Other assets | Total assets |
|---|---|---|---|---|---|---|---|---|---|---|
| 10. Cash and cash equivalents | 68,617 | | | | | | | | | 68,617 |
| 20. Financial assets valuated at fair value with impact on income | | | 50,435 | | 3,999,900 | | | | | 4,050,335 |
| 30. Financial assets valuated at fair value with impact on total profitability | | 36,569 | 10,307,236 | | 43,455,588 | | | | | 53,799,393 |
| 40. Financial assets valuated at amortised cost | | | | 84,173,357 | 67,577,381 | | | | | 151,750,738 |
| 80. Tangible assets | | | | | | 7,940,698 | | | | 7,940,698 |
| 90. Intangible assets | | | | | | | 2,067,428 | | | 2,067,428 |
| 100. Tax assets | | | | | | | | 7,184,136 | | 7,184,136 |
| 120. Other assets | | | | | | | | | 8,639,506 | 8,639,506 |
| **Total assets** | **68,617** | **36,569** | **10,357,671** | **84,173,357** | **115,032,869** | **7,940,698** | **2,067,428** | **7,184,136** | **8,639,506** | **235,500,851** |

## Liabilities - balance sheet

| IAS 39 / IFRS 9 | 10. Due to bank | 20. Due to customers | 30. Securities issued | 100. Other liabilities | 110. Severance indemnities | 120. Provisions for risks and charges | 130. Valuation reserves | 160. Reserves | 180. Share capital | 200. Profit (loss) for the period (+/-) | Total liability and shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 10. Financial liabilities valuated at amortised cost | 56,595,008 | 104,191,497 | 15,771,400 | | | | | | | | 176,557,905 |
| 80. Other liabilities | | | | 24,257,219 | | | | | | | 24,257,219 |
| 90. Employee severance indemnities | | | | | 1,130,467 | | | | | | 1,130,467 |
| 100. Provisions for risks and charges | | | | 51,069 | | 1,461,874 | | | | | 1,512,943 |
| 110. Valuation reserves | | | | | | | (98,496) | | | | (98,496) |
| 140. Reserves | | | | | | | | (264,865) | | | (264,865) |
| 160. Share capital | | | | | | | | | 31,397,751 | | 31,397,751 |
| 190. Profit (loss) for the period (+/-) | | | | | | | | | | 1,007,927 | 1,007,927 |
| **Total liabilities and shareholders' equity** | **56,595,008** | **104,191,497** | **15,771,400** | **24,308,288** | **1,130,467** | **1,461,874** | **(98,496)** | **(264,865)** | **31,397,751** | **1,007,927** | **235,500,851** |

## Income Statement

| IAS 39 / IFRS 9 | 10. Interest income and similar income | 20. Interest expenses and similar expenses | 40. Fee and commission income | 50. Fee and commission expenses | 70. Dividends and similar income | 80. Net result of trading activities | 100. Profit (loss) from sales/repurchases | 110. Net result of financial assets and liabilities valuated at fair value | 130. Net value adjustments/reinstatements owing to impairment | 150. Administrative expenses | 160. Net allocations to provisions for risks and charges | 170. Net adjustments/value re-instatements on tangible assets | 180. Net adjustments/value re-instatements on intangible assets |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 10. Interest income and similar income | 4,852,846 | | | | | | | | | | | | |
| 20. Interest expenses and similar expenses | | (2,085,504) | | | | | | | | | | | |
| 40. Fee and commission income | | | 6,025,301 | | | | | | | | | | |
| 50. Fee and commission expenses | (346,302) | | | (5,363,495) | | | | | | | | | |
| 70. Dividends and similar income | | | | | 344 | | | | | | | | |
| 80. Net result of trading activities | | | | | | (126) | | | | | | | |
| 100. Profit (loss) from sales/repurchases | | | | | | | 16,281,316 | | | | | | |
| 110. Net result of financial assets and liabilities valuated at fair value with impact on income statement | | | | | | | | (5,856) | | | | | |
| 130. Net impairments/reversals of net value for credit risk | | | | | | | | | (5,036,218) | | | | |
| 160. Administrative expenses | | | | | | | | | | (12,447,722) | | | |
| 170. Net allocations to provisions for risks and charges | | | | | | | | | 27,945 | | (625,595) | | |
| 180. Net adjustments/value re-instatements on tangible assets | | | | | | | | | | | | (141,680) | |
| 190. Net adjustments/value re-instatements on intangible assets | | | | | | | | | | | | | (261,666) |
| 200. Other management | | | | | | | | | | | | | |
| 270. Income tax on current operations | | | | | | | | | | | | | |
| **Total** | **4,506,544** | **(2,085,504)** | **6,025,301** | **(5,363,495)** | **344** | **(126)** | **16,281,316** | **(5,856)** | **(5,008,273)** | **(12,447,722)** | **(625,595)** | **(141,680)** | **(261,666)** |

*Reconciliation between the Balance Sheet as of 31 December 2017 reclassified (see previous tables) and the Balance Sheet as of 1 January 2018 (that recognises the new rules of valuation and impairment of IFRS 9)*

| Items | 31/12/2017 (a) | Effect of transition IFRS 9 (b) | | 01/01/2018 ( c)=(a)+(b) |
|---|---|---|---|---|
| | | Classification and measurement | Impairment | |
| 10. Cash and cash equivalents | 68,617 | | | 68,617 |
| 20. Financial assets valuated at fair value with impact on income statement | 4,050,335 | | | 4,050,335 |
| 30. Financial assets valuated at fair value with impact on total profitability | 53,799,393 | 2,287,208 | (417,549) | 55,669,052 |
| 40. Financial assets valuated at amortised cost | 151,750,738 | | (7,466,759) | 144,283,979 |
| 80. Tangible assets | 7,940,698 | | | 7,940,698 |
| 90. Intangible assets | 2,067,428 | | | 2,067,428 |
| 100. Tax assets | 7,184,136 | | 2,250,564 | 9,434,700 |
| 120. Other assets | 8,639,506 | | (676,919) | 7,962,587 |
| **Total assets** | **235,500,851** | **2,287,208** | **(6,310,663)** | **231,477,396** |

| Items | 31/12/2017 (a) | Effect of transition IFRS 9 (b) | | 01/01/2018 ( c)=(a)+(b) |
|---|---|---|---|---|
| | | Classification and measurement | Impairment | |
| 10. Financial liabilities valuated at amortised cost | 176,557,905 | | | 176,557,905 |
| 60. Tax liabilities | | 628,346 | | 628,346 |
| 80. Other liabilities | 24,257,219 | | | 24,257,219 |
| 90. Employee severance indemnities | 1,130,467 | | | 1,130,467 |
| 100. Provisions for risks and charges | 1,512,943 | | 125,769 | 1,638,711 |
| 110. Valuation reserves | (98,496) | 1,656,547 | | 1,558,052 |
| 140. Reserves | (264,865) | 2,315 | (6,436,432) | (6,698,982) |
| 160. Share capital | 31,397,751 | | | 31,397,751 |
| 190. Profit (loss) for the period (+/-) | 1,007,927 | | | 1,007,927 |
| **Total liability and shareholders' equity** | **235,500,851** | **2,287,208** | **(6,310,663)** | **231,477,396** |

*Reconciliation between Shareholders' Equity IAS39 and Shareholders' Equity IFRS 9*

| Items (Euro/000) | Effect of transition to IFRS9 |
|---|---|
| **Shareholders' equity IAS 39 - 31/12/2017** | **32,042** |
| **Classification and measurement (a)** | **2,287** |
| Adjustments in the value of financial assets deriving from change to "Business Model" | 2,287 |
| **Impairment (b)** | **(8,687)** |
| Application of new model of impairment (ECL) to financial assets valuated at amortised cost and at fair value with impact on total profitability: | (7,884) |
| - performing (Stage 1 -2) | (3,266) |
| - non Performing (Stage 3) | (4,618) |
| Application of new model of impairment (ECL) to guarantees granted and commitments (revocable and irrevocable) to disburse funds: | (126) |
| - performing (Stage 1 -2) | (44) |
| - non Performing (Stage 3) | (82) |
| Application of new model of impairment (ECL) to other commercial activities | (677) |
| **Tax effect ( c)** | **1,622** |
| - on classification and measurement | (628) |
| - on impairment | 2,251 |
| **Total transition effects IFRS 9 01/01/2018 (d)=(a)+(b)+( c)** | **(4,778)** |
| **Shareholders' equity IFRS 9 - 01/01/2018** | **27,265** |

*Composition and allocation by Stage of exposures subject to IFRS 9 process of impairment and relative ECL compared to the IAS 39 situation*

| 01/01/2018 - IFRS 9 | Gross exposure | Total impairment | Net exposure | Hedge % |
|---|---|---|---|---|
| ***Financial assets valuated at fair value with impact on total profitability*** | ***56,941*** | ***1,272*** | ***55,669*** | ***2.2%*** |
| **Stage 3** | **5,123** | **1,101** | **4,022** | **21.5%** |
| - Probable default | 3,239 | 786 | 2,453 | 24.3% |
| - Past due impaired exposures | 1,884 | 315 | 1,569 | 16.7% |
| **Stage 2** | **452** | **17** | **435** | **3.8%** |
| - Past due unimpaired exposures | 452 | 17 | 435 | 3.8% |
| **Stage 1** | **51,366** | **154** | **51,212** | **0.3%** |
| - Other unimpaired exposures | 51,366 | 154 | 51,212 | 0.3% |
| ***Financial assets valuated at amortised cost*** | ***169,422*** | ***25,138*** | ***144,284*** | ***14.8%*** |
| ***a)*** due from banks | ***84,173*** | ***-*** | ***84,173*** | ***-*** |
| **Stage 1** | **84,173** | - | **84,173** | - |
| - Other unimpaired exposures | 84,173 | - | 84,173 | - |
| ***b)*** due from customers | ***85,249*** | ***25,138*** | ***60,111*** | ***29.5%*** |
| **Stage 3** | **33,140** | **21,527** | **11,613** | **65.0%** |
| -Non-performing | 16,348 | 14,924 | 1,424 | 91.3% |
| - Probable default | 12,769 | 5,356 | 7,413 | 41.9% |
| - Past due impaired exposures | 4,023 | 1,247 | 2,776 | 31.0% |
| **Stage 2** | **29,460** | **3,397** | **26,063** | **11.5%** |
| - Past due unimpaired exposures | 23,097 | 2,888 | 20,209 | 12.5% |
| - Other unimpaired exposures | 6,363 | 509 | 5,854 | 8.0% |
| **Stage 1** | **22,649** | **214** | **22,435** | **0.9%** |
| - Other unimpaired exposures | 22,649 | 214 | 22,435 | 0.9% |
| **Total on-balance sheet exposures** | **226,363** | **26,410** | **199,953** | **11.7%** |
| ***Guarantees given*** | ***9,904*** | ***173*** | ***9,731*** | ***1.7%*** |
| **Stage 3** | **547** | **129** | **418** | **23.6%** |
| - Impaired exposures | 547 | 129 | 418 | 23.6% |
| **Stage 2** | **305** | **10** | **295** | **3.3%** |
| - Unimpaired exposures | 305 | 10 | 295 | 3.3% |
| **Stage 1** | **9,052** | **34** | **9,018** | **0.4%** |
| - Unimpaired exposures | 9,052 | 34 | 9,018 | 0.4% |
| **Total on-balance and off-balance sheet exposures** | **236,267** | **26,583** | **209,684** | **11.3%** |

| 31/12/2017 - IAS 39 | Gross exposure | Total impairment | Net exposure | Hedge % |
|---|---|---|---|---|
| ***Financial assets available for sale*** | ***10,109*** | **-** | ***10,109*** | **-** |
| **Unimpaired** | **10,109** | **-** | **10,109** | **-** |
| - Other unimpaired exposures | 10,109 | - | 10,109 | - |
| ***Due from banks*** | ***84,173*** | **-** | ***84,173*** | **-** |
| **Unimpaired** | **84,173** | - | **84,173** | - |
| - Other unimpaired exposures | 84,173 | - | 84,173 | - |
| ***Due from customers*** | ***133,552*** | ***18,518*** | ***115,034*** | ***13.9%*** |
| **Impaired** | **38,263** | **18,014** | **20,249** | **47.1%** |
| -Non-performing | 16,348 | 12,958 | 3,390 | 79.3% |
| - Probable default | 16,008 | 4,484 | 11,524 | 28.0% |
| - Past due impaired exposures | 5,907 | 572 | 5,335 | 9.7% |
| **Unimpaired** | **95,289** | **504** | **94,785** | **0.5%** |
| - Past due unimpaired exposures | 23,097 | 141 | 22,956 | 0.6% |
| - Other unimpaired exposures | 72,192 | 363 | 71,829 | 0.5% |
| **Total on-balance sheet exposures** | **227,834** | **18,518** | **209,316** | **8.1%** |
| ***Guarantees given*** | ***9,904*** | ***55*** | ***9,849*** | ***0.6%*** |
| **Impaired** | **91** | **-** | **91** | **-** |
| **Unimpaired** | **9,813** | **55** | **9,758** | **0.6%** |
| **Total on-balance and off-balance** | **237,738** | **18,573** | **219,165** | **7.8%** |

It should be noted that gross exposure of these items differs by approx. 1.5 million Euro due to reclassifications applied to the financial assets valuated at fair value with an impact on the Income Statement.

**IFRS 15**

Accounting principle IFRS 15 - Revenue from Contracts with Customers, in force as of January 2018, supersedes IAS 18 - Revenue and IAS 11 - Construction contracts and the related interpretations from the date of entry into force of this principle.

The new elements, with reference to the pre-existing principles, can be summarised as follows:

- the introduction of a common framework for the recognition of revenue from both the sale of goods and the provision of services;
- the adoption of a *step* model for the recognition of revenue;
- an *unbundling* mechanism for assignment of the total price of a transaction for each commitment (sale of goods and/or provision of services) forming the object of a sales contract.

In general, under IFRS 15, entities adopt a five-*step* approach for the recognition of revenue:

1. identification of the contract (or contracts) with a customer: the provisions of IFRS 15 apply to all contracts entered into with a customer and meeting specific criteria. In certain specific cases, IFRS 15 requires that an entity combine/aggregate several contracts and recognise them in their accounts as a single contract;
2. identification of *performance obligations*: a contract represents commitments to transfer goods or services to a customer. If these goods or services are “distinct”, these promises are qualified as *performance obligations* and are recognised separately in the accounts;
3. determination of the transaction price: the transaction price is the amount of the consideration to which an entity expects to be entitled, in exchange for the transfer of promised goods or services to the customer. The price established for the transaction can be a fixed amount, but may sometimes include variable components or non-*cash* components;
4. allocation of the transaction price to the contract’s *performance obligations*: an entity allocates the transaction price between the various *performance obligations*, based on the *stand-alone* selling price of each individual good or service established in the contract. If a stand-alone selling price is not observable, the entity is required to estimate it. The principle identifies when an entity is required to allocate a discount or a variable component to one or more but not all of the *performance obligations* (or to the distinct goods or services) established in the contract;
5. recognition of revenue when (or as) the entity satisfies a *performance obligation*: an entity recognises the revenue when it satisfies a *performance obligation* by way of the transfer of a good or the provision

of a service established in the contract to the customer (i.e., when the customer obtains control of the good or service). The amount of revenue to be recognised is the amount allocated to the performance obligation that has been satisfied. A performance obligation may be satisfied at a single point in time (typically the transfer of goods) or over a period of time (typically the provision of services). For performance obligations satisfied over a period of time, the entity recognises the revenue during the reference time period, selecting an appropriate method to measure the progress achieved, against complete satisfaction of the performance obligation.

The bank has conducted an analysis of the main revenue sources originating from contracts with customers, in order to identify any impacts deriving from introduction of the new accounting standard. The main cases under examination include the following:

- placement and brokerage commissions recognised on third party products;
- *servicing* and management fees.

Based on the analyses performed, it has emerged that the accounting treatment for such cases is already in line with the provisions set forth in the new principle; consequently, only disclosure-related impacts were identified, as also required under the new Bank of Italy Circular 262, to the exclusion of any quantitative impacts.

## A.2 - PRINCIPLES UNDERLYING THE MAIN FINANCIAL STATEMENT ITEMS

The accounting principles applied to the preparation of these financial statements are described below. The exposure of the principles adopted is carried our with reference to the phases of classification, recognition, measurement, and derecognition of asset and liability items, as well as the method for recognition of revenue and expenses.

### 1 – Financial assets valuated at fair value with an impact on the income statement

*Classification*

The financial assets are classified in this category that are different from those classified among the Financial assets valuated at *fair value* with impact on the overall profitability and among the Financial assets valuated at amortised cost. The item, in particular, includes the financial assets obligatorily valuated at *fair value*, represented by the financial assets that do not satisfy the requirements for the valuation at amortised cost or at *fair value* with impact on overall profitability. These are financial assets whose contractual terms do not exclusively provide for reimbursements of capital and payments of the interest on the capital amount to repay (so-called "*SPPI test*" not passed) or that were not held in the overview of a business model whose objective is the possession of a finalised asset for recovery of contractual cash flows (*"Held to Collect" Business model*) or whose objective is obtained both through the recovery of contractual cash flows and through the sale of financial assets (*"Held to Collect and Sell" Business model*).

They are, therefore, recorded in this item:
- the debt securities and loans that are included in an *Other business model* (not attributable therefore to the business models "*Held to Collect"* or *"Held to Collect and Sell"*) or that do not exceed the *SPPI test*;
- the capital instruments - not subject to control, connection and joint control for which the designation at *fair value* with impact on the total profitability was not opted for in the context of initial recognition.

According to the general regulations outlined by IFRS 9 regarding the reclassification of the financial assets (excepting the capital securities, for which no reclassification was permitted), reclassifications were not permitted for other categories of financial assets except for the case in which the entity changes its own business model for the management of the financial assets. In such cases, that are expected to be highly infrequent, the financial assets can be reclassified from the valuated category at *fair value* with impact on the income statement in one of the other two categories outlined in IFRS 9 (Financial assets valuated at amortised cost or Financial assets valuated at *fair value* with impact on the total profitability). The transfer value is represented by the *fair value* at the moment of reclassification and the effects of the reclassification operate in a prospective manner from the date of reclassification. In this case, the interest rate of the reclassified financial asset is determined based on its *fair value* on the date of reclassification and such date will be considered as the date of initial recognition for the allocation of the different credit risk stages (*stage assignment*) for the purposes of the *impairment*.

*Recognition*

Financial assets are initially recognised at the settlement date of the securities (both debt and equity securities) or at the disbursement date for all other financial assets.
During the act of initial recognition, financial assets are valuated at *fair value* with impact on the income statement are recognised at *fair value*, excluding transaction costs or income directly attributable to the instrument.

*Measurement*

Subsequent to the initial recognition, the financial assets valuated at *fair value* with impact on the income statement are measured at *fair value*. The effects of the application of this valuation criterion are recognised in the income statement.

For the determination of the *fair value* of the financial instruments listed in an active market, market quotations are used. In the absence of an active market, methods of estimation are used and the valuative models are commonly adopted, that take into account all the factors of risk correlated with the instruments that are based on market data such as: valuation of quoted instruments that present analogous characteristics, calculations of reduced cash flows, models of determination of the price of options, values recognised in recent comparable transactions, etc. For equity securities and for derivative instruments that include equity securities not listed in an active market, the cost criterion is used such as the estimate of *fair value* only in a residual manner and limited to few circumstances, namely in case of non-applicability of all the methods of valuation previously used, or in the presence of a wide range of potential *fair value* valuations where the cost represented the most significant estimate. For further information on the criteria of determination of *fair value*, see Section "A.4 Information on *Fair Value*" from Part A of the Explanatory Notes.

*Derecognition*

Financial assets are derecognised only when the sale of these financial assets results in a substantial transfer of all the risks and rewards of ownership of the assets. Conversely, if a significant portion of the risks and rewards associated with the financial assets sold is retained, these financial assets will continue to be recognised even though legal ownership has been effectively transferred. Where it is not possible to verify the substantial transfer of the risks and rewards, the financial assets are derecognised when no control over these assets is retained. However, if even a portion of this control is retained, the financial assets continue to be recognised in line with the company's residual involvement, measured by exposure to changes in the value of the assets sold and the changes in the related cash flows. Finally, financial assets sold are derecognised when the company retains the contractual rights to receive the related cash flows, with the concurrent obligation to pay these cash flows, and no additional amounts, to a third party.

## 2 – Financial assets valuated at fair value with impact on total profitability

*Classification*

Included in the present category are the financial assets that satisfy both of the following conditions:
- the financial asset is owned according to a business model whose objective is reached both through the financial cash flows provided contractually and through the sale of the (*"Held to Collect and Sell" Business model*), and
- the contractual terms of the financial asset provide for, on a determined date, cash flows represented only by payments of capital and the interest on the amount of capital to repay (so-called "*SPPI test*" passed).
Further, the capital instruments are also included in the item, those not held for the purpose of trading, for which at the moment of the initial recognition the option for the designation at *fair value* was exercised, with impact on total profitability.

In particular, included in this item are:
- the debt securities that are attributable to a *Held to Collect and Sell business model* and that have passed the *SPPI test*;

- the equity interests, not subject to control, connection and joint control, that are not held for the purpose of trading, for which the option was practiced for the designation at *fair value* with impact on total profitability;
- the loans, that are attributable to a *Held to Collect and Sell* business model and that have passed the *SPPI test*.

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According to the general regulations outlined by IFRS 9 regarding the reclassification of the financial assets (excepting the capital securities, for which no reclassification was permitted), reclassifications were not permitted for other categories of financial assets except for the case in which the entity changes its own business model for the management of the financial assets. In such cases, that are expected to be highly infrequent, the financial assets can be reclassified from the category valuated at *fair value* with impact on the total profitability in one of the other two categories outlined in IFRS 9 (Financial assets at amortised cost or Financial assets valuated at *fair value* with impact on the income statement). The transfer value is represented by the *fair value* at the moment of reclassification and the effects of the reclassification operate in a prospective manner from the date of reclassification. In the case of reclassification of the category in question to that of amortised cost, the cumulative profit (loss) recognised in the valuation reserve is included as an adjustment of the *fair value* of the financial asset on the date of the reclassification. On the other hand, in case of reclassification in the category of *fair value* with impact on the income statement, the cumulative profit (loss) previously in the valuation reserve is reclassified from the shareholders' equity to the profit (loss) of the financial year.

*Recognition*

Initial registration of the financial asset takes place on the date of regulation for the debt securities and for the capital securities and on the date of disbursement of loans. They are initially recognised at *fair value*, including transaction costs or revenue directly attributable to the instrument

*Measurement*

Subsequent to the initial recognition, the Asset classified at *fair value* with impact on the total profitability, different from capital securities, are valuated at *fair value* with the recognition on the Income Statement of the impacts deriving from the application of the amortised cost, of the effects of the *impairment* and the possible effect of change, while the other profits or losses deriving from a change of *fair value* will be recognised in a specific reserve in the shareholders' equity until the financial asset is derecognised. Upon total or partial divestment, the accumulated profit or loss in the reserve for valuation is transferred, in whole or in part, to the Income Statement.
The capital instruments for which the choice was made for the classification in the present category are valuated at *fair value* and the recognised amounts with a contra-entry in the shareholders' equity (Statement of total profitability) should not be subsequently transferred to the income statement, not even in case of sale. The only component attributable to the capital securities in question that are the object of the recognition on the income statement is represented by the relative dividends.
The *fair value* is determined on the basis of criteria already illustrated for the Financial asset valuated at *fair value* with impact on the income statement.
For capital securities included in this category, not quoted in an active market, the criterion of the cost and use which would estimate the *fair value* only in a residual manner and limited to few circumstances, both in case of non-applicability of all the methods of valuation previously recalled, or in the presence of a wide range of possible valuations of *fair value*, in which context the cost represents the most significant estimate.
For further information on the criteria of determination of *fair value*, see Section "A.4 Information on *Fair Value*" from Part A of the Explanatory Notes.

The financial assets valuated at *fair value* with impact on the total profitability – both under the form of debt securities and credit - are subject to the verification of the significant increase of the credit risk (*impairment*) outlined in IFRS 9, equal to the Assets at amortised cost, with subsequent recognition on the income statement of an impairment and hedging of expected losses. More particularly, of the instruments classified in stage 1 (or of the financial assets at the moment of *origination*, where they are not impaired, and of the instruments for which a significant increase in the credit risk compared to the date of initial recognition is not verified) on the date of initial recognition and on every date of successive reporting, an expected loss at one year is accounted for. Instead, for the instruments classified in stage 2 (*performing* for which a significant increase in the credit risk is verified compared to the date of initial recognition) and in stage 3 (impaired exposures) an expected loss for the entire residual life of the financial instrument is accounted for. On the other hand, equity securities are not subjected to the process of *impairment*.

*Derecognition*

Financial assets are derecognised only when the sale of these financial assets results in a substantial transfer of all the risks and rewards of ownership of the assets. Conversely, if a significant portion of the risks and rewards associated with the financial assets sold is retained, these financial assets will continue to be recognised even though legal ownership has been effectively transferred. Where it is not possible to verify the substantial transfer of the risks and rewards, the financial assets are derecognised when no control over these assets is retained. However, if even a portion of this control is retained, the financial assets continue to be recognised in line with the company's residual involvement, measured by exposure to changes in the value of the assets sold and the changes in the related cash flows. Finally, financial assets sold are derecognised when the company retains the contractual rights to receive the related cash flows, with the concurrent obligation to pay these cash flows, and no additional amounts, to a third party.

## 3 - Financial assets valuated at amortised cost

*Classification*

The financial assets are included in the present category (in particular the debt loans and securities) that satisfy both of the following conditions:
- the financial asset is owned according to a *business* model whose objective is pursued through collection of cash flows contractually provided for (*"Held to Collect" Business model*), and
- the contractual terms of the financial asset provide for, on a determined date, cash flows represented only by payments of capital and the interest on the amount of capital to repay (so-called "*SPPI test*" passed).

More particularly, they form the object of recognition in this item:
- the commitments with the Banks in the different technical forms that present the requirements pursuant to the preceding paragraph;
- the customer lending in the different technical forms that present the requirements set forth in the previous section;
- debt securities that present the requirements set forth in the previous section.

According to the general rules outlined by IFRS 9 in relation to the reclassification of the financial assets, reclassifications are not allowed for other categories of financial asset except in case in which the entity modifies their own business model for the management of the financial assets. In such cases, that are expected to be highly infrequent, the financial assets can be reclassified by the valuative category at amortised cost in one of the other two categories outlined in IFRS 9 (Financial asset valuated at *fair value* with impact on the total profitability or Financial asset valuated at *fair value* with impact on the income statement). The transfer value is represented by the *fair value* at the moment of reclassification and the effects of the reclassification operate in a prospective manner from the date of reclassification. The profits or the losses resulting from the difference between the amortised cost of the financial asset and the relative *fair value* are recognised in the income statement
in the case of reclassification between the Financial assets valuated at *fair value* with impact on the income statement and the Shareholders' equity, in the dedicated valuation reserve, in the case of reclassification between the Financial assets valuated at *fair value* with impact on the total profitability.

*Recognition*

Financial assets are initially recognised at the settlement date of the debt securities and at the disbursement date in the case of loans. They are initially recognised at *fair value*, including transaction costs or income directly attributable to the same instrument.
In particular, concerning loans, the date of disbursement normally coincides with the date of signing the contract. Since such coincidence does not arise, in the context of the signing of the contract it should be ensured that a commitment to distribute funds is registered that is closed on the date of disbursement of the loan. The recognition of credit takes place on the basis of *fair value* of the same, equal to the amount disbursed, or price of subscription, including costs/income directly attributable to the individual receivable or loan and

determinable from the outset of the transaction, even when they are subsequently liquidated. Costs are excluded that, while having the aforementioned characteristics, are the object of reimbursement on the part of the debitor counterparty or they can be classified among the normal internal costs of an administrative nature.

*Measurement*

Subsequent to the initial recognition, the financial assets under examination are valuated at amortised cost, using the method of effective rate of interest. In these terms, the asset is recognised in the Financial statements for an amount equal to the value at initial registration reduced by the capital reimbursements, more or less the cumulative amortisation (calculated with the recalled method of rates of effective interest) of the difference between this initial amount and the amount upon expiration (typically attributable to costs/income recognised directly in the single asset) and revised by the possible hedge fund for the losses. The effective interest rate is identified by calculating the rate that exactly equals the current value of future cash flows on the asset, in principal and interest, and the amount disbursed including costs/income attributable to the same financial asset. This accounting method, which is based on a financial logic, allows for the distribution of the economic effect of costs/income which are directly attributable to a financial asset throughout its expected residual life. The method of amortised cost is not used for assets – valuated at historical cost – whose brief duration creates the impression that the effect of the application of the discounting logics is minimal as well as for those without a definite expiration and for revocable lines of credit.

The valuation criteria are strictly connected to the inclusion of the instruments under examination in one of the *three stages* (stages of credit risk) outlined in IFRS 9, the last of which (*stage* 3) comprises the impaired financial assets and the remainder (*stage* 1 and 2) the *performing* financial assets.

With reference to the account presentation of the aforementioned valuation effects, the impairments referring to this type of activity are recognised in the Income Statement:
- during initial registration, for an amount equal to the losses expected at twelve months;
- during the subsequent valuation of the asset, where the credit risk has not resulted as significantly increased compared with the initial registration, in relation to the changes of the impairment amount for losses expected in the twelve subsequent months;
- during the subsequent valuation of the asset, where the credit risk has resulted as significantly increased compared to the initial registration, in relation to the recognition and impairments for losses expected that are attributable to an entire residual life contractually stipulated for the asset;
- during the subsequent valuation of the asset, where – after a significant credit risk increase occurred compared with the initial registration – the “significance” of such an in increase then became smaller, in relation to the adjustment of the accumulated impairments to take into consideration the passage from one expected loss along the entire residual life of the instrument (“*lifetime*”) from one to twelve months.

The financial assets under examination, when *performing*, are subjected to a valuation, for the purpose of defining the impairments to recognise in the financial statements, at the level of the individual credit relationship (or security “*tranche*”), in the capacity of the risk parameters represented by the *probability of default* (PD), *loss given default* (LGD) and *exposure at default* (EAD), derived from the AIRB models and properly corrected to take into account the provisions of the IFRS 9 accounting principle. If, other than a significant increase in the credit risk, other objective evidence of a loss in value is observed, the amount of the loss is measured as the difference between the accounting value of the asset – classified as “deteriorated”, equal to all the other relationships in between with the same counterparty – and the current value of the future estimated cash flows, discounted at the original effective interest rate. The amount of the loss, to be noted in the Income Statement, is defined based on a process of analytical valuation or determined by consistent categories and, therefore, attributed analytically to every position and taking into account *forward looking* information and possible alternative recovery scenarios. The financial instruments return to the context of deteriorated assets, and they have been attributed the status of non-performing, probable default or expired/exceeded by a further ninety days according to the rules of Banca d’Italia, consistent with the IAS/IFRS regulations and the European Supervisory Authority. The forecasted cash flows take into account the expected recovery time and the estimated realizable value of potential guarantees.
The original effective rate of every asset remains unvaried in the timeframe even though a restructuring of the relationship is underway that would involve the change of contractual rates and also if the relationship would become, in practice, fruitless of contractual interests.

When the reasons for the impairment loss cease to exist following an event occurring after the impairment loss is recognised, a reversal of the impairment loss is recognised in the income statement. Value reinstatements cannot exceed the amortised cost that the financial instrument would have in the absence of previous impairments.

In certain cases, during the life of the financial asset under examination and, in particular, of the loans, the original contractual conditions are the object of subsequent modifications by the will of the parties of the contract. When, over the course of the lifetime of an instrument, the contractual clauses are the object of modification, it should be verified if the original asset must continue to be noted in the financial statement or if, on the contrary, the original instrument must be the object of *derecognition* in the financial statements and a new financial instrument must be recognised. In general, changes to a financial asset lead to the cancellation of same and the registration of a new asset when they are "substantial". The valuation of the "substantiality" of the change must be made considering the qualitative and quantitative elements. In some cases, in fact, it can be clear, without recourse to complex analyses, that the changes introduced substantially modify the characteristics and/or the contractual flows of a determinate asset while, in other cases, further analyses should be carried out (even those of a quantitative nature) to appraise the effects of the same and verify the necessity to proceed or not with the cancellation of the asset and the registration of a new financial instrument. The analysis (qualitative-quantitative) geared towards the definition of the "substantiality" of the contractual modifications done to a financial asset, should therefore consider:
- the purposes for which the modifications were made: for example, renegotiations for commercial motives and loans granted for financial difficulties of the counterparty:
    - the first ones, geared towards keeping the client, they involve a borrower who does not find themselves in a difficult financial situation. In this case system, all the renegotiation operations are included that are geared towards adapting the cost of the debt to the market conditions. Such operations bring a change in the original conditions of the contract, usually requested by the borrower, who awaits aspects connected to the cost of the debt, with a consequent economic benefit for the same borrower. In a general line it is considered that, every now and then, the bank carries out a renegotiation in order to avoid the loss of their own client, such renegotiation should be considered substantial in that, where not effectuated, the client can get financing through another intermediary and the bank would suffer a decrease in future forecasted revenues;
    - the second ones, carried out for "credit risk reasons" (*forbearance* measures), are attributable to the attempt of the bank to maximise the recover of the *cash flows* of original credit. The risks and benefits below, subsequent to the changes, generally, are not substantially transferred and, consequently, the accounting representation that offers more relevant information for the reader of the financial statement (except when discussed afterwards on the subject of the objective elements), is that carried out through the "*modification accounting*" - that entails the recognition in the income statement of the difference between accounting value and current value of modified cash flows discounted at original interest rates - and not through *derecognition*;
- the presence of specific objective elements ("*triggers*") that affect the characteristics and/or the contractual flows of the financial instrument (such as, solely for the purpose of example, the change of currency or the modification of the type of risk to which one is exposed, where it is considered connected to parameters of *equity* and *commodity*), which is considered to involve the *derecognition* in consideration of their impact (expected as significant) on the original contractual flows.

*Derecognition*

Financial assets are derecognised only when the sale of these financial assets results in a substantial transfer of all the risks and rewards of ownership of the assets. Conversely, if a significant portion of the risks and rewards associated with the financial assets sold is retained, these financial assets will continue to be recognised even though legal ownership has been effectively transferred. Where it is not possible to verify the substantial transfer of the risks and rewards, the financial assets are derecognised when no control over these assets is retained. However, if even a portion of this control is retained, the financial assets continue to be recognised in line with the company's residual involvement, measured by exposure to changes in the value of the assets sold and the changes in the related cash flows. Finally, financial assets sold are derecognised when the company retains the contractual rights to receive the related cash flows, with the concurrent obligation to pay these cash flows, and no additional amounts, to a third party.

## 4 – Hedging

Not present.

## 5 – Equity investments

Not present.

## 6 – Tangible assets

*Classification*

The tangible assets comprise property instruments, property investments, technical plants, furniture and fittings as well as equipment of any type that are expected to be used for more than a period. The tangible assets held for use in the production or the furnishing of goods and services are classified as “functional-use assets” according to the IAS 16. The properties possessed that are intended for investment (to obtain rent or divestment – consisting in properties separated from terminated *lease* agreements) are classified as “held assets for investment” on the basis of the IAS 40.

*Recognition*

Tangible assets are initially recognised at cost, which includes, in addition to the purchase price, any accessory charges directly attributable to the purchase and to placing the asset in working condition.
The extraordinary maintenance expenses that lead to an increase in the future economic benefits will be recognised as increase in value of the assets, while the other ordinary costs of maintenance are recognised in the Income Statement.

For tangible fixed assets with investment purpose, initial recognition takes place through the accounting separation of the asset (underlying the *lease* receivable) from the category of assets granted under financial lease to the tangible assets category.

*Measurement*

The tangible assets are systematically amortised, adopting as amortisation criterion the method of constant rate, for the duration of their usage lifespan. The amortisable value is represented by the cost of goods (or by the net redetermined value if the method adopted for the valuation is the redetermination of the value) at residual net value at the end of the process of amortisation, if significant. The properties are amortised for a retained rate that is congruous to represent the deterioration of the assets over time following their use, taking into account extraordinary maintenance expenses, that lead to the increase of the asset value.

Properties for investment use are not, on the other hand, amortised, that, as requested by the IAS 40 accounting principle, being valuated at *fair value* with a contra-entry in the income statement, they do not need to be amortised.

If some indications exist that demonstrate that a tangible asset valuated at cost can experience a loss of value, compare the book value of the asset and its recovery value. Potential value adjustments are recognised in the Income Statement.

Should the reasons that led to the recognition of the loss cease to exist, this gives rise to a recovery of value, that cannot surpass the value that the asset would have had, at the net of the amortisations calculated, in the absence of the preceding losses of value.

*Derecognition*

A tangible asset is derecognised from the balance sheet at the time of divestment or when it is permanently withdrawn from use and its divestment is not expected to generate future economic benefits.

## 7 – Intangible assets

*Classification*

The intangible assets are registered as such if they are identifiable and arise from legal or contractual rights. Goodwill is also booked under intangible assets, and represents the positive difference between the cost of purchase and the *fair value* of the assets and liabilities of a purchased company.

*Recognition and valuation*

Intangible assets are recognised at cost, adjusted by any accessory expenses only where it is likely that the future economic rewards attributable to the asset will be realised and where the cost of the asset itself can be reliably determined. Otherwise, the cost of the intangible asset is recognised in the income statement in the financial year in which it was sustained.

For the assets with a definite useful life, the cost is amortised on a straight line basis.

The assets with an indefinite useful life are not in fact subject to systematic amortisation, but rather to a periodic test to verify the suitability of the relative book value in the financial statements.

If indications exist that demonstrate that an asset can have sustained a loss of value, the asset's recovery value will be estimated. The amount of the loss, recognised in the income statement, is equal to the difference between the book value of the asset and the recoverable value.

In particular, among the intangible assets are included:

- intangible assets based on technology, such as *software* applications, that are amortised in function of the outlined technological obsolescence of the same and anyway not more than a maximum period of five years.

- goodwill can be registered, in the context of operations of aggregation, when the positive difference between the equivalent transferred and the possible recognition at *fair value* of the rate of minority and the *fair value* of the financial elements purchased is representative of the future income capacities of the equity investment (*goodwill*). When such difference is negative (*badwill*) or in the hypothesis in which *goodwill* does not find justification in the future income capacity of the subsidiary, the same difference is booked directly in the income statement. With annual recurrence (or every time that there is evidence of loss of value) a verification test is carried out of the suitability of the goodwill value. To this end, the cash-generating Unit is identified to which the goodwill is attributed. The amount of any impairment loss is determined based on the difference between the value of goodwill registration and of its recovery value, if lower. This recovery value is equal to the greater among the *fair value* of the cash-generating Unit, at the net of possible sales prices, and the relative value of use. The consequent impairments are recognised in the income statement.

*Derecognition*

A tangible asset is derecognised from the balance sheet at the time of divestment or when it is permanently withdrawn from use and its divestment is not expected to generate future economic benefits.

## 8 – Non-current assets and groups of assets in the process of divestment

Not present.

## 9 – Current and deferred taxes

*Classification*

Tax assets and liabilities subdivided according to the time-based criterion are recognised under this category.

*Recognition*

Direct and indirect tax assets and liabilities are recognised in the financial year in which the components that generated them accrued, regardless of the year in which the cash flows occur. Current tax assets and liabilities are recognised for tax assets and liabilities that, in accordance with the law, have a financial effect in relation to events occurring during the financial year of reference. When they pertain to facts or elements which will have a financial effect in subsequent financial years, they are recognised under deferred tax assets or deferred tax liabilities. The impact of current and deferred taxes is recognised by applying the tax rates currently in force. Income tax provisions are determined on the basis of a prudent estimate of the current and deferred tax burden. Specifically, deferred tax assets and liabilities are calculated considering the temporary differences – without time limits – between the value assigned to an asset or liability in accordance with the criteria set forth in the Italian Civil Code and the corresponding values assumed for tax purposes. Deferred tax assets related to deductible temporary differences or future tax benefits obtainable by carrying forward tax losses are recognised to the extent that their recovery is probable.

*Measurement*

Deferred tax assets and liabilities are systematically measured to reflect any changes in legislation or tax rates.

*Derecognition*

Current tax assets and liabilities are derecognised when the tax obligation to which they refer has been met. Deferred tax assets and liabilities are derecognised in the year in which the elements to which they refer contribute to establishment of the tax base.

## 10 – Provisions for risks and charges

<u>Funds for risks and charges with regard to the commitments and guarantees given</u>

The sub-item of the funds for risks and charges under examination includes the funds for recognised credit risk with regard to the commitments to disburse funds and to the guarantees given that fall into the perimeter of application of regulations on *impairment* pursuant to IFRS 9. For such aspects, there are adopted, in principle, the same methods of allocation among the three *stages* (credit risk stages) and of calculation of the expected loss shown with reference to the financial asset valuated at amortised cost or at *fair value* with impact on the total profitability.

<u>Other funds</u>

*Classification*

The other funds for risks and charges are comprised of the provisions related to present obligations, whether legal or connected to work relationships or disputes, also fiscal, arising from a past event for which it is probable that a disbursement of economic resources will be required to settle the obligation, provided that a reliable estimate of the relative amount can be made.

*Recognition*

The recognition of a provision takes place if and only if:
- there is an obligation underway (legal or implicit) resulting from a past event;
- it is probable that to accomplish the obligation it will be necessary to commit resources to produce economic benefits; and
- a reliable estimate can be made of the amount deriving from the fulfilment of the obligation.

*Measurement*

The amount recognised as provision represents the better estimate of the expense requested to fulfil the obligation existing on the date of reference of the financial statement and reflects risks and uncertainties that inevitably characterise a multitude of facts and circumstances. Where the time factor is significant, provisions are discounted by using current market rates. The provisions and the increases due to the time factor are recognised in the Income Statement. The provision is written off when it becomes improbable to fulfil obligations through the commitment of resources acting to produce economic benefits, or when the obligation expires.

*Derecognition*

Provisions for risks and charges are derecognised when the relevant obligation is met in whole or in part and when the obligation ceases to exist.

## 11 – Financial liabilities valuated at amortised cost

*Classification*

The Due to bank, the Due to customers and the Securities in circulation comprise the various forms of the interbank funding and with clients, the operations of repurchase agreements with obligation for term repurchasing and the collection made through certificates of deposit, bonds and other recovery instruments in circulation, at the net of the potentially acquired amounts.

*Recognition*

These financial liabilities are initially recognised on the date of signing the contract, that usually coincides with the moment of receipt of funds or the issue of debt securities. They are initially recognised at *fair value*, which is normally equal to the amount received or the issue price, plus any additional costs/income directly attributable to the individual transaction. The internal costs of an administrative nature are excluded.

*Measurement*

After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. Conversely, short-term liabilities continue to be measured as the consideration received, as the effect of the time factor would be negligible.

*Derecognition*

Financial liabilities are derecognised when they expire or are extinguished. They are also derecognised when previously issued bonds are repurchased. The difference between the book value of the liability and the corresponding amount for the purchase is registered in the Income Statement. The outplacement in the market of securities subsequent to their repurchase is considered as a new issuance with registration at the new price of placement.

## 12 – Financial liabilities held for trading

Not present.

## 13 – Financial liabilities designated at fair value

Not present.

## 14 – Foreign currency transactions

*Classification*

Foreign currency transactions are comprised of all assets and liabilities expressed in currencies other than the Euro.

*Recognition and valuation*

Foreign currency transactions are initially recognised in the functional currency, applying the exchange rate in effect at the transaction date to the amount in the foreign currency.
At each annual reporting date, financial statement items in foreign currencies are measured at the exchange rate on the closing date.
Exchange rate differences arising from the settlement of monetary items or from the translation of monetary items at exchange rates other than the initial recognition translation rate or the prior closing rate are recognised in the income statement in the period in which they arise.

*Derecognition*

Derecognition follows the criteria described in respect of the corresponding balance sheet items, using the exchange rate at the settlement date.

## 15 – Other information

*Treasury shares*

The company has no treasury shares to be recognised against the shareholders' equity.

*Accrued income and prepaid expenses and accrued expenses and deferred income*

These items are comprised of the income and expenses relating to the period and accrued on assets and liabilities. They are recognised as an adjustment to the assets and liabilities to which they refer.

*Leasehold improvements*

The costs incurred for the renovation of properties not owned by the company are capitalised given that, for the duration of the lease, controls the assets and may derive future benefits therefrom. These costs are classified under other assets and are amortised over a period not greater than the duration of the lease agreement.

*Benefits for employees*

Severance indemnities are recognised at their actuarial value. For discounting purposes, this value is determined using the projected unit credit method, whereby future payments are projected using historical series analyses and demographical trends, and the financial discounting of these flows based on a market interest rate. The contributions paid each year are considered as individual units and are recognised and measured separately in order to calculate the final obligation.

Severance indemnities are comprised of *interest costs* (i.e., the change in the present value, based on the actuarial estimate at the previous reporting date, by reason of simply approaching the estimated repayment date) and *service costs* (which correspond to greater costs, mainly due to the increase in wages and salaries and the workforce). They are recognised in the income statement under the item “Personnel expenses”, with the exception of *actuarial gains/losses* (equal to the difference in the present value due to changed macro-economic scenarios or estimated interest rates), which are recognised directly under shareholders' equity.

*Additional information on the recognition of income components (revenue/costs)*

The revenues can be recognised:
- in a precise moment, when the entity fulfils the obligation to transfer the goods or services promised to the client, or
- over time, bit by as the entity fulfils the obligation to transfer the goods or services promised to the client.
The good is transferred when, over the course of the given period, the client acquires control.

In particular:
- the fees interests are recognised *pro-rata temporis* on the basis of the rate of contractual interest of that effective in the case of the application of the amortised cost.
- the delayed interest, possibly provided for contractually, are recognised in the Income Statement only at the moment of their effective collection;
- the dividends are relative to the Income Statement over the course of the financial year in which their distribution is authorised;
- the revenue commissions from services are registered, on the basis of the existence of contractual agreements, in the period in which the same services were rendered. The commissions considered in the amortised cost for the purposes of the determination of the effective rate of interest, are recognised under interest;
- revenues deriving from the sale of financial instruments, determined by the difference between the amount paid or collected by the transaction and the *fair value* of the instrument, are recognised in the Income Statement in the context of the recognition of the operation if the *fair value* can be determined with reference to official prices available on active markets, or for the asset or liability measured on the technical basis of valuation that takes as reference observable parameters on the market, different from the quotations of the financial instrument (level 1 and level 2 of the hierarchy of *fair value*). When the parameters of reference used for the valuation are not observable on the market (level 3) or the same instruments present a reduced liquidity, the financial instrument will be registered for an amount equal to the price of the transaction; the difference with regard to the *fair value* goes to the Income Statement during the course of the operation;
- the profits and losses deriving from trading of financial instruments are recognised in the Income Statement at the moment of fulfilment of sale, on the basis of the difference between the amount paid or collected and the value of registration of the same instruments;
- the revenue deriving from the sale of non-financial assets are recognised at the moment of fulfilment of sale, or when the obligation for the client is performed.

The costs are recognised in the Income Statement on an accrual basis; the relative costs of the obtainment and fulfilment of the contracts with the client are recognised on the Income Statement in the periods in which the relative revenues are counted.

*Method for calculating amortised cost*

The amortised cost of a financial asset or liability is the value at which it was measured at initial recognition, net of principal repayments, plus or minus total amortisation, calculated using the effective interest rate method, of the difference between the initial value and the value at maturity, net of any impairment losses. The effective interest rate is the rate that equals the current value of a financial asset or liability balanced against the contractual flow of future cash payments or receipts until maturity or the next price recalculation date. The current value is calculated by applying the effective interest rate to future cash payments or receipts over the entire useful life of the financial asset or liability - or for a shorter period of time under certain circumstances (e.g., a revision of market rates). After initial recognition, the amortised cost allocates revenue and costs decreasing or increasing in the instrument over its entire estimated useful life by using the amortisation process. The determination of the amortised cost is different depending on the financial asset/liability subject to valuation whether at fixed or variable rate and – in this last case – depending on the variability of the rate whether previously known or not. For the instruments at fixed rate or fixed rate at time ranges, the future cash flows will be quantified on the basis of rate of interest known (single or variable) during the life of the loan. For the financial assets/liabilities at variable rate, of which the variability is previously unknown (for example because connected with an index), the determination of the cash flows is made on the basis of the last known rate. For every rate revision date, the amortisation plan and the rate of effective return will be recalculated for the useful lifespan of the instrument, that is to say, until the maturity date. The adjustment is recognised as a cost or income in the income statement.

The valuation of the effective rate of interest will be made for the financial assets valuated at amortised cost and for those valuated at *fair value* with impact on the total profitability, as well as for the financial liabilities valuated at amortised cost.

The financial assets and liabilities negotiated at market conditions were initially recognised at their *fair value*, which normally corresponds to the amount disbursed or paid including, for the instruments valuated at amortised cost, the transaction costs and the directly attributable commissions. Considered as transaction costs are the internal or external marginal income and costs attributable to the issuance, the acquisition or the single financial asset or liability that affect the original effective performance and make the effective rate of interest associated with the transaction different from the contractual rate of interest. Excluded are the costs/income that are indiscriminately relative to more operations and the components that relate to events verifiable over the lifespan of the financial instrument, but that are not certain at the time of the initial definition, such as: commissions for demotion due to non-use, for anticipated extinction. Further, the costs that the company should sustain independently of the operation are not considered in the calculation of the amortised cost (such as the administration costs, stationary costs, communication costs), those that, while being specifically attributable to the operation, fall within the normal management procedure of the loan (for example, assets finalised at disbursement of overdraft), as well as the commissions for services made following the fulfilment of the activity of Structured Finance that would in any case be collected independently from the subsequent loan of the operation.

With particular reference to the receivables, the costs considered attributable to the financial instrument include the commissions paid to the distributive channels, the remuneration paid for consulting/assistance for the organisation and/or the participation in syndicated loans and finally the *up front* commissions related to disbursed loans and rates that are higher than those of the market; while the revenues considered in the calculation of the amortised cost are the up-front commissions related to loans disbursed at lower rates than those of the market, the commissions of participation in syndicated transactions and the commissions of brokerage are associated with commissions recognised by brokerage companies.

Regarding the securities that are not valuated at *fair value* with impact on the income statement, considered as transaction costs are the commissions for contracts with *brokers* operating on Italian stock markets, those disbursed to intermediaries operating on the stock markets and foreign bonds defined on the basis of commission tables. Stamp duty is not considered attracted by amortised cost given that it is not significant.

For securities issued, the following are considered in the calculation of amortised cost: commissions of placement of obligatory loans paid by third parties, quotes paid to stock exchanges and remuneration paid to auditors for the activity carried out regarding every single issuance, while commissions paid to *rating* agencies, legal, consulting and audit expenses for the yearly updating of prospectuses, costs for the use of indices and commissions that originate during the lifespan of the obligatory loan issued are not considered when calculating amortised cost.

The amortised cost is applied also for the valuation of the loss of value of the financial instruments listed above as well as for the registration of those issued or acquired at a different value from their *fair value*. These last ones are registered at *fair value*, instead of for the amount received or paid, calculated by discounting the future cash flows at a rate equal to the actual yield of similar instruments (in terms of credit rating, contractual maturities, currencies, etc), with the current recognition in the Income Statement of a financial expense or income; subsequent to the initial valuation, they are valuated at amortised cost with evidencing of actual interests that are greater or lesser compared to the nominal ones.

As indicated in IFRS 9, in some cases a financial asset is considered deteriorated at the moment of the initial recognition since the credit risk is highly elevated and, in case of purchase, is purchased with big discounts (compared with the value of initial disbursement). In the case in which the financial asset in question, on the basis of the application of the classification drivers (or *SPPI test and Business model*), are classified between the assets valuated at amortised cost or at *fair value* with impact on the total profitability, they are qualified as "*Purchased or Originated Credit Impaired Asset*" (POCI) and are subjected to a particular treatment with regard to the process of *impairment*. Further, for the financial assets qualified as POCI, on the date of initial recognition an effective interest rate is calculated that is correct for the credit (so-called "*credit-adjusted effective interest rate*"), for which individuation is necessary to include, in the estimation of the cash flows, the initial losses expected. For the application of the amortised cost, and the consequent calculation of the interest, such effective interest rate is therefore applied that is correct for the credit.

### A.3 – DISCLOSURE ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

The Bank did not reclassify any financial assets during the financial year.

## A.4 – INFORMATION ON FAIR VALUE

*Fair value* can be defined as the price that would be received to sell an asset or paid to transfer a liability in a transaction on the valuation date, according to the conditions of the market. In accordance with IFRS 13, the *fair value* calculation has been adjusted for each asset or liability category. Consequently, a *fair value* measurement considers the characteristics of assets and liabilities. These characteristics include, inter alia, the condition and position of an asset and any restrictions, if present, on its use or sale. *Fair value* measurement assumes that the sale and/or transfer of the asset/liability takes place in the principal market of the asset/liability or, in the absence of such market, in the market most advantageous for the asset/liability.

### Qualitative information

*A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used*

The valuation techniques used have been adjusted to the specific characteristics of the assets and liabilities subject to valuation through:
- a market approach: this method uses prices and other relevant information generated by market transactions involving identical or comparable assets.
- a revenue/costs approach: this method converts future amounts (*cash flows* or income and expenses) into a single amount (discounted).

When this approach is used, calculation of the *fair value* reflects current expectations regarding future amounts. This technique also includes the "*net present value*" calculation method. With respect to the impact of "credit value adjustment" on the calculation of fair value, the counterparty risk of the portfolio of receivables due from customers is included in the portfolio impairment.
The choice of *input* is intended to maximise the use of inputs directly observable on the market, reducing the use of internal estimates to a minimum.

*A.4.2 Measurement processes and sensitivity*

The process used to calculate the *fair value* of individual balance sheet items is illustrated below.

With reference to the assets portion of the balance sheet:
- <u>Securities</u>: the *fair value* is determined by observing the valuation of the financial instruments on the active market or,
through communication of the issuers or, when not available, that of comparable assets. Where the market method cannot be applied, two different options are pursued:
  for internally produced non-listed asset-backed securities: the revenue/costs approach is adopted;
  for unlisted capital instruments measured at cost: it is assumed that the *fair value* of these capital instruments
  corresponds to the book value.

<u>Due from banks</u>: for this item, it is assumed that the *fair value* corresponds to the book value;
- <u>Due from customers</u>: for this item it is assumed that the *fair value* corresponds to the book value, excepting for salary-backed loans (intended for ongoing divestment within a relatively short period): the *fair value* of these loans is determined as the average sale differential, derived from a comparison of the accounting rate and the sale rate (both elements identifiable on the market or through external buyers) in the last quarter (where no such sales have taken place in the last quarter, the period shall extend to the last half-year).
- <u>Tangible fixed assets intended for investment</u>: in order to determine their appropriate market value, these fixed assets are assessed at least annually by independent experts, who indicate a *range* of values in addition to market values and the relative *status* of the assets. For valuative purposes it was identified which value of reference was the value of capitalisation for the leased properties, while for the vacant properties the lowest realisable value (appropriate to a discounting effect provided for by the internal policy), with a view to final valuation, was corrected downward by a further sale commission.
- <u>Intangible fixed assets with an indefinite useful life</u>: for this item, it is assumed that the *fair value* corresponds to the book value since it is periodically tested for any impairment losses.

With reference to the liabilities portion of the balance sheet:
- <u>Due to banks</u>: for this item, it is assumed that the fair value corresponds to the book value;
- <u>Due to customers</u>: for this item, it is assumed that the fair value corresponds to the book value;

- Securities in circulation: *fair value* is calculated by discounting estimated cash flows using corrective factors that consider the internal counterparty risk and liquidity risk of the instrument.

*A.4.3 Fair value hierarchy*

With a view to increasing the consistency and comparability of *fair value* determination, IFRS 13 establishes a hierarchy in function of the *inputs* used for the different measurement techniques. The hierarchy gives preference to the use of prices listed on active markets related to identical assets and/or liabilities rather than the use of *inputs* that cannot be observed directly on the market. Specifically:
- Level 1: *fair value* can be observed directly on the active markets to which the entity has access on the date the *fair value* of identical or comparable assets/liabilities is determined.
- Level 2: *fair value* is calculated internally, based on *inputs* directly observable on the market.
- Level 3: *fair value* is calculated internally, based on indirectly observable *inputs.*

*A.4.4 Other information*

No additional information is required with reference to the provisions of IFRS 13, paragraphs 51, 93.i), and 96.

**Quantitative information**

*A.4.5 Fair value hierarchy*

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

| Assets/liabilities measured at fair value | 31/12/2018 | | | 31/12/2017 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets valuated at fair value with impact on income statement | | | 5,127 | | | 4,050 |
| a) financial assets held for trading | | | | | | |
| b) financial assets designated at fair value | | | | | | |
| c) other financial assets obligatorily valuated at fair value | | | 5,127 | | | 4,050 |
| 2. Financial assets valuated at fair value with impact on total profitability | 15,603 | | 33,148 | 10,109 | | 43,690 |
| 3. Hedging derivatives | | | | | | |
| 4. Tangible assets | | | | | | |
| 5. Intangible assets | | | | | | |
| **Total** | **15,603** | | **38,275** | **10,109** | | **47,740** |
| 1. Financial liabilities held for trading | | | | | | |
| 2. Financial liabilities designated at fair value | | | | | | |
| 3. Hedging derivatives | | | | | | |
| **Total** | | | | | | |

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

At the reporting date, no assets and liabilities had been transferred between the different *fair value* levels.

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

| | Financial assets valuated at fair value with impact on income statement | | | | Financial assets valuated at fair value with impact on total profitability | Hedging derivatives | Tangible assets | Intangible assets |
|---|---|---|---|---|---|---|---|---|
| | Total | of which: a) financial assets held for trading | of which: b) financial assets designated for fair value | of which: c) other financial assets obligatorily valuated at fair value | | | | |
| **1. Initial figures** | **4,050** | | | **4,050** | **43,690** | | | |
| **2. Increases** | **1,348** | | | **1,348** | **199,982** | | | |
| 2.1 Purchases | 1,132 | | | 1,132 | 178,210 | | | |
| 2.2 Profits recognised in: | | | | | | | | |
| 2.2.1 Income Statement | | | | 216 | | | | |
| - capital gains | | | | | 20,117 | | | |
| 2.2.2 Shareholders' equity | | X | X | X | 1,655 | | | |
| 2.3 Transfers to other levels | | | | | | | | |
| 2.4 Other increases | - | | | | | | | |
| **3. Decreases** | **(271)** | | | **(271)** | **(210,524)** | | | |
| 3.1 Sales | | | | | (210,524) | | | |
| 3.2 Reimbursements | | | | | | | | |
| 3.3 Losses recognised in: | | | | | | | | |
| 3.3.1 Income Statement | (127) | | | (127) | | | | |
| - capital losses | | | | | | | | |
| 3.3.2 Shareholders' equity | | X | X | X | | | | |
| 3.4 Transfers to other levels | | | | | | | | |
| 3.5 Other decreases | | | | (144) | | | | |
| **4. Closing figures** | **5,127** | | | **5,127** | **33,148** | | | |

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

The Bank has no financial liabilities in this category.

*A.4.5.4 Assets and liabilities not measured at fair value or valuated at fair value on a non-recurring basis: distribution by fair value level*

| Assets/liabilities not valuated at fair value or measured at fair value on a non-recurring basis | 31/12/2018 | | | | 31/12/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | L1 | L2 | L3 | BV | L1 | L2 | L3 |
| 1. Financial assets valuated at amortised cost | 261,664 | 110,606 | 6,629 | 144,429 | 151,747 | | 7,749 | 142,820 |
| 2. Tangible assets held for investment purposes | 8,368 | | | 8,368 | 7,089 | | | 7,089 |
| 3. Non-current assets and groups of assets held for sale | | | | | | | | |
| **Total** | **270,032** | **110,606** | **6,629** | **152,797** | **158,836** | | **7,749** | **149,909** |
| 1. Financial liabilities valuated at amortised cost | 280,841 | | | 280,718 | 176,557 | | | 176,434 |
| 2. Liabilities associated with assets held for sale | | | | | | | | |
| **Total** | **280,841** | | | **280,718** | **176,557** | | | **176,434** |

**Legend:**
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

At the reporting date, no assets and liabilities had been transferred between the different *fair value* levels.

### A.5 DAY ONE PROFIT/LOSS DISCLOSURE

The company has no financial instruments that meet the requirements set forth under IFRS 7, paragraph 28.

## Part B – INFORMATION ON THE BALANCE SHEET

### ASSETS

### Section 1 – Cash and liquidity – Item 10

*1.1 Cash and liquidity: composition*

| | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| a) Cash<br>b) On sight deposits at Central Banks | 130 | 69 |
| **Total** | **130** | **69** |

### Section 2 – Financial assets valuated at fair value with impact on the income statement – Item 20

*2.1 Financial assets held for trading: composition by type*

The Bank has no financial assets designated in this category.

*2.2 Financial assets held for trading: composition by debtor/issuer/counterparty*

The Bank has no financial assets designated in this category.

*2.3 Financial assets designated at fair value: composition by type*

The Bank has no financial assets designated in this category.

*2.4 Financial assets designated at fair value: composition by debtor/issuer*

The Bank has no financial assets designated in this category.

*2.5 Financial assets obligatorily valuated at fair value: composition by type*

| Items/Values | Total 31/12/2018 | | | Total 31/12/2017 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **1. Debt securities** | | | **3,011** | | | **1,945** |
| 1.1 Structured securities | | | | | | |
| 1.2 Other debt instruments | | | 3,011 | | | 1,945 |
| **2. Equity securities** | | | | | | |
| **3. Shares in UCIs** | | | **44** | | | **49** |
| **4. Loans** | | | **2,072** | | | **2,056** |
| 4.1 Structured | | | | | | |
| 4.2 Other | | | 2,072 | | | 2,056 |
| **Total** | | | **5,127** | | | **4,050** |

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

The item "Debt securities" includes *Junior* ABS relative to the operations of securitisation originated from the Bank; and they represent the *retention rule* outlined in the reference regulations, equal to at least 5% of the securities issued by the vehicle companies; and their composition results as follows:

- Eridano I SPV: ABS *junior* for 1,879 thousand Euro;
- Eridano II SPV: ABS *junior* for 1,132 thousand Euro.

The item “Loans” includes two Investment insurance policies.

*2.6 Other financial assets obligatorily valuated at fair value: composition by debtor/issuer*

| Items/Values | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| **1. Equity securities** | | |
| of which: banks | | |
| of which: other financial companies | | |
| of which: non-financial companies | | |
| **2. Debt securities** | **3,011** | **1,945** |
| a) Central Banks | | |
| b) Public administrations | | |
| c) Banks | | |
| d) Other financial companies | 3,011 | 1,945 |
| of which: insurance companies | | |
| e) Non-financial companies | | |
| **3. Shares in UCIs** | **44** | **49** |
| **4. Loans** | **2,072** | **2,056** |
| a) Central Banks | | |
| b) Public administrations | | |
| c) Banks | | |
| d) Other financial companies | 2,072 | 2,056 |
| of which: insurance companies | 2,072 | 2,056 |
| e) Non-financial companies | | |
| f) Families | | |
| **Total** | **5,127** | **4,050** |

## Section 3 - Financial assets valuated at *fair value* with impact on the total profitability – Item 30

*3.1 Financial assets valuated at fair value with impact on the total profitability: composition by type*

| Items/Values | Total 31/12/2018 | | | Total 31/12/2017 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **1. Debt securities** | **15,603** | | | **10,109** | | |
| 1.1 Structured securities | | | | | | |
| 1.2 Other debt instruments | 15,603 | | | 10,109 | | |
| **2. Equity securities** | | | **197** | | | **237** |
| **3. Loans** | | | **32,951** | | | **43,453** |
| **Total** | **15,603** | | **33,148** | **10,109** | | **43,690** |

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

The item “Debt securities” includes Italian state securities.

The item “Equity securities” includes instruments valuated at cost, in that they do not present a quotation, for which the intention to divest in the short term is not forecast:

| Company / Entity | Purpose | Registered office | % Equity investment | Value |
|---|---|---|---|---|
| Banca Alpi Marittime CC di Carrù ScpA | Commercial partnership | Carrù | 0.26% | 40 |
| Banca Valsabbina ScpA | Commercial partnership | Brescia | 0.01% | 29 |
| Banca di CC di Cherasco ScpA | Commercial partnership | Cherasco | 0.15% | 26 |
| Banca Popolare del Mediterraneo ScpA | Commercial partnership | Naples | 0.00% | 4 |
| Cassa di Risparmio di Cesena SpA | FITD participation | Cesena | 0.00% | 22 |
| Fondo Interbancario di Tutela dei Depositi | FITD participation | Rome | 0.00% | 1 |
| Lime Film Srl | Advertising | Rome | N/A | 65 |
| GAL Colline Salernitane Srl | Territorial development | Salerno | 0.01% | 10 |
| | | | **Total** | **197** |

The item “Loans” includes SPBL loans identified as potentially transferable.

3.2. *Financial assets valuated at fair value with impact on the total profitability: composition by debtors/issuers*

| Items/Values | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| **1. Debt securities** | **15,603** | **10,109** |
| a) Central Banks | | |
| b) Public administrations | 15,603 | 10,109 |
| c) Banks | | |
| d) Other financial companies | | |
| of which: insurance companies | | |
| e) Non-financial companies | | |
| **2. Equity securities** | **197** | **237** |
| a) Banks | 121 | 121 |
| b) Other issuers | 76 | 116 |
| - other financial companies | | 40 |
| of which: insurance companies | | |
| - non-financial companies | | |
| - other | 76 | 76 |
| **3. Loans** | **32,951** | **43,453** |
| a) Central Banks | | |
| b) Public administrations | | |
| c) Banks | | |
| d) Other financial companies | | |
| of which: insurance companies | | |
| e) Non-financial companies | | |
| f) Families | 32,951 | 43,453 |
| **Total** | **48,751** | **53,799** |

*3.3 Financial assets valuated at fair value with impact on the total profitability: gross value and total impairment*

| | Gross value | | | | Total impairment | | | Total partial write-offs |
|---|---|---|---|---|---|---|---|---|
| | First stage | of which: instruments with low credit risk | Second stage | Third stage | First stage | Second stage | Third stage | |
| Debt securities | 15,603 | 15,603 | | | | | | |
| Loans | 28,899 | 28,899 | 927 | 3,960 | (78) | (27) | (730) | |
| **Total as of 31/12/2018** | **44,502** | **44,502** | **927** | **3,960** | **(78)** | **(27)** | **(730)** | |
| **Total as of 31/12/2017** | **48,781** | **48,781** | **437** | **5,199** | **(116)** | **(1)** | **(738)** | |
| of which: acquired or arising impaired financial assets | X | X | | | X | | | |

## Section 4 - Financial assets valuated at amortised cost - Item 40

*4.1 The financial asset at amortised cost: the composition by type of the due from banks*

| Type of operation/Values | Total 31/12/2018 | | | | | | Total 31/12/2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Book value | | | Fair Value | | | Book value | | | Fair Value | | |
| | First and second stage | Third stage | of which: impaired acquired or arising | L1 | L2 | L3 | First and second stage | Third stage | of which: impaired acquired or arising | L1 | L2 | L3 |
| **A. Due from Central Banks** | | | | | | | | | | | | |
| 1. Term deposits | | | | X | X | X | | | | X | X | X |
| 2. M Minimum reserve | | | | X | X | X | | | | X | X | X |
| 3. Repurchase agreements | | | | X | X | X | | | | X | X | X |
| 4. O Other | | | | X | X | X | | | | X | X | X |
| **B. Due from banks** | **91,752** | | | | | **91,752** | **84,173** | | | | | **84,173** |
| 1. Loans | 91,752 | | | | | 91,752 | 84,173 | | | | | 84,173 |
| 1.1. On sight deposits and current | 33,395 | | | X | X | X | 17,811 | | | X | X | X |
| 1.2. Term deposits | 58,255 | | | X | X | X | 5,158 | | | X | X | X |
| 1.3. Other loans | 102 | | | X | X | X | 61,204 | | | X | X | X |
| - Reverse repurchase agreements | | | | X | X | X | | | | X | X | X |
| - Financial leases | | | | X | X | X | | | | X | X | X |
| - Other | 102 | | | X | X | X | 61,204 | | | X | X | X |
| 2. Debt securities | | | | | | | | | | | | |
| 2.1. Structured securities | | | | | | | | | | | | |
| 2.2. Other debt instruments | | | | | | | | | | | | |
| **Total** | **91,752** | | | | | **91,752** | **84,173** | | | | | **84,173** |

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

The sub-item “Maturing deposits” includes:
the minimum reserve, indirectly allocated, equal to 0.9 million Euro;
- the interbank investment, equal to 54 million euro;
- hedging guarantees of current asset (example security movements on the RNI channel, bank drafts, *servicing* on SPBLs sold for the residual part.

*4.2 Financial assets valuated at amortised cost: composition by type of receivables due from customers*

| Type of operation/Values | Total 31/12/2018 | | | | | | Total 31/12/2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Book value | | | Fair Value | | | Book value | | | Fair Value | | |
| | First and second stage | Third stage | of which: impaired acquired or arising | L1 | L2 | L3 | First and second stage | Third stage | of which: impaired acquired or arising | L1 | L2 | L3 |
| **1. Loans** | **37,651** | **10,357** | **269** | | | **48,008** | **44,039** | **15,789** | | | | **58,647** |
| 1.1. Current accounts | 3,341 | 940 | | X | X | X | 5,374 | 1,896 | | X | X | X |
| 1.2. Reverse repurchase | | | | X | X | X | | | | X | X | X |
| 1.3. Loans | 9,829 | 3,179 | 253 | X | X | X | 14,384 | 3,304 | | X | X | X |
| 1.4. Credit cards, personal loans and salary-backed loans | 8,005 | 340 | | X | X | X | 8,661 | 1,716 | | X | X | X |
| 1.5. Financial leases | 8,269 | 5,794 | | X | X | X | 13,016 | 8,627 | | X | X | X |
| 1.6. Factoring | | | | X | X | X | | | | X | X | X |
| 1.7. Other loans | 8,207 | 104 | 16 | X | X | X | 2,604 | 246 | | X | X | X |
| **2. Debt securities** | **121,904** | | | **110,606** | **6,629** | **4,669** | **7,749** | | | | **7,749** | **7,749** |
| 2.1. Structured securiti | | | | | | | | | | | | |
| 2.2. Other debt instrum | 121,904 | | | | | | 7,749 | | | | | |
| **Total** | **159,555** | **10,357** | **269** | **110,606** | **6,629** | **52,677** | **51,788** | **15,789** | | | **7,749** | **66,396** |

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

The sub-item "Other loans" is primarily composed of:
- exposure from third party seller administrations (paying entities on SPBL files), in compliance with the provisions of supervisory regulations;
- repayment plans;
- operational items such as deposits at Poste Italiane and loans due for collection.

The item "Debt securities" includes:
- state securities bound in the context of operations of Repurchase Agreements, for which please refer to section E of the Explanatory Notes;
- ABS *senior* and Mezzanine related to the operations of securitisation originating from the Bank; and they represent the *retention rule* outlined by the regulations of reference, equalling at least 5% of the securities issued by the vehicle company; and their composition is the following:

- Eridano I SPV: ABS *senior* for 6,629 thousand Euro (rating: Aa3 for Moody's and A *high* for DBRS);
- Eridano II SPV: ABS *senior* for 4,347 thousand Euro and ABS *mezzanine* for 346 thousand Euro;

*4.3 Financial leases*

Lease agreements placed with customers primarily fall into the real estate category:

| Minimum payments | Total as of 31/12/2018 | | Total as of 31/12/2017 | |
|---|---|---|---|---|
| | Gross value | Present value | Gross value | Present value |
| - up to 12 months | 1,354 | 810 | 1,659 | 840 |
| - from one year to five years | 5,514 | 1,719 | 7,312 | 4,099 |
| - beyond five years | 11,621 | 9,973 | 17,736 | 14,003 |
| **Total** | **18,489** | **12,502** | **26,707** | **18,942** |
| - deferred financial profits | (5,987) | | (7,765) | |
| **Total** | **12,502** | **12,502** | **18,942** | **18,942** |

*4.4 Financial assets valuated at amortised cost: composition for borrowers/issuers of credit to client*

| Type of operation/Values | Total 31/12/2018 | | | Total 31/12/2017 | | |
|---|---|---|---|---|---|---|
| | First and second stage | Third stage | of which: impaired acquired or arising | First and second stage | Third stage | of which: impaired acquired or arising |
| **1. Debt securities** | **121,904** | | | **7,749** | | |
| a) Public administrations | 110,582 | | | | | |
| b) Other financial companies | 11,322 | | | 7,749 | | |
| of which: insurance companies | | | | | | |
| c) Non-financial companies | | | | | | |
| **2. Loans** | **37,651** | **10,357** | **269** | **44,039** | **15,789** | |
| a) Public administrations | 1,143 | 14 | 5 | 862 | 47 | |
| b) Other financial companies | 7,009 | | | 1,647 | 21 | |
| of which: insurance companies | 1 | | | | | |
| c) Non-financial companies | 15,771 | 8,149 | 246 | 26,780 | 13,092 | |
| d) Families | 13,727 | 2,194 | 18 | 14,750 | 2,629 | |
| **Total** | **159,555** | **10,357** | **269** | **51,788** | **15,789** | |

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

| | Gross value | | | | Total impairment | | | Total partial write-offs |
|---|---|---|---|---|---|---|---|---|
| | First stage | of which: instruments with low credit risk | Second stage | Third stage | First stage | Second stage | Third stage | |
| Debt securities | 121,962 | 121,962 | | | (58) | | | |
| Loans | 113,431 | 113,431 | 17,272 | 19,531 | (121) | (1,179) | (9,174) | |
| **Total as of 31/12/2018** | **235,393** | **235,393** | **17,272** | **19,531** | **(179)** | **(1,179)** | **(9,174)** | |
| **Total as of 31/12/2017** | **106,890** | **106,890** | **29,460** | **33,064** | **(25)** | **(362)** | **(17,276)** | |
| of which: acquired or arising impaired financial assets | X | X | 1 | 759 | X | | (492) | |

## Section 5 – Hedging derivatives – Item 50

The Bank did not underwrite hedging derivatives.

## Section 6 – Adjustments in the value of financial assets subject to macro-hedging – Item 60

The Bank has no financial assets designated in this category.

## Section 7 – Equity investments– Item 70

The Bank has no financial assets designated in this category.

## Section 8 – Tangible assets – Item 80

*8.1 Tangible assets having a functional use: composition of assets valuated at cost*

| Asset/Value | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| **1. Assets owned** | **974** | **852** |
| a) land | | |
| b) buildings | | |
| c) furniture | 266 | 199 |
| d) electronic equipment | 234 | 273 |
| e) other | 474 | 380 |
| **2. Assets acquired through financial leases** | | |
| a) land | | |
| b) buildings | | |
| c) furniture | | |
| d) electronic equipment | | |
| e) other | | |
| **Total** | **974** | **852** |
| of which: obtained through enforcement of guarantees | | |

*8.2 Tangible assets held for investment purposes: composition of the assets measured at cost*

The Bank has no designated tangible assets for investment purposes that are measured at cost.

*8.3 Tangible assets having a functional use: composition of revalued assets*

The Bank has no designated revalued tangible assets having a functional use.

*8.4 Tangible assets held for investment purposes: composition of assets valuated at fair value*

| Asset/Value | Total as of 31/12/2018 | | | Total as of 31/12/2017 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **1. Assets owned** | | | | | | |
| a) land | | | | | | |
| b) buildings | | | 8,368 | | | 7,089 |
| **2. Assets acquired through financial leases** | | | | | | |
| a) land | | | | | | |
| b) buildings | | | | | | |
| **Total** | | | **8,368** | | | **7,089** |
| of which: obtained through enforcement of guarantees | | | 8,368 | | | 7,089 |

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

The buildings held for investment purposes include assets fully included in the perimeter of the company's assets following termination of existing lease contracts. During the financial year a single property was repossessed having a counter-value of 2.4 million Euro, and was subsequently relocated.

The sum of these non-residential assets refer to an illiquid market and present the following characteristics:
- industrial and commercial in nature;
- average-large in size;
- located in central Italy.

Although strategies exist for their sale, given their nature and the context of the market, a certain date for their divestment cannot be reliably determined.

The fair value of the properties in question is assessed at least annually by independent experts, who indicate a range of values in addition to market values and the related status of the assets (for which no renovations are planned at the present time). In this context, market capitalisation was indicated by independent experts as to be adopted for valuation purposes as the value of reference for the leased properties, while for non-leased properties the lowest realisable value has been adopted, reduced by a further discount component provided for by the Bank's internal policies, with a view to final valuation (without taking into account any rental income), corrected downward by an additional sale commission equal to 2% of the transaction value determined.

*8.5 Remainder of tangible assets governed by IAS 2: composition*

The Bank has not designated tangible assets governed according to IAS 2.

*8.6 Tangible assets having a functional use: annual changes*

| | | Land | Buildings | Furniture | Electronic equipment | Other | Total |
|---|---|---|---|---|---|---|---|
| A. | **Gross initial figures** | | | **341** | **481** | **572** | **1,394** |
| A.1 | Total net impairments | | | (142) | (208) | (192) | (542) |
| A.2 | **Net initial figures** | | | **199** | **273** | **380** | **852** |
| B. | **Increases** | | | **134** | **36** | **224** | **394** |
| B.1 | Purchases | | | 134 | 36 | 182 | 352 |
| B.2 | Capitalised leasehold improvements | | | | | | |
| B.3 | Value reinstatements | | | | | | |
| B.4 | Increases in fair value recognised under: | | | | | | |
| | a) shareholders' equity | | | | | | |
| | b) income statement | | | | | | |
| B.5 | Positive exchange rate differences | | | | | | |
| B.6 | Transfers from property held for investment purposes | | | X | X | X | |
| B.7 | Other changes | | | | | 42 | |
| **C.** | **Decreases** | | | **(67)** | **(75)** | **(130)** | **(272)** |
| C.1 | Sales | | | (2) | (1) | | |
| C.2 | Amortisation | | | (46) | (74) | (130) | (250) |
| C.3 | Net value adjustments owing to impairment recognised under: | | | | | | |
| | a) shareholders' equity | | | | | | |
| | b) income statement | | | | | | |
| C.4 | Decreases in fair value recognised under: | | | | | | |
| | a) shareholders' equity | | | | | | |
| | b) income statement | | | | | | |
| C.5 | Negative exchange rate | | | | | | |
| C.6 | Transfers to: | | | | | | |
| | a) tangible assets held for investment purposes | | | X | X | X | |
| | b) non-current assets and groups of assets in the process | | | | | | |
| C.7 | Other changes | | | (19) | | | |
| **D.** | **Net closing figures** | | | **266** | **234** | **474** | **974** |
| D.1 | Total net impairments | | | (188) | (282) | (322) | (792) |
| **D.2** | **Gross closing figures** | | | **454** | **516** | **796** | **1,766** |
| E. | Valuation at cost | | | | | | |

*8.7 Tangible assets held for investment purposes: annual changes*

| | | Total | |
|---|---|---|---|
| | | Land | Buildings |
| **A.** | **Gross initial figures** | | **7,089** |
| **B.** | **Increases** | | **2,350** |
| B.1 | Purchases | | |
| B.2 | Capitalised leasehold improvements | | |
| B.3 | Increases in fair value | | |
| B.4 | Value reinstatements | | |
| B.5 | Positive exchange rate differences | | |
| B.6 | Transfers from properties having a functional use | | |
| B.7 | Other changes | | 2,350 |
| **C.** | **Decreases** | | **(1,071)** |
| C.1 | Sales | | |
| C.2 | Amortisation | | |
| C.3 | Decreases in fair value | | (1,071) |
| C.4 | Net value adjustments owing to impairment | | |
| C.5 | Negative exchange rate differences | | |
| C.6 | Transfers from other asset portfolios: | | |
| | a) property having a functional use | | |
| | b) non-current assets and groups of assets in the process of divestment | | |
| C.7 | Other changes | | |
| **D.** | **Net closing figures** | | **8,368** |
| E. | Valuation at *fair value* | | |

*8.8 Remainder of tangible assets governed by IAS 2: annual changes*

The Bank has not designated tangible assets governed according to IAS 2.

*8.9 Commitments to purchase tangible assets*

The company does not have any commitments to purchase tangible assets.

## Section 9 – Intangible assets – Item 90

*9.1 Intangible assets: composition by asset type*

| Asset/Value | Total 31/12/2018 | | Total 31/12/2017 | |
|---|---|---|---|---|
| | Definite duration | Indefinite duration | Definite duration | Indefinite duration |
| **A.1 Goodwill** | **X** | **1,236** | **X** | **1,236** |
| **A.2 Other intangible assets** | **1,294** | | **832** | |
| A.2.1 Assets valuated at cost: | 1,294 | | 832 | |
| a) intangible assets generated internally | | | | |
| b) other assets | 1,294 | | 832 | |
| A.2.2 Assets valuated at fair value: | | | | |
| a) intangible assets generated internally | | | | |
| b) other assets | | | | |
| **Total** | **1,294** | **1,236** | **832** | **1,236** |

Assets of definite duration comprise the software purchased by third parties.

Assets of indefinite duration comprise the goodwill related to the funding of the Salerno branch, recognised following the divestment of the purchase price of the Crediter SpA equity investment, already Credito Salernitano ScpA. This item, periodically subject to *impairment test*, did not reveal losses of value corresponding to the value in use, even with respect to *stress*, it resulted in line with the value at recognition of the asset.

### 9.2 Intangible assets: annual changes

| | Goodwill | Other assets Intangible: generated internally | | Other assets Intangible: other | | Total |
|---|---|---|---|---|---|---|
| | | DEF | INDEF | DEF | INDEF | |
| **A. Initial figures** | **1,236** | | | **4,258** | | **5,494** |
| A.1 Total net impairments | | | | (3,426) | | (3,426) |
| **A.2 Net initial figures** | **1,236** | | | **832** | | **2,068** |
| **B. Increases** | | | | **784** | | **784** |
| B.1 Purchases | | | | 784 | | 784 |
| B.2 Increases in internal intangible assets | X | | | | | |
| B.3 Value reinstatements | X | | | | | |
| B.4 Increases in fair value | | | | | | |
| - under shareholders' equity | X | | | | | |
| - in the income statement | X | | | | | |
| B.5 Positive exchange rate differences | | | | | | |
| B.6 Other changes | | | | | | - |
| **C. Decreases** | | | | **(322)** | | **(322)** |
| C.1 Sales | | | | | | |
| C.2 Value adjustments | | | | | | |
| - Amortisation | X | | | (322) | | (322) |
| - Write-downs | | | | | | |
| + Under shareholders' equity | X | | | | | |
| + in the income statement | | | | | | |
| C.3 Decreases in fair value | | | | | | |
| - under shareholders' equity | X | | | | | |
| - in the income statement | X | | | | | |
| C.4 Transfers to non-current assets in the process of divestment | | | | | | |
| C.5 Negative exchange rate differences | | | | | | |
| C.6 Other changes | | | | | | |
| **D. Net closing figures** | **1,236** | | | **1,294** | | **2,530** |
| D.1 Total net impairment | | | | (3,748) | | (3,748) |
| **E. Gross closing figures** | **1,236** | | | **5,042** | | **6,278** |
| F. Valuation at cost | | | | | | |

**Legend:**
DEF = having a definite duration
INDEF = having an indefinite duration

### 9.3 Intangible assets: other information

There is no information to report other than that already provided in the previous sections.

## Section 10 – Tax assets and tax liabilities – Item 100 of the assets and Item 60 of the liabilities

*10.1 Deferred tax assets: composition*

| | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| **With a contra-entry in the Income Statement:** | **6,817** | **5,786** |
| - tax losses | 1,248 | 2,620 |
| - receivable write-downs pursuant to Law 214/2011 | 2,256 | 2,386 |
| - IFRS 9 write-downs (deductible in 10 years) | 2,117 | |
| - other credit write-downs | 99 | 8 |
| - change in fair value property investments | 295 | |
| - commissions | 10 | 11 |
| - maintenance and amortisations of tangible assets | 6 | 12 |
| - remuneration of directors and bonuses | 52 | 85 |
| - provisions for risks on financial guarantees given | 31 | 13 |
| - other provisions for risks | 689 | 305 |
| - ACE (Aiuto alla Crescita Economica [Italian Economic Growth Aid]) | 14 | 346 |
| **A contra-entry in the Shareholders' Equity:** | **31** | **62** |
| - FVOCI valuation reserves | | 13 |
| - severance indemnity valuation reserves | 31 | 49 |
| **Total** | **6,848** | **5,848** |

*10.2 Deferred tax liabilities: composition*

| | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| **A contra-entry in the Shareholders' Equity:** | **512** | |
| - FVOCI valuation reserves | 512 | |
| **Total** | **512** | |

*10.3 Changes in deferred tax assets (with a contra-entry in the income statement)*

| | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| **1. Initial amount** | **5,786** | **2,123** |
| **2. Increases** | **3,224** | **4,724** |
| 2.1 Deferred tax assets recognised in the financial year | 3,224 | 562 |
| a) relative to previous financial years | | 151 |
| b) owing to changes in accounting criteria | 2,254 | |
| c) value reinstatements | | |
| d) other | 970 | 411 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | | 4,162 |
| **3. Decreases** | **(2,193)** | **(1,061)** |
| 3.1 Deferred tax assets derecognised in the financial year | (2,063) | (602) |
| a) reversals | (2,044) | (535) |
| b) write-downs owing to supervening uncollectability | | |
| c) owing to changes in accounting criteria | | |
| d) other | (19) | (67) |
| 3.2 Decreases in tax rates | | |
| 3.3 Other decreases | (130) | (459) |
| a) transformation into tax credits pursuant to Law 214/2011 | (130) | (459) |
| b) other | | |
| **4. Final amount** | **6,817** | **5,786** |

The increases are substantially attributable to the recognition of the temporary differences:
- in the IFRS 9 write-downs by 2.1 million Euro;
- in the fair value changes of property investments by 0.3 million Euro;
- in risk funds and expenses by 0.3 million Euro.

The decreases, however, are substantially inherent to the use:
- of tax losses by 1.3 million Euro:
- of the previous ACE (*Aiuto alla Crescita Economica* [Italian Economic Growth Aid]) taxes by 0.3 million Euro.

*10.3a Changes in deferred tax assets pursuant to Law 214/2011*

| | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| **1. Initial amount** | **2,386** | **1,638** |
| **2. Increases** | | **1,345** |
| **3. Decreases** | **(130)** | **(597)** |
| 3.1 Reversals | | (138) |
| 3.2 Transformation into tax credits | (130) | (459) |
| a) deriving from operating losses | | |
| b) deriving from tax losses | (130) | (459) |
| 3.3 Other decreases | | |
| **4. Final amount** | **2,256** | **2,386** |

*10.4 Changes in deferred tax liabilities (with a contra-entry in the income statement)*

The Bank has not designated deferred tax liabilities with a contra-entry in the income statement.

*10.5 Changes in deferred tax assets (with a contra-entry in the shareholders' equity)*

| | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| **1. Initial figures** | **62** | **27** |
| **2. Increases** | **-** | **58** |
| 2.1 Deferred tax assets recognised in the financial year | | |
| a) relative to previous financial years | | |
| b) owing to changes in accounting criteria | | |
| c) value reinstatements | | |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | | 58 |
| **3. Decreases** | **(31)** | **(23)** |
| 3.1 Deferred tax assets derecognised in the financial year | | |
| a) reversals | (31) | (18) |
| b) write-downs owing to supervening uncollectability | | |
| c) owing to changes in accounting criteria | | |
| d) other | | |
| 3.2 Decreases in tax rates | | |
| 3.3 Other decreases | | **(5)** |
| **4. Final amount** | **31** | **62** |

*10.6 Changes in deferred taxes (with a contra-entry in the shareholders' equity)*

| | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| **1. Initial figures** | **-** | **-** |
| **2. Increases** | **1,140** | |
| 2.1 Deferred tax liabilities recognised in the financial year | 1,140 | |
| a) relative to previous financial years | | |
| b) owing to changes in accounting criteria | 628 | |
| c) other | 512 | |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | | |
| **3. Decreases** | **(628)** | |
| 3.1 Deferred tax liabilities derecognised in the financial year | (628) | |
| a) reversals | (628) | |
| b) owing to changes in accounting criteria | | |
| c) other | | |
| 3.2 Decreases in tax rates | | |
| 3.3 Other decreases | | |
| **4. Final amount** | **512** | **-** |

The increases are attributable to greater market value assigned to the SPBL classified in the financial assets valuated at *fair value* with impact on the total profitability.

*10.7 Other information*

| Current tax assets | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| IRAP (Italian regional tax on productive activity) receivables | 139 | 139 |
| IRES (Italian corporate income tax) receivables | 4 | 8 |
| Tax credits for transformation of DTAs pursuant to Law 214/2011 | 130 | 1,189 |
| **Total** | **273** | **1,336** |

The tax credits for transformation of DTA Law 214/2011 revealed in 2017 were used completely during the financial year; the 2018 balance represents the conversion that was applied after the filing of the tax return.

| Current tax liabilities | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| IRAP payables - Current taxes | 446 | |
| **Total** | **446** | **-** |

## Section 11 – Non-current assets and groups of assets in the process of divestment, and associated liabilities – Item 110 of the assets and Item 70 of the liabilities

The Bank has not designated assets/liabilities in the process of divestment, according to that outlined by IFRS 5.

## Section 12 – Other assets – Item 120

*12.1 Other assets: composition*

| | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| Processing accounts | 2,523 | 1,848 |
| Tax balances | 711 | 694 |
| Security deposits | 17 | 20 |
| Servicing of loans sold and derecognised (receipts and expenses) | 1,979 | 2,440 |
| Accrued income and prepaid expenses not attributable to items under own category | 300 | 333 |
| Leasehold improvements | 557 | 459 |
| Sundry receivables | 1,087 | 685 |
| Advances to agents and suppliers | 1,428 | 2,161 |
| **Total** | **8,602** | **8,640** |

The other assets are mainly composed of:

- advances to agents and suppliers, down with respect to the preceding financial year, mainly due to a policy of greater protection of such items, with particular regard to the timings of the amounts accrued;
- sundry receivables, comprising accounts of various natures due for collection; the main item, which determines the increase with regard to the previous year, is related to insurance receivables, consisting in reimbursements of unused premiums by way of early repayments of SPBL contracts generated by ViViBanca;
- improvements on third party goods, regarding the completion of work carried out at the Turin registered office;
- tax balances, in line with the preceding financial year, we refer to the expected taxes of the clients, such as for example the stamp duty in the contracts;
- processing accounts, these are related to receipt and payment operations (SEPA transfers, customer debits) of a banking nature, that present an elevated rate of movement trend and are generally closed in the first months of the next year;
- *servicing* for buyers, regarding advance receipts to buyers from sales involving SPBLs (with recourse), in decrease, by way of the definition with a buyer of residuals.

## LIABILITIES

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

*1.1 Financial liabilities valuated at amortised cost: composition by type of due to bank*

| Type of operation/Values | Total as of 31/12/2018 | | | | Total as of 31/12/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | Fair Value | | | BV | Fair Value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. Due to central banks** | | **X** | **X** | **X** | | **X** | **X** | **X** |
| **2. Due to bank** | **96,855** | **X** | **X** | **X** | **56,595** | **X** | **X** | **X** |
| 2.1. On sight deposits and current accounts | 35 | X | X | X | 400 | X | X | X |
| 2.2. Term deposits | 7,050 | X | X | X | 53,122 | X | X | X |
| 2.3. Loans | 89,245 | X | X | X | 3,072 | X | X | X |
| 2.3.1. Repurchase agreements | 89,245 | X | X | X | | X | X | X |
| 2.3.2. Other | | X | X | X | 3,072 | X | X | X |
| 2.4. Due for commitments to repurchase own equity instruments | | X | X | X | | X | X | X |
| 2.5. Other payables | 525 | X | X | X | 1 | X | X | X |
| **Total** | **96,855** | | | **96,855** | **56,595** | | | **56,595** |

**Legend:**
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The sub-item "Repurchase agreements" includes the received loans for the purchase of short term government securities. For more information see Explanatory Note "E. Sales transactions - A. Financial assets sold and not fully derecognised".

*1.2 Financial liabilities valuated at amortised cost: composition by type of due to customers*

| Type of operation/Values | Total as of 31/12/2018 | | | | Total as of 31/12/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | Fair Value | | | BV | Fair Value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| 1. On sight deposits and current accounts | 29,059 | X | X | X | 28,550 | X | X | X |
| 2. Term deposits | 141,755 | X | X | X | 75,522 | X | X | X |
| 3. Loans | | X | X | X | | X | X | X |
| 3.1. Repurchase agreements | | X | X | X | | X | X | X |
| 3.2. Other | | X | X | X | | X | X | X |
| 4. Due for commitments to repurchase own equity instruments | | X | X | X | | X | X | X |
| 5. Other payables | 47 | X | X | X | 119 | X | X | X |
| **Total** | **170,861** | | | **170,861** | **104,191** | | | **104,191** |

**Legend:**
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

*1.3 Financial liabilities valuated at amortised cost: composition by type of securities issued*

| Type of operation/Values | Total as of 31/12/2018 | | | | Total as of 31/12/2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | Fair Value | | | BV | Fair Value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **A. Securities** | **13,125** | | | **11,655** | **15,771** | | | **11,921** |
| 1. Bonds | 11,778 | | | 11,655 | 12,044 | | | 11,921 |
| 1.1. structured | | | | | | | | |
| 1.2. other | 11,778 | | | 11,778 | 12,044 | | | 11,921 |
| 2. Other securities | 1,347 | | | 1,347 | 3,727 | | | 3,727 |
| 2.1. structured | | | | | | | | |
| 2.2. other | 1,347 | | | 1,347 | 3,727 | | | 3,727 |
| **Total** | **13,125** | | | **13,002** | **15,771** | | | **15,648** |

**Legend:**
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

*1.4 Detail of subordinated payables and securities*

| Type of security/Values | Total as of 31/12/2018 |
|---|---|
| *Of which bonds - other:* | |
| Lower Tier II - 4.25% - maturity 10/04/2019 | 2,524 |
| Lower Tier II - 4.00% - maturity 15/10/2019 | 1,008 |
| Lower Tier II - 3.25% - maturity 30/04/2020 | 996 |
| Lower Tier II - 2.75% + 6M Euribor - maturity 30/11/2027 | 6,810 |
| **Total** | **11,338** |

*1.5 Detail of structured debts*

The Bank does not present structured debts.

*1.6 Due for financial leases*

The Bank does not present financial lease liabilities.

## Section 2 – Financial liabilities held for trading – Item 20

The Bank has no financial liabilities in this category.

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

The Bank has no financial liabilities in this category.

## Section 4 – Hedging derivatives – Item 40

The Bank did not underwrite hedging derivatives.

## Section 5 – Adjustments in the value of financial liabilities subject to macro-hedging – Item 50

The Bank has no financial liabilities in this category.

## Section 6 – Tax liabilities – Item 60

See Section 10 of the assets.

## Section 7 – Liabilities associated with assets under process of divestment – Item 70

See section 11 of the liabilities.

## Section 8 – Other liabilities – Item 80

*8.1 Other liabilities: composition*

| Items/Values | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| Processing accounts | 12,196 | 11,188 |
| Tax balances | 1,103 | 694 |
| Servicing of loans sold and derecognised (receipts and expenses) | 5,898 | 4,427 |
| Due to personnel and social security institutions | 1,221 | 846 |
| Sundry payables | 4,901 | 4,356 |
| Accrued expenses and deferred income not | 2,883 | 2,746 |
| **Total** | **28,202** | **24,257** |

The other liabilities are mainly composed of:

- different payables, that mainly comprise suppliers and agents, influenced by greater volumes of disbursements of the SPBL product, with consequent increase in the commissions matured at the end of the year;
- payables to personnel, reported as year end compensation which increased due to the effect of the verification of bonuses to liquidate for personnel during 2019, but which accrued in 2018;
- tax balances, in growth compared to the previous financial year, that are the contra-entry for the treasury of the components recognised under other assets, mainly by stamp duty;
- processing accounts, these present a temporary nature and are substantially constituted by receipts and payments (such as SEPA transfers, customer debits, operational items associated with SPBL products) with an increased turnover; the increase is in comparison to the previous year and was determined by the growth of intermediate volumes in the last part of the year;
- accruals and deferred income: these are mainly composed of deferred revenue associated with early repayments regarding SPBLs sold;
- *servicing* for buyers for receipts to return for the management of assets on loans sold; the increase compared to 2018 is in line with the progress of the volumes.

## Section 9 – Employee severance indemnities – Item 90

*9.1 Employee severance indemnities: annual changes*

| | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| **A. Initial figures** | **1,130** | **605** |
| **B. Increases** | **304** | **687** |
| B.1 Allocations during financial year | 304 | 207 |
| B.2 Other changes | | 480 |
| **C. Decreases** | **(297)** | **(162)** |
| C.1 Liquidations performed | (164) | (143) |
| C.2 Other changes | (133) | (19) |
| **D. Final inventory** | **1,137** | **1,130** |
| **Total** | **1,137** | **1,130** |

In conformity with the reforms introduced with IAS 19, actuarial gains and losses have been recognised using the OCI method, respectively in the decreases in the item “Other changes”.

*9.2 Other information*

The additional information required under IAS 19 for applicable *post-employment* benefit plans is provided below:

**Sensitivity analysis of the main parameters measuring data on the change in actuarial hypotheses (Euro/000):**

| | |
|---|---|
| +1.00% on the *turnover rate* | 1,130 |
| -1.00% on the *turnover rate* | 1,144 |
| +0.25% on the annual inflation rate | 1,157 |
| -0.25% on the annual inflation rate | 1,117 |
| +0.25% on the annual discounting rate | 1,112 |
| -0.25% on the annual discounting rate | 1,163 |

**Contribution for the next financial year (000/Euro):**
*Service Cost:* 193

**Average financial duration of the obligation for defined benefit plans:**
*Duration* of the plan: 13.2 years

**Disbursements estimated in the plan (000/Euro):**

| | |
|---|---|
| Year 1 | 114 |
| Year 2 | 112 |
| Year 3 | 118 |
| Year 4 | 123 |
| Year 5 | 127 |

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

*10.1 Provisions for risks and charges: composition*

| Items/Values | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| 1. Provisions for credit risk relating to commitments and financial guarantees given | 117 | 51 |
| 2. Funds on other commitments and other guarantees given | | |
| 3. Company pension funds | | |
| 4. Other provisions for risks and charges | 2,504 | 1,462 |
| 4.1 legal and fiscal disputes | | 5 |
| 4.2 personnel expenses | | |
| 4.3 other | 2,504 | 1,457 |
| **Total** | **2,621** | **1,513** |

*10.2 Provisions for risks and charges: annual changes*

| | Funds on other commitments and other guarantees given | Pension funds | Other provisions for risks and charges | Total |
|---|---|---|---|---|
| **A. Initial figures** | **51** | | **1,462** | **1,513** |
| **B. Increases** | **186** | | **1,992** | **2,178** |
| B.1 Allocations during financial year | 60 | | 1,992 | 2,052 |
| B.2 Changes owing to the passage of time | | | | |
| B.3 Changes owing to changes in the discount | | | | |
| B.3 Other increases | 126 | | | |
| **C. Decreases** | **(120)** | | **(950)** | **(1,070)** |
| C.1 Utilisation during the financial year | | | (593) | (593) |
| C.2 Changes owing to changes in the discount | | | | |
| C.3 Other decreases | (120) | | (357) | (477) |
| **D. Final inventory** | **117** | | **2,504** | **2,621** |

The other increases, relating to the guarantees given, refer to the adjustments made in the context of *First Time Adoption* of the IFRS 9.

Other decreases include the value reinstatements originating from the release of the relative risk funds.

*10.3 Credit risk funds relating to commitments and issued financial guarantees*

| | Provisions for credit risk relating to commitments and financial guarantees given | | | |
|---|---|---|---|---|
| | First stage | Second stage | Third stage | Total |
| 1. Commitments to disburse funds | | | | |
| 2. Financial guarantees given | 17 | 5 | 95 | 117 |
| **Total** | **17** | **5** | **95** | **117** |

*10.4 Funds for other commitments and other guarantees given*

The Bank has not established funds for other commitments and other issued guarantees.

*10.5 Company defined benefit pension funds*

The Bank has not established any company-based defined benefit pension funds.

*10.6 Provisions for risks and charges – other funds*

The other provisions for risks and charges are mainly comprised of allocations made according to the following specific features:

- transactions on representations and claims pertaining to the calculation of early repayments relating to consumer credits (SPBLs) prior to April 2013; occurrence of the event and the relative disbursements can be statistically determined through stratification of the historical series, for which the bank, at the reporting date, estimated a probable potential risk equal to 1.3 million Euro over a period foreseeable on the basis of the historical data available.
- SPBL buyers' reimbursements, pertaining to the transfer rate differentials compared to the calculation of early repayments, for which the occurrence of the event and the relative disbursements can be statistically determined through stratification of the historical series, for which the bank, at the reporting date,

estimated a probable potential risk equal to 1.6 million Euro over a period foreseeable on the basis of the historical data available.

## Section 11 – Redeemable shares – Item 120

The Bank has not approved any share redemption plans.

## Section 12 – Business equity – Items 110, 130, 140, 150, 160, 170 and 180

*12.1 "Share Capital" and "Treasury shares": composition*

The capital is composed of 31,397,751 common shares, none of which are held by the Bank in the capacity of treasury shares.

*12.2 Share Capital - Number of shares: annual changes*

| Items | Common | Other |
|---|---|---|
| **A. Shares existing at financial year start** | **31,398** | |
| - fully paid up | 31,398 | |
| - not fully paid up | | |
| A.1 Treasury shares (-) | | |
| **A.2 Shares in circulation: initial figures** | **31,398** | |
| **B. Increases** | | |
| B.1 New issues | | |
| - payment-based: | | |
| - business combination operations | | |
| - bond conversion | | |
| - warrants exercised | | |
| - other | | |
| - free of charge: | | |
| - to employees | | |
| - to directors | | |
| - other | | |
| B.2 Sale of treasury shares | | |
| B.3 Other changes | | |
| **C. Decreases** | | |
| C.1 Cancellation | | |
| C.2 Purchase of treasury shares | | |
| C.3 Sale of business transactions | | |
| C.4 Other changes | | |
| **D. Shares issued: closing figures** | **31,398** | |
| D.1 Treasury shares (+) | | |
| D.2 Shares existing at financial year end | **31,398** | |
| - fully paid up | 31,398 | |
| - not fully paid up | | |

*12.3 Share Capital: other information*

The unit counter-value per share is 1.00 Euro.

*12.4 Retained profits: other information*

| | Legal | Profit (Loss) carried forward | Total |
|---|---|---|---|
| **A. Initial figures** | **-** | **- 265** | **- 265** |
| **B. Increases** | **76** | **932** | **1,008** |
| B.1 Allocation of profits | 76 | 932 | 1,008 |
| B.2 Other changes | | | |
| **C. Decreases** | **-** | **(6,434)** | **(6,434)** |
| C.1 Utilisations | - | - | - |
| - coverage of losses | | | |
| - distribution | | | |
| - transfer to capital | | | |
| C.2 Other changes | | (6,434) | (6,434) |
| **D. Final inventory** | **76** | **(5,767)** | **(5,691)** |

The decreases, relating to profits (losses) carried forward, refer to the adjustments made within the context of *First Time Adoption* of IFRS 9.

*12.5 Capital instruments: composition and annual changes*

The Bank has not issued capital instruments other than the common shares.

*12.6 Other information*

**Origin and usability of items in Shareholders' Equity**

| Nature/description | Amount | Possibility of utilisation | Portion available | Summary of utilisations in the previous three financial years | |
|---|---|---|---|---|---|
| | | | | to cover losses | for other reasons |
| Share capital | 31,398 | | | | |
| Reserves: | | | | | |
| - Surcharge | | A, B, C | | | |
| - Legal (1) | 76 | A, B | 76 | | |
| - Profit (loss) carried forward | (5,767) | A, B, C | | | |
| - Other | | | | | |
| Valuation reserves | 1,286 | | | | |
| **Total** | **26,992** | | **76** | | |

A = for share capital increase
B = to cover losses
C = for distribution to shareholders
(1) Pursuant to Art. 2431 of the Italian Civil Code, any surplus in this reserve may be distributed only where it has reached the limit established under Art. 2430 of the Italian Civil Code.

**Proposal for allocation of the profit (loss) for the period, in accordance with Art. 2427, par. 22-septies of the Italian Civil Code**

The annual financial statement closed with a net profit of 2,516,841 Euro, which the Board of Directors proposes to allocate as follows:
- to the Legal Reserve (5%): 125,842 Euro;
- to the retained profits reserve: 2,390,999 Euro.

## Other information

*1. Commitments and financial guarantees given (other than those designated to fair value)*

| Transactions | Nominal value on commitments and financial guarantees given | | | Amount 31/12/2018 | Amount 31/12/2017 |
|---|---|---|---|---|---|
| | First stage | Second stage | Third stage | | |
| **1. Commitments to disburse funds** | | | | | |
| a) Central Banks | | | | | |
| b) Public administrations | | | | | |
| c) Banks | | | | | |
| d) Other financial companies | | | | | |
| e) Non-financial companies | | | | | |
| f) Families | | | | | |
| **2. Financial guarantees given** | **8,637** | **174** | **157** | **8,968** | **9,856** |
| a) Central Banks | | | | | |
| b) Public administrations | | | | | |
| c) Banks | 535 | | | 535 | 168 |
| d) Other financial companies | 153 | | | 153 | 66 |
| e) Non-financial companies | 1,922 | | 157 | 2,079 | 256 |
| f) Families | 6,027 | 174 | | 6,201 | 9,366 |
| **Total** | **8,637** | **174** | **157** | **8,968** | **9,856** |

*2. Other commitments and other issued guarantees*

The Bank has not designated other commitments and other guarantees given.

*3. Assets established to guarantee the bank's liabilities and commitments*

| | Amount 31/12/2018 | Amount 31/12/2017 |
|---|---|---|
| 1. Financial assets valuated at fair value with impact on income statement | | |
| 2. Financial assets valuated at fair value with impact on total profitability | | |
| 3. Financial assets valuated at amortised cost | 89,933 | |
| 4. Tangible assets | | |
| of which: tangible assets that constitute remainder | | |

*4. Information on operating leases*

The Bank has not designated operating leases pursuant to IAS 17.

*5. Management and intermediation on behalf of third parties*

| Type of services | Amount |
|---|---|
| **1. Execution of orders on behalf of customers** | |
| a) purchases | |
| 1. paid | |
| 2. unpaid | |
| b) sales | |
| 1. paid | |
| 2. unpaid | |
| **2. Individual management of portfolios** | |
| **3. Custody and administration of securities** | **276,140** |
| a) third party securities held in deposit: associated implementation of custodian banking (excluding portfolio management) | |
| 1. securities issued by the bank preparing the financial statements | |
| 2. other securities | |
| b) third party securities held in deposit (excluding portfolio management): other | 48,277 |
| 1. securities issued by the bank preparing the financial statements | 8,768 |
| 2. other securities | 39,509 |
| c) third party securities held in deposit with third parties | 46,941 |
| d) instruments of ownership deposited with third parties | 180,922 |
| **4. Other operations** | |

*6. Financial assets forming the object on-balance sheet netting, or subject to master netting agreements or similar agreements*

The Bank has not designated financial assets forming the object on-balance sheet netting, or subject to master netting agreements or similar agreements.

*7. Financial liabilities forming the object on-balance sheet netting, or subject to master netting agreements or similar agreements*

| Technical forms | Gross amount of financial liabilities (a) | Amount of financial assets compensated in financial statements (b) | Net amount of financial liabilities reported in financial statements (c=a-b) | Related amounts not the object of compensation in financial statements | | Net amount 31/12/2018 (f=c-d-e) | Net amount 31/12/2017 |
|---|---|---|---|---|---|---|---|
| | | | | Financial instruments (d) | Cash deposits guaranteed (e) | | |
| 1. Derivatives | | | | | | | |
| 2. Repurchase agreements | 89,466 | | 89,466 | 89,933 | | (467) | |
| 3. Securities lending | | | | | | | |
| 4. Other | | | | | | | |
| **Total as of 31/12/2018** | **89,466** | | **89,466** | **89,933** | | **(467)** | **X** |
| **Total as of 31/12/2017** | | | | | | **X** | |

*8. Securities lending transactions*

The Bank has not designated securities lending transactions.

*9. Information on activities subject to joint control*

The Bank has not designated activities subject to joint control.

## Part C – INFORMATION ON THE INCOME STATEMENT

### Section 1 - Interest - Items 10 and 20

*1.1 Interest income and similar income: composition*

| Items/Technical forms | Debt securities | Loans | Other operations | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|---|---|---|
| **1. Financial assets valuated at fair value with impact on income statement:** | **196** | **15** | | **211** | **146** |
| 1.1 Financial assets held for trading | | | | | |
| 1.2 Financial assets designated at fair value | | | | | |
| 1.3 Other financial assets obligatorily valuated at fair value | 196 | 15 | | 211 | 146 |
| **2. Financial assets valuated at fair value with impact on total profitability** | **110** | **2,530** | **X** | **2,640** | **1,506** |
| **3. Financial assets valuated at amortised cost:** | **354** | **1,817** | **X** | **2,171** | **3,193** |
| 3.1 Due from banks | | 58 | X | 58 | 45 |
| 3.2 Due from customers | 354 | 1,759 | X | 2,113 | 3,148 |
| **4. Hedging derivatives** | **X** | **X** | | | |
| **5. Other assets** | **X** | **X** | | | **8** |
| **6. Financial liabilities** | **X** | **X** | **X** | | |
| **Total** | **660** | **4,362** | | **5,022** | **4,853** |
| of which: interest income on impaired financial assets | | | | | |

*1.2 Interest income and similar income: other information*

*1.2.1 Interest income on financial assets in foreign currencies*

The Bank does not hold any interest-bearing assets in foreign currencies.

*1.2.2 Interest income on financial lease transactions*

| Items | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| Financial leases | 224 | 495 |

*1.3 Interest expenses and similar expenses: composition*

| Items/Technical forms | Payables | Securities | Other operations | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|---|---|---|
| 1. Financial liabilities valuated at amortised cost | (1,982) | (223) | | (2,205) | (2,086) |
| 1.1 Due to central banks | | X | X | | |
| 1.2 Due to bank | (64) | X | X | (64) | (527) |
| 1.3 Due to customers | (1,918) | X | X | (1,918) | (1,148) |
| 1.4 Securities issued | X | (223) | X | (223) | (411) |
| 2. Financial liabilities held for trading | | | | | |
| 3. Financial liabilities designated at fair value | | | | | |
| 4. Other liabilities and provisions | X | X | | | |
| 5. Hedging derivatives | X | X | | | |
| 6. Financial assets | X | X | X | | |
| **Total** | **(1,982)** | **(223)** | | **(2,205)** | **(2,086)** |

*1.4 Interest expenses and similar expenses: other information*

*1.4.1 Interest expenses on liabilities in foreign currencies*

The Bank does not hold any interest-bearing liabilities in foreign currencies.

*1.4.2 Interest expenses on financial lease transactions*

The Bank has not stipulated financial expense lease transactions.

*1.5 Differentials relating to hedging operations*

The Bank has not designated hedging operations.

## Section 2 – Commissions – Items 40 and 50

*2.1 Commission income: composition*

| Type of services/Values | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| a) guarantees given | 6 | 4 |
| b) credit derivatives | | |
| c) management, intermediation, and consulting services: | 49 | 217 |
| 1. trading in financial instruments | 3 | 2 |
| 2. currency trading | | |
| 3. portfolio management | | |
| 3.1. individual | | |
| 3.2. collective | | |
| 4. custody and administration of securities | 5 | 7 |
| 5. custodian banking | | |
| 6. placement of securities | | |
| 7. order receipt and transmission | 2 | 1 |
| 8. consulting | | |
| 8.1 on investments | | |
| 8.2 on financial structure | | |
| 9. distribution of third party services | 39 | 207 |
| 9.1. portfolio management | | |
| 9.1.1. individual | | |
| 9.1.2. collective | 1 | 3 |
| 9.2. insurance products | | |
| 9.3. other products | 38 | 204 |
| d) collection and payment services | 57 | 85 |
| e) *servicing* for securitisation operations | 205 | 189 |
| f) services for factoring operations | | |
| g) tax collection services | | |
| h) management of multilateral trading systems | | |
| i) current account holding and management | 160 | 204 |
| j) other services | 6,240 | 5,326 |
| **Total** | **6,717** | **6,025** |

The details of the sub-item “Other services” are provided below, relating mainly to the core activity (SPBLs):

| Type of services/Values | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| Loan investigation | 4,122 | 2,952 |
| Management know-how instrumental to loans | 2,118 | 2,374 |
| **Total** | **6,240** | **5,326** |

*2.2 Commission income: distribution channels for products and services*

| Channels/Values | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| **a) at the bank's branches:** | | |
| 1. portfolio management | | |
| 2. placement of securities | | |
| 3. third party services and products | | |
| **b) external offerings:** | **39** | **207** |
| 1. portfolio management | | |
| 2. placement of securities | | 3 |
| 3. third party services and products | 39 | 204 |
| **c) other distribution channels:** | | |
| 1. portfolio management | | |
| 2. placement of securities | | |
| 3. third party services and products | | |

*2.3 Commission expenses: composition*

| Services/Values | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| a) guarantees received | (13) | (13) |
| b) credit derivatives | | |
| c) management and intermediation services: | (4,393) | (2,404) |
| 1. trading in financial instruments | | |
| 2. currency trading | | |
| 3. portfolio management: | | |
| 3.1 internal | | |
| 3.2 delegated to third parties | | |
| 4. custody and administration of securities | (43) | (41) |
| 5. placement of financial instruments | | |
| 6. external offering of financial instruments, products, and services | (4,350) | (2,363) |
| d) collection and payment services | (530) | (574) |
| e) other services | (3,126) | (2,719) |
| **Total** | **(8,062)** | **(5,710)** |

The sub-item offered externally of financial instruments, products and services refers to the commissions paid by the agency and banking network for the sale of ViViBanca products. The increase of such item is attributable both to a volume effect and to the application of the new norms on SPBL products (Resolution 145/2018 of Banca d'Italia), that provides for a reduction of the commercial charges allocated to the client in case of renewal; in a market that is particularly competitive, ViViBanca has had to partially shoulder the minor income of the distribution network, in exchange, however, for setting a series of qualitative objectives aimed at improving the relationship between agent and client, in order to obtain their loyalty.
The sub-item "Other services" includes commission expenses on the early repayment of SPBL products.

## Section 3 – Dividends and similar income – Item 70

*3.1 Dividends and similar income: composition*

| Items/Income | Total 31/12/2018 | | Total 31/12/2017 | |
|---|---|---|---|---|
| | Dividends | Similar income | Dividends | Similar income |
| A. Financial assets held for trading | | | | |
| B. Other financial assets obligatorily valuated at fair value | | 5 | | |
| C. Financial assets valuated at fair value with impact on total profitability | | | | |
| D. Investment stakes | | | | |
| **Total** | **-** | **5** | **-** | **-** |

## Section 4 – Net result of trading activities – Item 80

The bank recognised exchange rate differences of 124 Euro on foreign liquidity. The relative table is not provided, as the amount is not significant.

## Section 5 – Net result of hedging activities – Item 90

The Bank does not have any hedging derivatives.

## Section 6 – Profit (loss) from sales/repurchases – Item 100

*6.1 Profit (loss) from sales/repurchases: composition*

| Items/Income components | Total 31/12/2018 | | | Total 31/12/2017 | | |
|---|---|---|---|---|---|---|
| | Profit | Loss | Net result | Profit | Loss | Net result |
| **A. Financial assets** | | | | | | |
| 1. Financial assets valuated at amortised cost | | | | 3 | (21) | - 18 |
| 1.1. due from banks | | | | 3 | (21) | - 18 |
| 1.2. due from customers | 126 | | 126 | | | |
| 2. Financial assets valuated at fair value with impact on total profitability | | | | | | |
| 2.1. debt securities | 294 | | 294 | 583 | | 583 |
| 2.2. loans | 19,823 | | 19,823 | 15,860 | (144) | 15,716 |
| **Total assets (A)** | **20,243** | **-** | **20,243** | **16,446** | **- 165** | **16,281** |
| **B. Financial liabilities valuated at** | | | | | | |
| 1. Due to bank | | | | | | |
| 2. Due to customers | | | | | | |
| 3. Securities issued | | | | | | |
| **Total liabilities (B)** | **-** | | **-** | | | |

## Section 7 – Net result of other financial assets and liabilities valuated at *fair value* with impact on income statement – Item 110

*7.1 Net value change of other financial assets and liabilities valuated at fair value with impact on income statement: composition of the financial assets and liabilities designated at fair value*

The Bank has no financial assets designated in this category.

*7.2 Net value change of the other financial assets and liabilities valuated at fair value with an impact on the income statement: composition of other financial assets that are required to be valuated at fair value*

| Operations/Income components | Capital gains (A) | Profits from trading (B) | Capital losses (C) | Losses from trading (D) | Net result [(A+B)-(C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets** | | | | | |
| 1.1 Debt securities | 1 | | (128) | | (127) |
| 1.2 Equity securities | | | | | |
| 1.3 Shares in UCIs | | | | | |
| 1.4 Loans | | | | | |
| **2. Financial assets in foreign currency: exchange rate** | X | X | X | X | |
| **Total** | **1** | | **(128)** | | **(127)** |

## Section 8 – Net impairments/value reinstatements for credit risk – Item 130

*8.1 Net impairment for credit risk relative to financial assets valuated at amortised cost: composition*

| Operations/ Income components | Impairment (1) | | | Value reinstatements (2) | | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|---|---|---|---|---|
| | First and second stage | Third stage | | First and second stage | Third stage | | |
| | | Write-off | Other | | | | |
| **A. Due from banks** | | | | | | | |
| - Loans | | | | | | | |
| - Debt securities | | | | | | | |
| of which: acquired or originating impaired | | | | | | | |
| **B. Due from customers** | **(396)** | **(11,631)** | **(5,240)** | **1,870** | **14,958** | **(439)** | **(4,267)** |
| - Loans | (377) | (11,631) | (5,240) | 1,870 | 14,958 | (420) | (4,267) |
| - Debt securities | (19) | | | | | (19) | |
| of which: acquired or originating impaired credit | | | | | | | |
| **Total** | **(396)** | **(11,631)** | **(5,240)** | **1,870** | **14,958** | **(439)** | **(4,267)** |

*8.2 Net impairment for credit risk relative to financial assets valuated at fair value with impact on the total profitability: composition*

| Operations/ Income components | Impairment (1) | | | Value reinstatements (2) | | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|---|---|---|---|---|
| | First and second stage | Third stage | | First and second stage | Third stage | | |
| | | Write-off | Other | | | | |
| **A. Debt securities** | **(18)** | | | | | **(18)** | |
| **B. Loans** | **(59)** | **(61)** | **(295)** | **145** | **555** | **285** | **(769)** |
| - From customers | (59) | (61) | (295) | 145 | 555 | 285 | (769) |
| - From banks | | | | | | | |
| of which: acquired or originating impaired credit | | | | | | | |
| **Total** | **(77)** | **(61)** | **(295)** | **145** | **555** | **267** | **(769)** |

## Section 9 - Profit/loss from contractual changes without cancellations – Item 140

The Bank has not recognised profit/loss from contractual changes without cancellations

## Section 10 – Administrative expenses – Item 160

*10.1 Personnel expenses: composition*

| Type of expense/Values | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| **1) Employees** | **(6,095)** | **(5,525)** |
| a) wages and salaries | (4,304) | (3,769) |
| b) social security contributions | (1,021) | (937) |
| c) severance indemnities | (15) | (12) |
| d) pension expenses | | |
| e) allocations to provision for employee severance | (304) | (198) |
| f) allocations to provision for retirement pension and similar obligations: | | |
| - defined contributions | | |
| - defined benefits | | |
| g) payment to external supplementary retirement pension funds: | (71) | (60) |
| - defined contributions | (71) | (60) |
| - defined benefits | | |
| h) costs deriving from payment agreements based on the bank's equity instruments | | |
| i) other employee benefits | (380) | (549) |
| **2) Other personnel not qualified as employees** | **(189)** | **(68)** |
| **3) Directors and Auditors** | **(522)** | **(457)** |
| **4) Retired personnel** | | |
| **5) Recovery of expenses for employees seconded to other companies** | **28** | |
| **6) Expense reimbursements for employees seconded to the company** | **(5)** | |
| **Total** | **(6,783)** | **(6,050)** |

*10.2 Average number of employees by category*

| Category/Average number of employees | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| **Employees** | **84** | **72** |
| d) directors | 8 | 7 |
| b) managers | 25 | 22 |
| c) remaining employees | 52 | 44 |
| **Other personnel** | **4** | **4** |
| **Total** | **88** | **76** |

*10.3 Company defined benefit pension funds: costs and revenue*

The bank has not established provisions for any company defined benefit pension funds.

*10.4 Other employee benefits*

| Type of expense/Values | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| Health and accident policies | (143) | (116) |
| Meal vouchers and expense reimbursements | (123) | (71) |
| Training | (114) | (30) |
| Redundancy incentives | | (332) |
| **Total** | **(380)** | **(549)** |

*10.5 Other administrative expenses: composition*

| Type of expense/Values | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| Property/furniture: rent and lease expenses | (378) | (351) |
| Property/furniture: other expenses | (191) | (237) |
| Insurance premiums | (75) | (32) |
| IT systems | (1,210) | (1,098) |
| Professional services | (878) | (1,191) |
| Receipts services | (153) | (134) |
| Loan recovery services | (890) | (742) |
| Securitisation | (109) | (96) |
| Non-professional goods and services | (848) | (742) |
| Databases | (259) | (223) |
| Advertising | (388) | (455) |
| Contributions and related expenses | (146) | (102) |
| Agency network | (686) | (403) |
| Sanctions | (5) | (38) |
| Indirect taxes and duties | (676) | (562) |
| **Total** | **(6,892)** | **(6,406)** |

Increase in administrative expenses is substantially attributable to the following events:

- the adoption of new norms that brought about expenses for consultancy and related informational implementation, already subject in the preceding financial year to the aggregation that gave rise to ViViBanca;
- the acceleration of the process of *de-risking* (through NPL sales and collection of loans) which influenced items that are directly related;
- the growth of disbursement volumes and of volumes of SPBLs managed, with greater expenses resulting in the network and non-professional services.

It is noted that non-deductible VAT from 2018 was attributed directly to the costs of reference, also the relative comparative costs were reclassified to make the analysis of the 2017 data consistent.

## Section 11 – Net allocations to provisions for risks and charges – Item 170

*11.1 Net provisions for credit risk relating to commitments to disburse funds and issued financial guarantees: composition*

| Income components/Values | Provisions | | Value reinstatements | | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|---|---|---|---|
| | First and second stage | Third stage | First and second stage | Third stage | | |
| Commitments to disburse funds | | | | | | |
| Financial guarantees given | | (60) | 120 | | 60 | 28 |
| **Total** | **-** | **(60)** | **120** | **-** | **60** | **28** |

*11.2 Net provisions relating to other commitments and other guarantees given: composition*

The Bank has not made net provisions relating to other commitments and other issued guarantees.

*11.3 Net allocations to other provisions for risks and charges: composition*

| Income components/Values | Provisions | Value reinstatements | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|---|---|
| Legal and fiscal controversies | | 5 | 5 | 8 |
| Other | (1,992) | 352 | (1,640) | (634) |
| **Total** | **(1,992)** | **357** | **(1,635)** | **(626)** |

For commentary on this item, refer to the Explanatory Notes – Part B – Balance Sheet – Liabilities – Section 10.

## Section 12 – Net value adjustments/value reinstatements on tangible assets – Item 180

*12.1. Net value adjustments on tangible assets: composition*

| Asset/Income component | Amortisation (a) | Net value adjustments owing to impairment (b) | Value reinstatements (c) | Net result (a+b-c) |
|---|---|---|---|---|
| **A. Tangible assets** | | | | |
| A.1 Owned | | | | |
| - Having a functional use | (250) | | | (250) |
| - For investment | | | | |
| - Remainder | X | | | |
| A.2 Acquired under financial lease | | | | |
| - Having a functional use | | | | |
| - For investment | | | | |
| **Total** | **(250)** | | | **(250)** |

## Section 13 – Net value adjustments /reinstatements on intangible assets – Item 190

*13.1 Net value adjustments on intangible assets: composition*

| Items/Value adjustments and reinstatements | Amortisation (a) | Net value adjustments owing to impairment (b) | Value reinstatements (c) | Net result (a+b-c) |
|---|---|---|---|---|
| **A. Intangible assets** | | | | |
| A.1 Owned | | | | |
| - Generated internally at the bank | | | | |
| - Other | (322) | | | (322) |
| A.2 Acquired under financial lease | | | | |
| **Total** | **(322)** | | | **(322)** |

## Section 14 – Other operating income and expenses – Item 200

*14.1 Other operating expenses: composition*

| Income components/Values | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| Leasehold restructuring | (118) | (82) |
| Branch discharge | (100) | |
| Property under management | (57) | (69) |
| Other credit impairments | (84) | (56) |
| Reimbursements based on debt clearance counts | (169) | |
| Contingent liabilities | (528) | (226) |
| Other expenses | (182) | (105) |
| **Total** | **(1,238)** | **(538)** |

The increase of other expenses in attributable to the manifestation of non-recurring events, such as the divestment of the Salerno branch situated in Corso Vittorio Emanuele, reimbursements on early repayments for the adoption of operational solutions and costs that do not relate to the period.

*14.2 Other operating income: composition*

| Income components/Values | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| Recovery of client expenses | 444 | 473 |
| Recovery of training expenses | 79 | |
| Contingent assets | 162 | 190 |
| Other income | 82 | 57 |
| **Total** | **767** | **720** |

## Section 15 – Profit (loss) on equity investments– Item 220

The bank holds no equity investments.

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

*16.1 Net result of the valuation at fair value (or at reevaluated value) or at value of presumed disposals of tangible and intangible assets: composition*

| Asset/Income component | Revaluations (a) | Write-downs (b) | Exchange rate | | Net result (a-b+c-d) |
|---|---|---|---|---|---|
| | | | Positive (c) | Negative (d) | |
| **A. Tangible assets** | | | | | |
| A.1 Owned: | | | | | |
| - Having a functional use | | | | | |
| - Held for the purpose of investment | | (1,072) | | | (1,072) |
| - Remainder | | | | | |
| A.2 Acquired under financial lease: | | | | | |
| - Having a functional use | | | | | |
| - Held for the purpose of investment | | | | | |
| **B.** | | | | | |
| B.1 Owned: | | | | | |
| - Generated internally by the company | | | | | |
| - Other | | | | | |
| B.2 Acquired under financial lease | | | | | |
| **Total** | **-** | **(1,072)** | **-** | **-** | **(1,072)** |

## Section 17 – Value adjustments of goodwill – Item 240

The Bank has not made value adjustments of goodwill.

## Section 18 – Profit (loss) from the sale of investments – Item 250

The bank has not obtained any profit (loss) from the sale of investments.

## Section 19 – Income tax on current operations – Item 270

*19.1 Income tax on current operations: composition*

| Income components/Values | Total 31/12/2018 | Total 31/12/2017 |
|---|---|---|
| 1. Current taxes (-) | (446) | |
| 2. Changes in current taxes, as compared to previous financial years (+/-) | (4) | 12 |
| 3. Decrease in current taxes (+) | | |
| 3. *a* Decrease in current taxes owing to tax credits pursuant to law No. 214/2011 (+) | | |
| 4. Changes in deferred tax assets (+/-) | (1,089) | (51) |
| 5. Changes in deferred tax liabilities (+/-) | | |
| **6. Taxes attributable to the financial year (-) (-1+/-2+3+3 *a* +/-4+/-5)** | **(1,539)** | **(39)** |

*19.2 Reconciliation of theoretical tax expense and effective tax expense recognised in the income statement*

| Income components/Values | Total 31/12/2018 |
|---|---|
| **Profit (loss) on current operations, gross of taxes** | **2,517** |
| **Theoretical tax expense** | **(832)** |
| **Change in tax increase:** | |
| - greater IRAP tax base | (466) |
| - non-deductible components | (3,394) |
| **Changes in tax reductions:** | |
| - IRES and IRAP deductions relative to employee costs | 276 |
| - other deductions | 2,877 |
| **Taxes attributable to the financial year** | **(1,539)** |

The *First Time Adoption* of the IFRS 9 accounting principle significantly influences the exposure of the increasing components (by approx. 2.1 million Euro) and of those which are decreasing (by approx. 1.9 million Euro), considered the relative tax norm that defines the deductibility over a period of 10 years.

The residual changes, however, are mainly attributable to the temporary non-deductibility and to the reabsorption of the ACE deductions.

## Section 20 – Profit (Loss) of operational activities ceased at net of taxes – Item 290

The Bank does not designate any groups of assets in the process of divestment.

## Section 21 – Other information

There is no information to report other than that already provided in the previous sections.

## Section 22 – Earnings per share

*22.1 Average number of common shares after dilution of the share capital*

| Common shares* | Number | Days | Weighted number |
|---|---|---|---|
| Initial figures | 31,398 | 365 | 31,398 |
| **Total** | **31,398** | | **31,398** |

**Legend:**
* Each common share has a value of 1 Euro.

With reference to IAS 33, the weighted average number of common shares used to calculate the basic earnings per share corresponds to the average number of shares after dilution of the share capital.

*22.2 Other information*

| Common shares | 2017 |
|---|---|
| Profit (loss) for the period | 2,517 |
| Basic earnings per share (Euro) | 0.08 |

The basic earnings per share corresponds to the diluted earnings per share, as no instruments exist such as could potentially dilute the earnings base for future shares.

## Part D – TOTAL PROFITABILITY

### STATEMENT OF TOTAL PROFITABILITY

| Items | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| **10. Profit (loss) for the period** | **2,516,841** | **1,007,927** |
| **Other income components, without reversal to the income statement** | **(9,123)** | **13,662** |
| 20. Capital securities designated to fair value with impact on total profitability: | | |
| a) change in fair value | | |
| b) transfers to other components of shareholders' equity | | |
| 30. Financial liabilities designated at fair value with impact on income statement (change in own | | |
| a) change in fair value | | |
| b) transfers to other components of shareholders' equity | | |
| 40 Cover of capital securities designated to fair value with impact on total profitability: | | |
| a) change in fair value (covered instrument) | | |
| b) change in fair value (hedge instrument) | | |
| 50. Tangible assets | | |
| 60. Intangible assets | | |
| 70. Defined benefit plans | (9,123) | 13,662 |
| 80. Non-current assets and groups of assets held for sale | | |
| 90. Portion of valuation reserves relating to investment stakes measured using the equity method | | |
| 100. Income tax relating to other income components without reversal to the income statement | | |
| **Other income components, with reversal to the income statement** | **(263,402)** | **(26,006)** |
| 110. Hedging of foreign investments: | | |
| a) changes in fair value | | |
| b) reversal to the income statement | | |
| c) other changes | | |
| 120. Exchange rate differences: | | |
| a) changes in fair value | | |
| b) reversal to the income statement | | |
| c) other changes | | |
| 130. Hedging of cash flows: | | |
| a) changes in fair value | | |
| b) reversal to the income statement | | |
| c) other changes | | |
| of which: result of the net positions | | |
| 140. Hedging instruments (non-designated elements): | | |
| a) changes in fair value | | |
| b) reversal to the income statement | | |
| c) other changes | | |
| 150. Financial assets (other than equity securities) valuated at fair value with impact on total | (263,402) | (26,006) |
| a) changes in fair value | | (26,006) |
| b) reversal to the income statement | (1,923,343) | |
| - adjustments for credit risk | (266,796) | |
| - profit/loss from disposals | (1,656,547) | |
| c) other changes | 1,659,941 | |
| 160. Non-current assets and groups of assets in the process of divestment: | | |
| a) changes in fair value | | |
| b) reversal to the income statement | | |
| c) other changes | | |
| 170. Portion of valuation reserves relating to investment stakes measured using the equity method: | | |
| a) changes in fair value | | |
| b) reversal to the income statement | | |
| - adjustments for credit risk | | |
| - profit/loss from disposals | | |
| c) other changes | | |
| 180. Income tax relating to other income components, with reversal to the income statement | | |
| **190. Total other income components** | **(272,525)** | **(12,344)** |
| **200. Total income (Item 10+190)** | **2,244,316** | **995,583** |

## Part E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

### Introduction

The bank places particular emphasis on risk management and monitoring, in order to maximum results within a sustainable, controlled environment.

One of the key tools used to achieve this objective is the adoption of a risk management culture, both through documents devoted to ongoing monitoring (*Risk Appetite Framework*, *risk dashboards*, ICAAP [Internal Capital Adequacy Assessment Process], *reporting* systems, etc.) and through increased training for all managers and employees with a view to the proper application of prudential rules (internal and external).

Concurrently, the organisational structure is intended to create an effective risk management system that provides for:
- a separation between operational and control functions;
- the identification and monitoring of risks inherent in operating processes;
- the prompt communication of any anomalies detected by the control bodies, at the most appropriate organisational levels.

In conformity with the provisions of current legislation and with a view to implementing the above-described premises, the bank has adopted:
- **level one** internal controls, i.e., line controls carried out by the same operating units, in order to verify the processes that are in compliance with internal procedures.
- **level two** internal controls, i.e., controls on risk management and regulatory compliance, coordinated respectively by *Risk Management* and by the *Compliance Officer*.
- **level three** internal controls, i.e., internal audit controls, which are carried out by *Internal Audit* to verify the proper performance of the system of internal controls.

The management bodies also make use of specific internal technical committees for consultation support on risk management:
- Risks and Internal Controls;
- Financial Risk;
- Loans;
- Commercial Policy;
- Operational and Technological Risk Security and Management;
- New products.

*Risk perimeter*

The assessment of risk materiality is carried out within the context of ICAAP (*Internal Capital Adequacy Assessment Process*) reporting, based on criteria approved by the Board of Directors:

| | **Risk** | **Definition** | **Materiality** | **Approach** | **Measurement** | **Mitigation** |
|---|---|---|---|---|---|---|
| **PILLAR I** | **Loans** | Risk associated with the probability risk of incurring unexpected losses following borrower non-fulfilment of contractual obligations. | Yes | Quantitative | Standardised | Capital and organisational safeguards |
| | **Market** | Risk associated with possible unexpected changes in the market value of financial positions or instruments, deriving from changes in the market value of risk drivers, i.e., from changes in interest rates, exchange rates, share prices, raw materials prices, the volatility of individual risk factors, and credit spreads. | No | N/A | N/A | N/A |
| | **Counterparty** | Risk that the counterparty in a transaction involving certain financial instruments acts in breach of contract prior to settlement of the transaction. | No | N/A | N/A | N/A |
| | **Operational** | Risk of suffering losses deriving from inadequate or dysfunctional procedures, human resources, or internal systems, or from external events. This type of risk includes, inter alia, losses deriving from fraud, human error, a disruption of operations, system unavailability, breach of contract, natural disasters. Operational risk also includes legal risk. | Yes | Quantitative | Basic Indicator Approach | Capital and organisational safeguards |
| **PILLAR II** | **Rate** | Represents the risk associated with interest rate volatility, which may cause a change in the economic value of asset and liability positions in the banking portfolio; the company's value, assessed by financial analysts, as well as possible liquidation of the company, are influenced by the risk associated with the company's economic value following changes in interest rates. | Yes | Quantitative | Regulatory | Capital and organisational safeguards |
| | **Liquidity** | Risk of being unable to meet payment commitments due to an inability both to procure funds on the market (funding liquidity risk) and to sell assets (market liquidity risk). | Yes | Qualitative | Regulatory | Capital and organisational safeguards |
| | **Securitisation** | Risk that the economic substance of the securitisation operation is not fully reflected in the risk assessment and management decisions. | Yes | Qualitative | Regulatory | Capital and organisational safeguards |
| | **Leverage** | The risk of excessive financial leverage is the risk that a particularly high level of debt versus the availability of own funds will make the intermediary vulnerable. | Yes | Quantitative | Regulatory | Capital and organisational safeguards |
| | **Concentration** | Single Name:<br>Risk deriving from exposure to counterparties or groups of related counterparties. | Yes | Quantitative | Granularity Adjustment | Capital and organisational safeguards |
| | | Geo-Sectoral:<br>Risk deriving from exposure to counterparties in the same economic sector or performing the same activity or belonging to the same geographical area. | Yes | Quantitative | ABI | Capital and organisational safeguards |
| | **Strategic *IBusiness*** | Represents the current or prospective risk of a decrease in profits or capital deriving from changes in the operational context or incorrect company decisions, insufficient implementation of decisions, limited responsiveness to changes in competition factors. | Yes | Quantitative | MINT volatility | Capital and organisational safeguards |
| | ***Compliance*** | The risk of non-compliance with regulations represents a risk of incurring judicial or administrative sanctions, significant financial losses, or harm to reputation in consequence of violations of mandatory provisions (of the law or regulations) or self-regulation (e.g., articles of incorporation, codes of conduct, codes of self-governance). | Yes | Qualitative | N/A | Organisational safeguards |
| | **Reputation** | Reputation risk is defined as the current or prospective risk of a decrease in profits or capital deriving from the negative perception of an intermediary's image by customers, counterparties, Terfinance shareholders, investors, or supervisory authorities. | Yes | Qualitative | N/A | Organisational safeguards |
| | **Residual** | Risk that the techniques used by an intermediary to mitigate credit risk are less efficient than anticipated. | No | N/A | N/A | N/A |

In order to assess measurable materiality, ViViBanca has identified a materiality criterion of 1% of the shareholders' equity for prudential supervision purposes.

With reference to the definitions adopted and to the type of operations by which the company is characterised, market and counterparty risk are considered non-material since no positions are held that are classified in the trading portfolio, nor are significant amounts held in currencies other than the Euro.

## *Section 1 – Credit risk*

### Qualitative information

*1. General aspects*

ViViBanca's commercial policy focuses on the consolidation of the SPBL and *retail* credit, while the activity of *corporate* credit results in *run-off*.

The company's *core business* is thus the granting of *retail* loans, as a whole and in the technical forms outlined, in which employee and pensioner households throughout the entire national territory are the *target* customer.

Furthermore, the bank does not work (with respect to their own clients) with innovative or complex financial products.

*2. Credit risk management policies*

*2.1 Organisational aspects*

The procedures adopted by the bank, in terms of credit lines, are defined in the Lending Rules, which govern:
- the procedures,
- authorisation approvals;
- management principles;
- monitoring processes.

The operating procedures for each product are further illustrated in the relative Operating Manuals, which govern methods of acquisition and performance for the types of contracts managed by the Bank.

To implement this organisational model, the Bank has defined the duties and responsibilities of each employee involved in the credit lines process, in compliance with the rules of functional separation necessary for ensuring that operational activities are carried out in accordance with healthy, prudent management criteria.

*2.2 Management, measurement, and control systems*

Since, as noted, SPBL products are associated with a low credit risk, given the *secured* nature of the portfolio, the monitoring carried out by the Bank provides for particular attention to the portfolios considered in *run-off* (mortgages, bank accounts, leases, etc.).

The monitoring of credit lines, in addition to including performance analyses, is carried out primarily on positions showing overdrafts or missed payments. At the same time, the Bank also continually monitors the concentration risk, which is developed through *ad hoc* monitoring of "major risks", valuating the exposure both in a system of general limits, and of individuals.

The measuring of the credit risk is carried out through the standardised regulatory approach, adopting the relative weighting provided for in the regulations.

In this context, a monthly report of *alerts* generated by the computer system is the first protection used during the lifetime of the relationship, and it is used to make timely, effective decisions regarding the management and recovery of loans.

The process of recovery, according to the product under analysis, provides for different intervention strategies, as are indicated in the management plan of the NPLs approved by the Board of Directors. The aforementioned indications are outlined in greater detail in the Operating Manuals, drafted by the organisation, which regulate the specific types of intervention, ranging from an notice letter, to telephone collection, to collection at place of residence, to enforcement of guarantees, and litigation in the last instance.

In support of the objectives of capital adequacy and asset quality (with consistent effects also in terms of operational profitability and ALM), it should be pointed out that over the course of 2018 ViViBanca completed a process of *de-risking* that involves releasing NPLs for approx. 32 million Euro in terms of GBV (Gross Book Value), over a time frame of two years, at an average disposals price of approx. 10%.

All the strategies and processes mentioned above are reflected in the revision of the credit risk management policy, put into place through application of the IFRS 9 accounting principle, in force as of 1 January 2018.

*2.3 Methods of measurement of expected losses*

For the purposes of a correct measurement of expected losses, for the "financial assets valuated at fair value with impact on the total profitability" portfolios (FVOCI) and "financial assets valuated at amortised cost" portfolios (AMC), two well-defined phases have been adopted, the *staging allocation* phase (with combined determination of credit quality) and the determination of the ECL (*Expected Credit Loss*).

*Staging allocation*

Monthly, the Bank analyses the staging allocation with the following logics:

| | **Stage 1** | **Stage 2** | **Stage 3** |
|---|---|---|---|
| **Elements "relevant[2]" for determination of the nature of the exposure** | **Performing with low credit risk** | **Performing with significant increase in credit risk** | **Non Performing** |
| Leases | N/A | Use of simplified method:<br>Classification of *performing* loans directly in Stage 2 | >/= 90 days of relevant ongoing overdue |
| Bank Products (Mortgages, current account credit facilities, advances invoiced) | < 30 days of ongoing overdue | >/= 30 days of relevant ongoing overdue<br><br>*Forbearance performing*<br><br>Significant worsening in internal credit rating of the borrower: analysis through jumps in internal valuation classes with respect to the initial recognition of the same | >/= 90 days of relevant ongoing overdue |
| Consumer Products (SPBLs / ATC / Personal Loans / TFS [severance pay]) | < 30 days of ongoing overdue | >/= 30 days of relevant ongoing overdue | >/= 90 days of relevant ongoing overdue |

IFRS 9 requires consideration of the impact of the *looking forward* elements also in the phase of *staging allocation*. In this context, a *range* of *outcomes*, and therefore one of a multitude of scenarios with a certain probability of occurrence, could determine the incongruence with the elements used to identify the significant deterioration of the credit quality of the exposures, that moves between stages. For this reason, and to avoid the so-called "*model risk*", the bank chose to model *forward looking* elements in the parameters of ECL, leaving the procedure of stage allocation as non-subjective as possible.
In this context the credit quality is analysed with the following logics:

[2]The determination of relevance, for all loan categories, necessary for the classification of *performing* loans at Stage 2 as well as between Stage 3, is determined at the exceeding of all the following thresholds:

- relative threshold: exposure expired or surpassing more than 5% of total exposure for the same client;
- absolute threshold: expiration/surpass beyond 5,000 Euro for *Corporates* and 500 euro for *Retail*;
- temporary grace period; 7 days for *Corporate* and 5 days for *Retail*, as well as for the SPBL further legal grace periods equal to 30 days for payment by the ATC

| Type of exposure | Credit quality | Relevant elements |
|---|---|---|
| *Performing* | Regular exposures | Exposures not past due (net of aforementioned grace periods) |
| | Past due not impaired | Exposures past due or surpassing at least 30 days (net of aforementioned grace periods) on date of reference. |
| *Non Performing*[3] | Past due impaired (*Past Due*) | Exposures past due or surpassing at least 90 days (net of aforementioned grace periods) on date of reference and that is not classified among the probable defaults or non-performing. |
| | Probable default (*Unlikley To Pay*) | Exposures, different from non-performing, for which the bank deems improbable that, without the recourse of actions such as the execution of the guarantees, the borrower will fully adhere (in the way of principal and/or interests accrued) to their credit obligations.<br>Since the UTP classification is not the result of an automatic valuation, as delegated to the Manager of the function *Collection*, there exist some objective criteria of indisputable individuation such as:<br>- past due or surpassing by at least 180 days (net of legal grace periods);<br>- past due or surpassing with overdue amount greater than/equal to 10% of the entire exposure;<br>- precautionary agreement;<br>- legal disputes not classified as non-performing. |
| | *Non-performing* | Exposures valuated in a state of insolvency (therefore irreversibly incapable of settling their own debt) even if this is was not ascertained in a legal context.<br>Given that the classification of Non-performing is not the result of an automatic valuation, as delegated by the *Collection* function Manager, there exist certain indisputable objective identification criteria such as bankruptcy proceedings. |

<u>*ECL*</u>

The *Exposure Credit Loss*, in relation to *Exposure At Default* (EAD) of CA and FVOCI portfolios, is determined adopting the following methodologies in terms of rectifying elements:

| Portfolio | Stage 1 | Stage 2 | Stage 3.1 | Stage 3.2 | Stage 3.3 |
|---|---|---|---|---|---|
| **Credit quality** | **Performing with low credit risk** | **Performing with significant increase in credit risk** | **Past due impaired** | **Probable default** | **Non-performing** |
| **Methodology** | **Collective at 12 months** | **Lifetime collective**<br><br>**(Except for indications)** | **Analytical / flat-rate lifetime**<br><br>**(Except for indications)** | **Analytical / flat-rate lifetime**<br><br>**(Except for indications)** | **Analytical/ Flat-rate lifetime**<br><br>**(Except for indications)** |
| **SPBL / ATC** | PD at 12 months<br>X<br>LGD with haircut<br><br>(Static Pool VVB) | PD lifetime<br>X<br>LGD with haircut<br><br>(Static Pool VVB) | PD lifetime (100%)<br>X<br>LGD with haircut<br><br>(Static Pool VVB) | | 100% |
| **Bank products** | PD at 12 months<br>X<br>LGD with haircut<br><br>(Cabel Application) | PD lifetime<br>X<br>LGD with haircut<br><br>(Cabel Application) | PD lifetime (100%)<br>X<br>LGD with haircut<br><br>(Application Cabel) | | Pure analytical: Guarantees eligible for CRM purposes (actualised) |
| **Personal loans** | PD 12 months | PD lifetime | PD lifetime (100) | | Estimated sale price |

[3]For the purpose of determining the criteria for the identification of the impaired loans refer, in general, to the arrangements pursuant to Circular No. 272 of Banca d'Italia.

| | | | | |
|---|---|---|---|---|
| | (Media PD Retail from Cabel application) x LGD (Non-performing Consumer Products – Personal Loans) | (Media PD Retail from Cabel application) x LGD (Non-performing Consumer Products – Personal Loans) | x LGD (Non-performing Consumer Products – Personal Loans) | |
| **Lease - not property** | N/A | Pure analytical: floor PD lifetime (Media PD Corporate from Cabel application) x LGD (Non-performing Lease Book - not property) | Pure analytical: floor PD lifetime (100) x LGD (Non-performing Lease Book - not property) | Estimated sale price |
| **Severance Pay** | PD 12 months (Media PD Retail from Cabel application) x LGD (Discounting haircut) | PD lifetime (Media PD Retail from Cabel application) x LGD (Discounting haircut) | PD lifetime (100) x LGD (Discounting haircut) | 100% |
| **Lease - Property** | N/A | Pure analytical: Property at ready value, with minimum haircut + Other eligible guarantees pursuant to CRM | Pure analytical: Property at ready value, with maximum haircut + Other eligible guarantees pursuant to CRM with haircut | |
| **Securities** | Collective impairment from Cabel applications | Collective impairment from Cabel applications | 90% | 90% |
| **Banking Exposures** | Pure analytical * | Pure analytical * | 90% | 90% |
| **Commercial Exposures** | N/A | N/A | Pure analytical | |

**Legend:**
*PD = Probability of Default*
*LGD = Loss Given Default*
*= In the valuation of the banking securities and other banking exposures (such as interbank income) the impairment will be valuated only in the presence of subjective evidence of default (stress on minimum regulatory requirements).

Further, in 2018, in conformance with that outlined by the “Addendum to the Guidelines of the BCE for banks on impaired loans (NPLs): expectations on supervision regarding the prudential provisions for impaired exposures”, the Bank introduced minimum write-down coefficients, progressively/linearly growing to a level equal to 100% of the exposure value (so-called *calendar provisioning*), over a period of:
• two years, for the exposures (or parts of the exposures) not guaranteed;
• seven years, for the exposures (or parts of the exposures) accompanied by eligible guarantees (including property ones) or other forms of *credit risk mitigation* pursuant to Regulation (EU) No. 575/2013 (CRR).

As detailed hereunder:

| Seniority as NPE | Part not guaranteed | Part guaranteed |
|---|---|---|
| After two years | 100% | |
| After three years | | 40% |
| After four years | | 55% |
| After five years | | 70% |
| After six years | | 85% |
| After seven years | | 100% |

Given that EU rules are applied on loans that will be classified as impaired from 1 April 2018 and will be applied consequentially, relating to the levels of impairment defined in the previously presented table, hierarchically superior with respect to statistical methodologies adopted, making exception if the ECL is superior with respect to the corresponding deduction value of the ECB document.

It is noted also that in the first quarter of 2019 the European Parliament approved the "Minimum hedging of losses on impaired exposures". Such indications will be recognised by the Bank, and will integrate/specify the aforementioned Guidelines introduced prudentially on behalf of ViViBanca.

Further, it is specified that, in case of flat-rate valuation, if subjective evidence is presented of major losses on a single position, the manager of the Collection and Litigation Management can autonomously increase the value of the ECL with respect to the value obtained by the indicated algorithms and the Credit Committed must be notified.

Hereunder are outlined details of the operative assumptions adopted for the determination of the ECL of individual portfolios:

*SPBL / ATC*

*PD Calculation*

For the SPBL portfolio the Bank chose to apply the "*vintage* curve method". This methodology creates leverage on the internal experience to deduce the performance of the default rates in the medium-long period. The objective is to construct a matrix of default rates subdivided by seniority ("*vintage*") of supply within every *rating* class, that reports (on the basis of the historical data available) the level of cumulative default rates registered over different timeframes (e.g. quarter, half-year, year). It is noted that, while the oldest vintage will present the maximum historical depth of cumulative default rates, those more recent will have a gradually-lesser depth. With such methodology, it will initially be possible to populate the matrix only above the secondary diagonal, while the remaining cells (corresponding with the greater temporal depth for the more recent *vintage*) will be estimated with the "*chain ladder*" method.
In this way, year by year it will be sufficient to summarise the data to obtain the cumulative PD and from these, simply obtain the final *forward* PD both at 12 months and *lifetime*.
When estimated in this manner, the behaviour of the PDs - which is different from the *mean reverting*[4] ones with a statistical (so-called Markovian) approach - are more consistent with the real cycle of risk of the credit. The default rates, in fact, initially grow and then decrease slowly as they near maturity.
Consistent with the provisions in other application contexts of the accounting principle (e.g. in the estimation of the *expected credit losses*), IFRS 9 requires the use of all the information available in the bank for the determination of the significant impairment of the credit risk. Such information includes also the forecasts on future economic conditions.
The standard specifies that the reference regards information available only "without coercion or excessive costs" (5.5.9), for example because it was already used for the purposes of *financial reporting* (B5.5.49). It is also specified that it is not necessary to undertake an "*exhaustive search*" to determine if the credit risk is increased in a significant manner as of the initial recognition of the instrument (B5.5.5.15)[5].

[4] The chain converges in a stationary distribution of balance, for which over the passage of time the probability of the matrix tends to distribute consistently around the portfolio average.
[5] It is noted that such IFRS 9 dispensations were not interpreted in a restrictive manner.

The *standard* prescribes that the *expected credit loss* is estimated considering a series of possible results (“*probability weighted*”); this entails that more *forward looking* scenarios must be incorporated in the measurement of the expected losses. The macroeconomic scenarios defined as such should feed the statistic models that, incorporating the historical relationships between macroeconomic factors and loss events, consent to provide for the impacts on the portfolio risks. The estimation of such models must base itself on the individuation of the components that are most related to the historical evolution of the credit risk, privileging a transparent and balanced architecture that minimises the risk of generating estimates affected by excessive volatility.
In order to make the estimates *forward looking* the bank has elaborated a model for the management of simple macroeconomic parameters using a single scenario considered the most probable, through the use of undistorted estimates (*unbiased*). This model, in conformance with the simplifications outlined (IFRS 9 par. B.5.5.49) was developed to correct uniquely the parameter of the PD, while aiming to minimise the so-called “*model risk*”.
The model adopted by the bank uses linear regression to obtain the relationship between the system default rates and the macroeconomic variables considered (e.g. the GDP) for the estimation periods. Subsequently, the default rates of the bank are conditioned to values estimated in this way, obtaining the adjustment necessary for the purpose of making the PD, and as consequence the calculation of the *forward looking* ECL, as requested from the beginning.

*Calculation of LGD*
In the quantification of the *expected loss*, the *Loss Given Default* measures the expected losses in case of default of the counterparty. In the new accounting principle (IFRS 9 par. B5.5.28), the *Expected Credit Losses* are defined as an estimate, assessed for probabilities, of the current value of all the *cash shortfalls* (intended as the difference between the contractual cash flows and those the Bank estimate to receive) that are expected to manifest in future (in the case of *lifetime* estimates, throughout the expected entire life of the financial instrument). Through such preparation the expected losses are measured in a mode that reflects (5.5.17):

- an amount that is objective and assessed for probabilities, that is determined valuating a range of possible results;
- the temporal value of the cash;
- all reasonable and tolerable information, available without excessive costs or coercion on the date of reporting, about past events, current conditions and predictions of future economic conditions.

The principle, then, further specifies that the expected losses will be marked down on the *reporting date* using *the effective interest rate* (“EIR”) determined on the initial date of *recognition* (B5.5.44). With respect to the IAS 39, or the Basel regulations, these provisions include important new elements, such as the forecasting and use of EIR as the discounting rate.
The bank used an updated LGD (EIR rate) for the average *duration* of portfolio applied for all the *stages*.

<u>Bank products</u>

The Bank adopted the methodologies and relative applications released by Cabel Industry S.p.A, mentioned below, defining the parametric choices considered more adequate on the basis of the assets and the integrity of data deriving from the portfolio under analysis.

*PD Calculation*
The determination of the PD was developed on the basis of the guidelines furnished by the *software house*.
The applied statistical mode, or the Chain of *Markov*, determines the PD (with a conditioned marginal approach), distinguishing retail and corporate borrowers, through matrices of transition by internal class rating:

- *Performing Exposure*: allocated in 15 ranges;
- *Non Performing Exposure*: allocated to a single slot where the PD is equal to 100%

Such structure was parameterised through the following features:

- State of Assimilation (or, with possibility of returning to PE) included for the Default, but not for the Non-performing
- inclusion of the event of abandonment of performing status;
- 50 years projection;

- a period of observation (depth) defined in the last five years from the last date of reporting;
- databases deriving from historical information which can be deduced by the Bank and by the System, with a total count of technical *past dues* at three months;
- mode of calculation determined through the assumption of a *default* state at the end of the period and not on reduced timeframes;
- frequency of estimation at one year;
- exclusion of the active NDG (*Numero Direzione Generale* [General Management Number]) with cohort beginning;
- exclusion of entities without rating;
- absence of separation on the basis of geographical areas and amounts, considered the nature and the composition of the portfolio under analysis.

*Calculation of LGD*
The determination of the LGD was developed on the basis of the guidelines furnished by the *software house*.
The model chosen, considering the depth and the weight of the historical data of the bank, results in that of the "*Market LDG*", which provides for a valuation based on the analysis of the guarantees appropriately corrected from haircut, besides an implementation percentage on the component of non-guaranteed credit only.
Such structure was parameterised through the following features:

- implementation percentage of only credit at 10%, determined on the basis of the last sale of NPEs effectuated in the portfolio of Ex Credito Salernitano, which presented different technical forms principally unsecured;
- deduction of personal guarantees and securities at 100%, considering that such elements were already considered in the valuation of the preceding point;
- updating of the property guarantees, through the integrated Cabel application, which automatically determines the earnings percentage and the relative timeframes of recovery on the basis of the geographic position of the properties (Countryside) and the connected legal timeframes of sale.

Such values, further, are supported by a further component of *Danger Rate*, defined automatically by the system on the basis of the definition of the *PD lifetime*, first analysed.

<u>*Non-property lease and personal loans*</u>

The *run-off* portfolios in question, valuated the materiality and their composition, are valuated through a simplified methodology.
The positions in Stage 3 non-performing are subject to a flat-rate analytical valuation, determined on the basis of the value of disposals estimated under hypothesis of release of same.
The residual positions (in Stage 1, Stage 2 and Stage 3) that are not non-performing are valuated:

- with collective/flat-rate methodology for the Personal Loans considering the PD (retail) 12 months/*lifetime* generated by the Cabel applications (through the logics described first) and the LGD value estimated for the Stage 3 Non-performance.
- analytically for the Lease (considered the limited number of contracts), *floored* with the similar methodology and that described above for the Personal Loans, but with reference to the PD (*Corporate*) *lifetime* generated by the Cabel applications.

<u>*Severance Pay*</u>

The severance pay portfolios, valuated the materiality and the composition of the same, are valuated through simplified methodologies.
The positions (in Stage 1, Stage 2 and Stage 3) that are not non-performance are valuated with collective/flat-rate methodology considering the PD (retail) 12 months/*lifetime* generated by the Cabel applications (through the logics previously described) and the LGD in value of discounting *haircut*, considering the capital client always recoverable considering the paying counter-party (INPS).
The positions in Stage 3 in non-performance are subject to a hedging at 100%, considering only loans similar to fraud.

*Lease - property*

Considering the peculiarity of the product in run-off and the limited number of contracts, it does not prove to be representative to determine a PD and an LGD for such portfolio. For such reason, the Bank decided to analytically valuate all the Lease contracts, valuating the single positions through:
- property appraisal, drafted by an independent expert according to the Assilea standard, with evidence of a ready realisable range compared to market value, that allows the reduction of the value of the asset for an achievable component, determined as follows:
    - Stage 2: minimum haircut;
    - Stage 3 maximum haircut;
- banking guarantees eligible for CRM purposes.

*2.4 Credit risk mitigation techniques*

The CRM (*Credit Risk Mitigation*) techniques, as well as furnishing hedging of credit risk, also assume relevance for the containment of the capital absorption in conformance with the provisions of the EU regulation 575/2013 (CRR).

In such context, through the IFRS 9 application, maximum prominence is given to the valuation and continual monitoring of the guarantees of actual nature (properties, banking, confidi, collateral on securities and cash equivalents) assumed in the context of performance.

In support of such assumption, it is noted that all properties comprised under guarantee of credit lines, are supported by suitable appraisals, annually updated by companies/professionals specialising and independent, as outlined in the sector regulations. The market value identified in the expert appraisals is analysed by the *Collection* and *Litigation* Division, with the methodological support of the *Risk Management* Department, and is subject to a *haircut* when necessary in order to take into account the effect of the possible realisation price of the *collaterals*.

With reference to residual risk, defined as the possibility that the above-described techniques may be less effective than anticipated, and with a view to evaluating the impact of such possibility, ViViBanca has created a *framework* that assigns an assessment to the types of possibilities that may arise, via a dedicated *checklist*, in line with the provisions of the CRR.

*3. Impaired credit exposures*

*3.1 Strategies and policies of management*

At the macroeconomic level the amount of impaired loans has continued to show decreasing volumes: in particular, in the first half of 2018 the banks that returned into the *Less Significant* category had an overall reduction of 1.24% of the gross amount of non-performing loans.

The reduction is especially attributable to the sales or securitizations of non-performing loans that, as specified in the Financial Stability Report 2/2018 of Banca d'Italia, resulted as in line with the actions of reduction planned by the intermediaries for 2018. The hedging rate for impaired loans also underwent an improvement, registering an increase of about 6 percentage points, compared to the indicator calculated in December 2017.

The passage to IFRS 9 contributed significantly to this increase, as it established that in the determination of the adjustments that different sales scenarios would be considered, entailing the reduction of the difference between the balance value of the assets that were expected to be written off and the predominant prices on the market.

In relation to the evolution of the supervisory arrangements for the management of impaired loans it should be noted that the need to align the criteria for the classification and the valuation of the NPLs by the financial intermediaries resident in the European Union led to relevant changes of the regulatory *framework* of reference.

In this context, in order to harmonise the application approaches of the definition of impaired loans the individuation of the conditions of probable default within the jurisdictions of the different countries of the European Union, the EBA issued Guidelines for the application of the definition of default pursuant to EU Regulation No. 575/2013[6].

These guidelines have the objective of standardising, between the other items, the criteria for the identification of the expiration, the modes of management of the indications of probable default, the definition of the criteria for recovery of an exposure in performance.

The Guidelines are to be applied from 1 January 2021 but considering the extent of the potential impact that such new principles will have in relation to the volumes of *Non Performing Loans*, especially concerning the reduction of the thresholds absolute and relevant for the application of the definition of default, the Bank has provided for the estimation of their impact up to now and to include such major declines in the present strategy. Overall, the prospective impact estimated is equal to about 4 million Euro, of which 2.3 million Euro relates to the SPBL segment, 1 million euro to lease contracts and 0.7 million Euro to banking products.

The very recent resolution of the European Parliament of 14 March 2019 is also worth mentioning, in relation to the minimum hedging to apply to impaired loans[7], that deals with the principle of the "BCE Addendum"[8] of 2018, since it modifies the terms and criteria with which to define the perimeter of loans subject to the regulations.

In a nutshell, the resolution above seeks to establish minimum objective criteria to apply to the devaluation of impaired loans; thus, a maximum term of 3 years is indicated within which to proceed with the full devaluation of a non-guaranteed impaired exposure, while in the case of impaired exposures with actual guarantees on properties and of loans originated for the purchase of guaranteed residential properties a greater timeframe equal to nine years is recognised. For all the other guaranteed exposures a period of seven years will be indicated in order to provide for the establishment of full hedging.

Such planning is already partly recognised in the ViViBanca[9] procedures in compliance with the guidelines present in the ECB Addendum above: nevertheless, if the new arrangement is confirmed the principles for provision of impaired loans will need to be reviewed, with the knowledge that, as stipulated in the current text of the document under examination, the new minimum hedging levels of the losses must be applied only to exposures incurred successively on the date entered into force of the resolution.

Analysing the specific operative context of the Bank, the two distinct macro-categories of exposures for the client must first of all be distinguished, that derive from the project of aggregation begun in 2016 and culminate in the fusion of the two preceding entities in April 2017 in ViViBanca, or:

- **Core *portfolios*:** retail *loans* originating from contracts of salary and pension backed loans (SPBLs) that represent the *Core Business* of the Company: also included in such portfolio are the loans originating from new financial products from expected severance pay (*Trattamento di Fine Servizio*, TFS) for public and state employees;
- **Non core *portfolio*:** retail *and corporate loans* belonging to other technical forms, among which are lease contracts or typically banking loans originating, for the most part, from the former Credito Salernitano, for which the company follows a *run-off* strategy (henceforth also "banking loans").

[6] EBA directions on the application of the definition of default pursuant to Art. 178 of the Regulation (EU) 575/2013 – EBA/GL/2016/07, recognised by the Delegated Regulation (EU) 2018/171 of the Commission of 19 October 2017.
[7] Legislative resolution of the European Parliament of 14 March 2019 on the proposal of regulation of the European Parliament and the Board changing the regulation (EU) No. 575/2013 regarding the minimum hedging of the losses on impaired exposures.
[8] Addendum to the Guidelines of the ECB for the banks on impaired loans (NPLs): supervisory expectations in relation to the prudential provisions for the impaired exposures.

[9] See internal procedure "IFRS 9 Accounting principle - Policy with regard to accounting treatment".

Such portfolios are profoundly different from each other from the point of view of the type of product and relative guarantee, of their recipients, of the *business model* pursued as well as for the structures put in place for their monitoring and management.

For such reasons it is necessary to identify and pursue two different management strategies: in particular, since the portfolio of banking loans appears more mixed, including the varying types of loans, it is possible to individuate a common coherent strategy that, bearing in mind the diverse characteristics and especially the level of guarantee present, allows the gradual deduction of volumes (both of NPL lans but also for non-impaired loans) in the shortest time possible.

Arising from these elements described, it is foreseen that in the next few years the stock of impaired loans will remain constant. This stability is the result of the increase in volume of the SPBL product, that entails an increase in the deterioration, and of the reduction of impaired loans of the *Non Core* portfolio. In 2019 and 2020, an improvement in the rate of hedging of impaired loans is also foreseen, since being equal to NPLs greater impairments will be carried out, while for 2021, with divestments of loans that are mostly non-performing forecast, a consequent reduction in the level of total hedging is estimated.

For the methods of current classification of the exposures for quality of borrowers and for the consequent valuation of the suitability of the impairment, reference should be made to that shown in the section "*Methods of measurement of the expected losses"*.

*3.2 Write-off*

The *write-off* constitutes an event that gives rise to an accounting cancellation, when there are no more reasonable expectations to recover the financial asset (see IFRS 9, para. 5.4.4 and B3.2.16 r), and should be applied in the financial year in which it occurs.

Such event can happen before the judicial actions undertaken have been definitively concluded towards the borrower for the recovery of the credit; in fact, the cancellation does not entail giving up the legal right to recover the credit[10].

The accounting cancellation can review the whole amount of a financial asset or a portion of such and corresponds:

- to the cancellation of total impairments, with a contra-entry in the gross value of the financial asset;
- for the portion exceeding the amount of the total impairments, to the loss in value of the financial asset directly recognised in the income statement (see IFRS 9, para. B5.4.9).

Once the financial asset is cancelled from the balance, where the cashflow or other assets are recovered in the first instance, their value is recognised in the income statement as an income component.
In compliance with the guidelines with regard to management of impaired loans, ViViBanca identifies objective criteria for the accounting cancellation of the financial assets, for the purpose of limiting any evaluative arbitration.

To such end, the applicable fiscal/civil implications were considered basing the appropriate assumptions on the notions of "certain and precise elements of partial or total irretrievability" and of "valuation of economic inefficiency of the recovery actions". In this context and in conformance also with that outlined by IFRS 7 (para. 35F.e), the qualitative and quantitative regulations on the cancellations adopted by the Bank can be operationally verified, monthly, according to the following alternative logics:

a) <u>objective conditions of non-recoverability of credit</u>, valuated case by case regardless of the characteristics of the financial asset (technical form, quality of the loan, presence of guarantees, number of ongoing days past due, etc.); for the purposes of the determination of the non-recoverability of the credit in case of gross exposures greater than 30,000.00 Euro, such condition should in any case be supported by a legal assessment.

[10] The decision of the entity to renounce such right is known as "cancellation of debit"

b) settlement agreement between the parties (balance/liquidation) supported by documentary evidence and based on the following levels of increasing authority:

- Head of Collection and Litigation Management, up to 30,000 Euro;
- Managing Director and Deputy Managing Director, up to 100,000 Euro;
- Board of Directors, for amounts greater that 100,000 Euro.

c) hedge rate equal to 100% for a period equal or superior to the year with such hedging, whether concerning a single financial asset or credit line, rather than a group of financial assets;

Finally, the write-off can be the consequence of operations of sale without recourse or securitisation of financial assets, authorised by the Board of Directors in cases of application of Art. 58 TUB and Law 130/1999, if both the risks relating to the financial assets subject to sale, and the rights of future cash flows inherent in the same assets are substantially transferred.

With respect to the reporting, regarding the cancellations, the Head of Collection and Litigation presents the list of the positions subject to *write-offs* and the relative effects:
- quarterly, to the Credit Committee;
- yearly, to the Board of Directors

*3.3 Acquired or arising impaired financial assets*

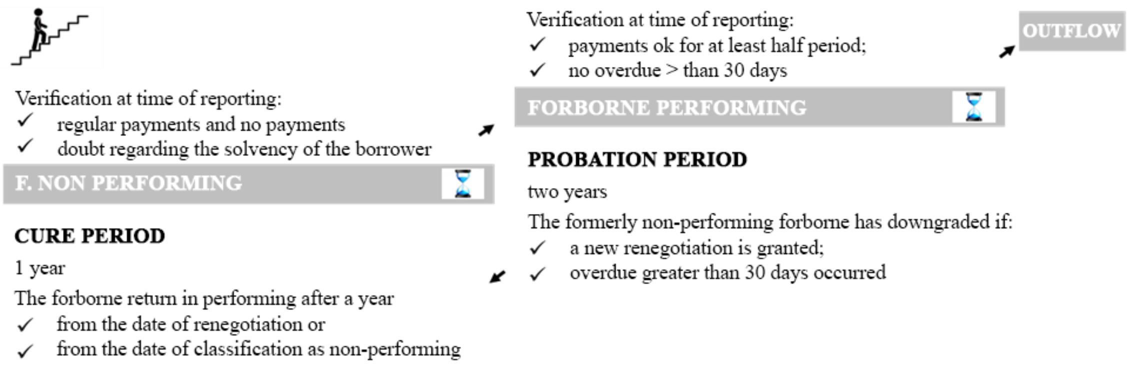
For the methods of classification of the exposures for quality of borrowers and for the consequent valuation of the appropriateness of the impairments see section "*Methods of measuring expected losses"*.

It is also indicated that the positions in question are all residual and relative to movements of the year.

*4. Financial assets subject to commercial renegotiations and exposures subject to loans granted*

The *forborne* exposures, that do not constitute a stand-alone category of credit, but an attribute of the macro-categories, are those for which measures have been extended of concessions to borrowers facing or who may face difficulties in adhering to their financial commitments.

The concessions follow the following *workflow* of output/return from the initial class of recognition as *forborne*[11]:




It means that, even in the absence of a past due, if the company had agreed to carry out a renegotiation that would involve an economic loss a *non-performing forbearance* would come about, for the fact that the acceptance of a loss is an indicator in itself of a situation of probable fault of the client[12].

[11] the calculation begins from the date of renegotiation
[12] See Assilea procedure No. 3/2015

## Quantitative information

### A. Credit quality

***A.1 Impaired and unimpaired credit exposures: amount, impairments, dynamics, and economic distribution***

*A.1.1 Distribution of financial assets by bank portfolio and by credit quality (book values)*

| Portfolios/quality | Non-performing | Probable default | Exposures past due impaired | Past due unimpaired exposures | Other unimpaired exposures | Total |
|---|---|---|---|---|---|---|
| 1. Financial assets valuated at amortised cost | 1,331 | 6,590 | 2,445 | 9,426 | 241,873 | 261,665 |
| 2. Financial assets valuated at fair value with impact on total profitability | | 2,394 | 846 | 3,279 | 42,035 | 48,554 |
| 3. Financial assets designated at fair value | | | | | | |
| 4. Other financial assets obligatorily valuated at fair value | | | | | 5,082 | 5,082 |
| 5. Financial assets in process of divestment | | | | | | |
| **Total as of 31/12/2018** | **1,331** | **8,984** | **3,291** | **12,705** | **288,990** | **315,301** |
| **Total as of 31/12/2017** | **3,390** | **11,524** | **5,335** | **22,956** | **166,110** | **209,315** |

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

| Portfolios/quality | Impaired | | | | Unimpaired | | | Total (net exposure) |
|---|---|---|---|---|---|---|---|---|
| | Gross exposure | Total impairment | Net exposure impaired | Total partial write-offs impaired | Gross exposure | Total impairment | Net exposure impaired | |
| 1. Financial assets valuated at amortised cost | 19,540 | (9,174) | 10,366 | | 252,657 | (1,358) | 251,299 | 261,665 |
| 2. Financial assets valuated at fair value with impact on total profitability | 3,970 | (730) | 3,240 | | 45,419 | (105) | 45,314 | 48,554 |
| 3. Financial assets designated at fair value | | | | | X | X | | |
| 4. Other financial assets obligatorily valuated at fair value | | | | | X | X | 5,082 | 5,082 |
| 5. Financial assets in process of divestment | | | | | | | | |
| **Total as of 31/12/2018** | **23,510** | **(9,904)** | **13,606** | **-** | **298,076** | **(1,463)** | **301,695** | **315,301** |
| **Total as of 31/12/2017** | **38,264** | **(18,015)** | **20,249** | **-** | **189,569** | **(503)** | **189,066** | **209,315** |

*A.1.3 Distribution of financial assets by past due ranges (book values)*

| Portfolios/quality | First stage | | | Second stage | | | Third stage | | |
|---|---|---|---|---|---|---|---|---|---|
| | From 1 day to 30 days | From more than 30 days up to 90 days | More than 90 days impaired | From 1 day to 30 days impaired | From more than 30 days up to 90 days | More than 90 days | From 1 day to 30 days impaired | From more than 30 days up to 90 days impaired | More than 90 days impaired |
| 1. Financial assets valuated at amortised cost | 4 | 9,255 | 167 | 41 | 1,923 | 481 | 71 | 115 | 7,735 |
| 2. Financial assets valuated at fair value with impact on total profitability | | 3,279 | | | 846 | | | | 2,394 |
| **Total as of 31/12/2018** | **4** | **12,534** | **167** | **41** | **2,769** | **481** | **71** | **115** | **10,129** |
| **Total as of 31/12/2017** | | **17,808** | **279** | | **4,776** | **93** | **100** | **1,359** | **18,790** |

*A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: dynamics of the total impairments and the total provisions*

| Reasons/ stages of risk | Total impairment | | | | | | | | | | | | | Total provisions on commitments and financial guarantees given | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Assets included in the first stage | | | | Assets included in the second stage | | | | Assets included in the third stage | | | | of which: acquired or arising impaired financial assets | | | | |
| | Financial assets valuated at amortised cost | Financial assets valuated at fair value with impact on total profitability | of which: individual write-downs | of which: collective write-downs | Financial assets valuated at amortised cost | Financial assets valuated at fair value with impact on total profitability | of which: individual write-downs | of which: collective write-downs | Financial assets valuated at amortised cost | Financial assets valuated at fair value with impact on total profitability | of which: individual write-downs | of which: collective write-downs | | First stage | Second stage | Third stage | |
| **Initial figures** | **(25)** | **(116)** | | **(141)** | **(362)** | **(1)** | | **(363)** | **(17,276)** | **(738)** | **(12,958)** | **(5,056)** | | **(48)** | | | **(18,566)** |
| Change in increase of acquired or arising financial assets | | | | | | | | | | | | | | | | | |
| Cancellations other than write-offs | | | | | | | | | | | | | | | | | |
| Net impairments/ value reinstatements for credit risk (+/-) | (59) | 76 | | 17 | 2,300 | (10) | | 2,290 | 787 | 310 | 267 | 2,796 | | 114 | 5 | (61) | 3,462 |
| Contractual modifications without cancellations | | | | | | | | | | | | | | | | | |
| Changes in methodology of estimate | | | | | | | | | | | | | | | | | |
| Write-off | | | | | | | | | 11,570 | 61 | 11,631 | | | | | | 11,631 |
| Other changes | (95) | (38) | | (133) | (3,117) | (16) | | (3,133) | (4,255) | (363) | (1,966) | (4,618) | | (81) | (10) | (34) | (8,009) |
| **Closing figures** | **(179)** | **(78)** | # | **(257)** | **(1,179)** | **(27)** | # | **(1,206)** | **(9,174)** | **(730)** | **(3,026)** | **(6,878)** | | **(15)** | **(5)** | **(95)** | **(11,482)** |
| Write-offs revealed directly on income statement | | | | | | | | | | | | | | | | | |

*A.1.5 Financial assets, commitments to disburse funds and financial guarantees given: transfers between the different credit risk stages (gross and nominal values)*

| Portfolios/quality | Gross values/nominal value | | | | | |
|---|---|---|---|---|---|---|
| | Transfers between first stage and second stage | | Transfers between second stage and third stage | | Transfers between first stage and third stage | |
| | 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 valuated at amortised cost | 797 | 4,209 | 1,302 | 60 | 1,188 | 213 |
| 2. Financial assets valuated at fair value with impact on total profitability | | 20 | | | | 3 |
| 3. Commitments to disburse funds and issued financial guarantees | | | | | | |
| **Total as of 31/12/2018** | **797** | **4,229** | **1,302** | **60** | **1,188** | **216** |
| **Total as of 31/12/2017** | | | | | | |

The 2017 comparative information was not shown through the IFRS 9 application from 01/01/2018.

*A.1.6 On-balance sheet and off-balance sheet credit exposures to banks: gross and net values*

| Type of exposure/ values | Exposure | | Total impairment and total provisions | Exposure Net | Total partial write-offs |
|---|---|---|---|---|---|
| | Impaired | Unimpaired | | | |
| **A. On-balance sheet credit exposures** | | | | | |
| a) Non-performing | | X | | | |
| - of which: exposures relating to loans | | X | | | |
| b) Probable default | | X | | | |
| - of which: exposures relating to loans | | X | | | |
| c) Past due impaired exposures | | X | | | |
| - of which: exposures relating to loans | | X | | | |
| d) Past due unimpaired exposures | X | | | | |
| - of which: exposures relating to loans | X | | | | |
| e) Other unimpaired exposures | X | 91,752 | | 91,752 | |
| - of which: exposures relating to loans | X | | | | |
| **Total (A)** | | **91,752** | | **91,752** | |
| **B. Off-balance sheet credit exposures** | | | | | |
| a) Impaired | | X | | | |
| b) Unimpaired | X | 535 | | 535 | |
| **Total (B)** | | **535** | | **535** | |
| **Total (A+B)** | | **92,287** | | **92,287** | |

*A.1.7 On-balance sheet and off-balance sheet credit exposures to customers: gross and net values*

| Type of exposure/ values | Exposure | | Total impairment and total provisions | Exposure Net | Total partial write-offs |
|---|---|---|---|---|---|
| | Impaired | Unimpaired | | | |
| **A. On-balance sheet credit exposures** | | | | | |
| a) Non-performing | 4,366 | X | (3,035) | 1,331 | |
| - of which: exposures relating to loans | | X | | | |
| b) Probable default | 13,746 | X | (4,762) | 8,984 | |
| - of which: exposures relating to loans | 8,933 | X | (3,158) | 5,775 | |
| c) Past due impaired exposures | 5,393 | X | (2,102) | 3,291 | |
| - of which: exposures relating to loans | 3,325 | X | (1,430) | 1,895 | |
| d) Past due unimpaired exposures | X | 13,667 | (962) | 12,705 | |
| - of which: exposures relating to loans | X | 5,462 | (479) | 4,983 | |
| e) Other unimpaired exposures | X | 197,986 | (506) | 197,480 | |
| granted | X | 1,722 | (68) | 1,654 | |
| **Total (A)** | **23,505** | **211,653** | **(11,367)** | **223,791** | |
| **B. Off-balance sheet credit exposures** | | | | | |
| a) Impaired | 157 | X | | 157 | |
| b) Unimpaired | X | 8,276 | (115) | 8,391 | |
| **Total (B)** | **157** | **8,276** | **(115)** | **8,548** | |
| **Total (A+B)** | **23,662** | **219,929** | **(11,482)** | **232,339** | |

*A.1.8 On-balance sheet credit exposures to banks: dynamics of gross impaired exposures*

The bank does not have any impaired exposures to banks.

*A.1.8a On-balance sheet credit exposures to banks: dynamics of gross exposures forming the object of loans granted, separated by credit quality*

The bank does not have any exposures to banks forming the object of loans granted.

*A.1.9 On-balance sheet credit exposures to customers: dynamics of gross impaired exposures*

| Reasons/Categories | | Non-performing | Probable default | Exposures past due impaired |
|---|---|---|---|---|
| **A.** | **Initial gross exposure** | **16,348** | **16,008** | **5,907** |
| | - of which: exposures sold and not | | | |
| **B.** | **Increases** | **429** | **3,436** | **2,794** |
| B.1 | revenue from unimpaired exposures | | | |
| B.2 | revenue from acquired or arising impaired financial assets | | | |
| B.3 | transfers from other categories of impaired exposures | 429 | 2,306 | |
| B.4 | contractual changes without cancellations | | | |
| B.5 | other increases | | 1,130 | 2,794 |
| **C.** | **Decreases** | **12,411** | **5,698** | **3,308** |
| C.1 | expenses from unimpaired exposures | | | |
| C.2 | write-offs | 11,514 | 117 | |
| C.3 | receipts | 897 | 4,807 | 371 |
| C.4 | earnings from sales | | | |
| C.5 | losses from sales | | | |
| C.6 | transfers to other categories of impaired exposures | | 429 | 2,306 |
| C.7 | contractual changes without cancellations | | | |
| C.8 | other decreases | | 345 | 631 |
| **D.** | **Final gross exposure** | **4,366** | **13,746** | **5,393** |
| | - of which: exposures sold and not | | | |

*A.1.9a On-balance sheet credit exposures to customers: dynamics of gross exposures forming the object of loans granted, separated by credit quality*

| Reasons/Quality | | Exposures relating to loans granted: impaired | Exposures relating to loans granted: unimpaired |
|---|---|---|---|
| **A.** | **Initial gross exposure** | **8,649** | **9,333** |
| | - of which: exposures sold and not | | |
| **B.** | **Increases** | **5,047** | **0** |
| B.1 | revenue from unimpaired exposures not forming the object of loans granted | 5,047 | |
| B.2 | revenue from unimpaired exposures forming the object of loans granted | | X |
| B.3 | revenue from exposures forming the object of impaired loans granted | X | |
| B.4 | other increases | | |
| **C.** | **Decreases** | **1,438** | **2,149** |
| C.1 | expenses from unimpaired exposures not forming the object of loans granted | X | |
| C.2 | expenses from unimpaired exposures forming the object of loans granted | | X |
| C.3 | expenses from exposures forming the object of impaired loans granted | X | |
| C.4 | write-offs | | |
| C.5 | receipts | 1,438 | 2,149 |
| C.6 | earnings from sales | | |
| C.7 | losses from sales | | |
| C.8 | other decreases | | |
| **D.** | **Final gross exposure** | **12,258** | **7,184** |
| | - of which: exposures sold and not | | |

*A.1.10 Impaired on-balance sheet exposures to banks: dynamics of the total impairments*

The bank does not have any impaired exposures to banks.

*A.1.11 Impaired on-balance sheet exposures to customers: dynamics of total impairments*

| | Reasons/Categories | Non-performing | | Probable default | | Exposures past due impaired | |
|---|---|---|---|---|---|---|---|
| | | Total | of which: exposures relating to loans granted | Total | of which: exposures relating to loans granted | Total | of which: exposures relating to loans granted |
| **A.** | **Initial gross exposure** | **(12,958)** | | **(4,484)** | **(1,441)** | **(572)** | **(205)** |
| | - of which: exposures sold and not derecognised | | | | | | |
| **B.** | **Increases** | **(2,208)** | | **(4,670)** | **(3,155)** | **(3,103)** | **(1,664)** |
| B.1 | impairment from acquired or arising impaired financial assets | | X | | X | | X |
| B.2 | other impairments | (186) | | (2,273) | (1,982) | (2,096) | (979) |
| B.3 | losses from sales | | | | | | |
| B.4 | transfers from other categories of impaired exposures | (57) | | (628) | | | |
| B.5 | contractual changes without cancellations | | X | | X | | X |
| B.6 | other increases | (1,965) | | (1,769) | (1,173) | (1,007) | (685) |
| **C.** | **Decreases** | **12,131** | | **4,392** | **1,438** | **1,573** | **439** |
| C.1 | value reinstatements from measurement | 8 | | 95 | | 11 | |
| C.2 | value reinstatements from cash inflows | 761 | | 2,169 | 1,438 | 646 | 439 |
| C.3 | profit from sales | | | | | | |
| C.4 | write-offs | 10,598 | | 108 | | | |
| C.5 | transfers to other categories of impaired exposures | | | 57 | | 628 | |
| C.6 | contractual changes without cancellations | | | | | | |
| C.7 | other decreases | 764 | | 1,963 | | 288 | |
| **D.** | **Final gross exposure** | **(3,035)** | | **(4,762)** | **(3,158)** | **(2,102)** | **(1,430)** |
| | - of which: exposures sold and not | | | | | | |

***A.2 Classification of financial assets, of the commitments to disburse funds and of financial guarantees granted on the basis of internal and external rating***

*A.2.1 Distribution of the financial asset, of the commitments to disburse funds and of the financial guarantees given: by classes of external rating (gross values)*

The Bank uses standardised methods according to the mapping of risk by the DBRS Rating Limited agency exclusively for the exposure on the *senior tranche* (ISIN IT0005188427) of Eridano SPV.

.

| Exposures | External rating classes | | | | | | No rating | Total |
|---|---|---|---|---|---|---|---|---|
| | Class 1 | Class 2 | Class 3 | Class 4 | Class 5 | Class 6 | | |
| **A. Financial assets valuated at amortised cost** | | **6,629** | | | | | **265,567** | **272,196** |
| - First stage | | 6,629 | | | | | 217,408 | 224,037 |
| - Second stage | | | | | | | 28,628 | 28,628 |
| - Third stage | | | | | | | 19,531 | 19,531 |
| **B. Financial assets valuated at fair value with impact on total profitability** | | | | | | | **49,372** | **49,372** |
| - First stage | | | | | | | 44,485 | 44,485 |
| - Second stage | | | | | | | 927 | 927 |
| - Third stage | | | | | | | 3,960 | 3,960 |
| **Total (A+B)** | | **6,629** | | | | | **314,939** | **321,568** |
| of which: acquired or arising impaired financial assets | | | | | | | 2,034 | 2,034 |
| **C. Commitments to disburse funds and issued financial guarantees** | | | | | | | **8,433** | **8,433** |
| - First stage | | | | | | | 4,677 | 4,677 |
| - Second stage | | | | | | | 174 | 174 |
| - Third stage | | | | | | | 3,582 | 3,582 |
| **Total ( C)** | | | | | | | **8,433** | **8,433** |
| **Total (A+B+C)** | | **6,629** | | | | | **323,372** | **330,001** |

With long-term *ratings*:

| Credit merit class | Risk weight coefficients | | | | ECAI |
|---|---|---|---|---|---|
| | Central governments and central banks | Supervised intermediaries, public sector agencies and territorial entities | Multilateral development banks | Businesses and other entities | DBRS Ratings Limited |
| 1 | 0% | 20% | 20% | 20% | from AAA to AAL |
| 2 | 20% | 50% | 50% | 50% | from AH to AL |
| 3 | 50% | 50% | 50% | 100% | from BBBH to BBBL |
| 4 | 100% | 100% | 100% | 100% | from BBH to BBL |
| 5 | 100% | 100% | 100% | 100% | from BH to BL |
| 6 | 150% | 150% | 150% | 150% | CCC |

*A.2.2 Distribution of the financial assets, of the commitments to disburse funds and the financial guarantees given: by classes of internal rating (gross values)*

The bank does not use internal *rating* classes.

***A.3 Distribution of guaranteed credit exposures by type of guarantee***

*A.3.1 Guaranteed credit exposures on-balance sheet and off-balance sheet to banks*

The bank does not have any secured loan exposures to banks.

*A.3.2 Guaranteed credit exposures on-balance sheet and off-balance sheet to customers*

| | Gross exposure | Net exposure | Collateral (1) | | | | Personal guarantees (2) | | | | | | | | | Total (1)+(2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Credit derivative | | | | Endorsement credits | | | | |
| | | | Property - mortgages | Property - financial leases | Securities | Other collateral | Credit linked notes | Central counterparties | Banks | Other financial companies | Other entities | Public administrations | Banks | Other financial companies | Other entities | |
| *1. On-balance sheet guaranteed credit exposures:* | | | | | | | | | | | | | | | | |
| 1.1. fully guaranteed | 77,885 | 68,925 | 7,821 | 12,625 | 710 | 760 | | | | | | 431 | 1,196 | 20 | 6,384 | 29,947 |
| - impaired | 20,039 | 12,364 | 1,501 | 5,650 | 506 | 140 | | | | | | 40 | | 20 | 1,219 | 9,076 |
| 1.2. partially guaranteed | 40 | 40 | | | | | | | | | | 32 | | | | 32 |
| - impaired | | | | | | | | | | | | | | | | |
| *2. “Off-balance sheet” guaranteed credit exposures* | | | | | | | | | | | | | | | | |
| 2.1. fully guaranteed | 877 | 877 | | | | 135 | | | | | | | | | 742 | 877 |
| - impaired | | | | | | | | | | | | | | | | |
| 2.2. partially guaranteed | 20 | 20 | | | | 10 | | | | | | | | | | 10 |
| - impaired | | | | | | | | | | | | | | | | |

### *A.4 Financial and non-financial assets obtained through the execution of the guarantees given*

| Reasons/Categories | Credit exposure cancelled | Gross value | Total impairment | Book value | |
|---|---|---|---|---|---|
| | | | | | which is obtained during the course of the financial year |
| **A. Tangible assets** | **9,439** | **12,876** | **(3,437)** | **8,368** | **2,350** |
| A.1 Having a functional use | | | | | |
| A.2 For investment purposes | 9,439 | 12,876 | (3,437) | 8,368 | 2,350 |
| A.3 Remainder | | | | | |
| **B. Equity securities and debt securities** | | | | | |
| **C. Other assets** | | | | | |
| **D. Non-current assets and groups of assets in the process of divestment** | | | | | |
| D.1 Tangible assets | | | | | |
| D.2 Other assets | | | | | |
| **Total as of 31/12/2018** | **9,439** | **12,876** | **(3,437)** | **8,368** | **2,350** |
| **Total as of 31/12/2017** | **7,089** | **9,111** | **(2,022)** | **7,089** | **7,089** |

The non-financial assets obtained through the execution of the guarantees given consist of non-residential properties booked following contractual Lease dissolutions.

For more information see “Explanatory Notes – Part B – INFORMATION ON THE BALANCE SHEET – Assets – Section 8 – Tangible assets – Item 80 - 8.4 Tangible assets held for investment purposes: composition of the asset valuated at fair value”

## B. Distribution and concentration of credit exposures

*B.1 Sector distribution of on-balance sheet and off-balance sheet credit exposures to customers*

| Exposures/Counterparties | Public administrations | | Financial companies | | Financial companies (including | | Non-financial companies | | Families | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Net exposure | Total specific value adjustments | Net exposure | Total specific value adjustments | Net exposure | Total specific value adjustments | Net exposure | Total specific value adjustments | Net exposure | Total specific value adjustments |
| **A. On-balance sheet exposures** | | | | | | | | | | |
| A.1 Non-performing | | | | | | | 1,164 | (1,945) | 167 | (1,090) |
| *- of which: exposures relating to loans granted* | | | | | | | | | | |
| A.2 Probable default | 9 | (2) | | | | | 5,436 | (3,656) | 3,540 | (1,104) |
| *- of which: exposures relating to loans granted* | | | | | | | *5,097* | (2,999) | *679* | (159) |
| A.3 Past due impaired exposures | 16 | (2) | | (1) | | | 1,547 | (1,437) | 1,728 | (662) |
| *- of which: exposures relating to loans granted* | | | | | | | *1,367* | (1,160) | *528* | (270) |
| A.4 Unimpaired exposures | 127,318 | (37) | 23,414 | (72) | 2,072 | | 15,773 | (1,087) | 43,438 | (254) |
| *- of which: exposures relating to loans granted* | | | | | | | *6,302* | (528) | *335* | (19) |
| **TOTAL A** | **127,343** | **(41)** | **23,414** | **(73)** | **2,072** | | **23,920** | **(8,125)** | **48,873** | **(3,110)** |
| **B. “Off-balance sheet” exposures** | | | | | | | | | | |
| B.1 Impaired exposures | | | | | | | 110 | | 47 | |
| B.2 Unimpaired exposures | | | 152 | | | | 1,967 | (1) | 6,272 | (114) |
| **TOTAL B** | | | **152** | | | | **2,077** | **(1)** | **6,319** | **(114)** |
| **TOTAL (A+B) 31/12/2018** | **127,343** | **(41)** | **23,566** | **(73)** | **2,072** | | **25,997** | **(8,126)** | **55,192** | **(3,224)** |
| **TOTAL (A+B) 31/12/2017** | **11,017** | **(4)** | **11,426** | **(1,051)** | **2,056** | | **40,129** | **(10,894)** | **70,200** | **(6,356)** |

*B.2 Territorial distribution of on-balance sheet and off-balance sheet credit exposures to customers*

| Exposures/Counterparties | Italy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | North-West | | North-East | | Central | | South and islands | |
| | Net exposure | Total impairments | Net exposure | Total impairments | Net exposure | Total impairments | Net exposure | Total impairments |
| **A. On-balance sheet exposures** | | | | | | | | |
| A.1 Non-performing | 13 | (416) | 309 | (77) | 18 | (309) | 991 | (2,234) |
| A.2 Probable default | 299 | (86) | 98 | (28) | 1,186 | (507) | 7,401 | (4,142) |
| A.3 Past due impaired exposures | 108 | (19) | 136 | (22) | 1,062 | (468) | 1,985 | (1,593) |
| A.4 Unimpaired exposures | 10,635 | (40) | 9,698 | (32) | 151,572 | (99) | 38,038 | (1,279) |
| **Total A** | **11,055** | **(561)** | **10,241** | **(159)** | **153,838** | **(1,383)** | **48,415** | **(9,248)** |
| **B. Off-balance sheet guaranteed credit exposures** | | | | | | | | |
| B.1 Impaired exposures | | | | | 69 | | 87 | |
| B.2 Unimpaired exposures | 2,068 | (22) | 586 | (21) | 846 | (15) | 4,661 | (56) |
| **Total B** | **2,068** | **(22)** | **586** | **(21)** | **915** | **(15)** | **4,748** | **(56)** |
| **Total (A+B) 31/12/2018** | **13,123** | **(583)** | **10,827** | **(180)** | **154,753** | **(1,398)** | **53,163** | **(9,304)** |
| **Total (A+B) 31/12/2017** | **12,041** | **(1,274)** | **6,138** | **(918)** | **41,934** | **(4,891)** | **74,716** | **(11,483)** |

*B.3 Territorial distribution of on-balance sheet and off-balance sheet credit exposures to banks*

| Exposures/Counterparties | Italy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | North-West | | North-East | | Central | | South and islands | |
| | Net exposure | Total impairments | Net exposure | Total impairments | Net exposure | Total impairments | Net exposure | Total impairments |
| **A. On-balance sheet exposures** | | | | | | | | |
| A.1 Non-performing | | | | | | | | |
| A.2 Probable default | | | | | | | | |
| A.3 Past due impaired exposures | | | | | | | | |
| A.4 Unimpaired exposures | 50,802 | | 22,524 | | 16,637 | | 1,789 | |
| **Total A** | **50,802** | | **22,524** | | **16,637** | | **1,789** | |
| **B. Off-balance sheet guaranteed credit exposures** | | | | | | | | |
| B.1 Impaired exposures | | | | | | | | |
| B.2 Unimpaired exposures | | | | | 535 | | | |
| **Total B** | | | | | **535** | | | |
| **Total (A+B) 31/12/2018** | **50,802** | | **22,524** | | **17,172** | | **1,789** | |
| **Total (A+B) 31/12/2017** | **76,554** | | **138** | | **5,034** | | **2,616** | |

*B.4 Large exposures*

| | States | Banks | Clients | Total |
|---|---|---|---|---|
| a) Amount (book value) | 133,306 | 85,350 | 4,567 | 223,223 |
| b) Amount (weighted value) | 7,348 | 17,070 | 2,995 | 27,413 |
| c) Number | 1 | 4 | 1 | 6 |

### C. Securitisation operations

### Qualitative information

**ERIDANO SPV**

*Objectives, strategies, processes, and characteristics of the operation*

In May 2016, the bank completed a (traditional) securitisation of its unimpaired salary and pension-backed loans (all accompanied by guarantees), periodically selling portfolios with specific eligibility criteria on a payment basis, over a *ramp-up* (or credit "increase") period of 19 months (until November 2017).

This operation, created to diversify funding sources and optimise capital creation, involved the following parties:

| | |
|---|---|
| *Originator* | ViViBanca S.p.A. |
| *Arranger* | Banque Natixis SA |
| *Servicer* | ViViBanca S.p.A. |
| *Corporate Servicer* | Zenith Service SpA |
| *Structuring Advisor* | Zenith Service SpA |
| *Back Up Servicer* | Zenith Service SpA |
| *Representative of the Noteholders* | Zenith Service SpA |
| *Calculation Agent* | Zenith Service SpA |
| *Account Bank* | BNP Paribas Securities Services, Milan Branch S.A. |
| *Paying Agent* | BNP Paribas Securities Services, Milan Branch S.A. |

*Description of the accumulated risks portfolio*

From December 31, 2018, the complete SPBL portfolio, with a gross exposure equal to 157.4 million Euro, of which 0.1 million is impaired, for which total impairments equal 0.6 million Euro, presents a high granularity (gross average exposure equal to 19.9 thousand Euro) to Italian families.

*Financial instruments held in the portfolio and their ratings*

The sales performed through Eridano SPV (established in accordance with Law 130/99 on securitisation), with its registered office in Milan, Via Vittorio Betteloni, 2, were financed through the issue of Titoli "*Asset Backed Securities*" (*ABS*) of a *partly paid* nature subdivided into two classes:

- *Senior* (Class A), equal to 87% of the *outstanding* with a variable rate (*Ramp Up Period*: 1M Euribor with a *floor* of -10 bps +125 bps – *Amortisation Period*: 1M Euribor with *floor* of -25 bps +150 bps), and issued for a nominal value of 200 million Euro, subscribed by Natixis Bank for the portion exceeding the *vertical slice;*

- *Junior* (Class B), equal to 13% of the *outstanding*, plus the technical reserves, with a variable rate, issued for a nominal value of 65 million Euro and initially fully subscribed by ViViBanca, formerly Terfinance, and subsequently subscribed by third party investors for the portion exceeding the *vertical slice*. As previously noted, on 30 June 2016, Terfinance sold the *Junior* Notes exceeding 5% of this class, with a resulting *derecognition* of the loans sold to the vehicle company. Transfer of the significant risks and rewards associated with the operation was certified in a technical report approved by the Board of Directors and was supported by an audit opinion by a specialised consulting company.

As of 31 December 2018, ViViBanca retained a net economic interest in the operation equal to 5.0359% in compliance with the above-mentioned *retention rule*, regarding the value of the initial securities issued:

| Class | ISIN | Initial value | Residual value | Rating | Issue date | Maturity date |
|---|---|---|---|---|---|---|
| A | IT0005188427 | 155,548 | 127,993 | Moody's Aa3/DBRS A (High) | 31/05/2016 | 31/12/2032 |
| B | IT0005188682 | 37,549 | 37,549 | NO | 31/05/2016 | 31/12/2032 |

In July 2017, activities were concluded to obtain a rating on the *Senior* securities (Class A), to which Moody's and DBRS assigned a respective rating of Aa2 and A (*high*), and at the same time, the security was listed on the Luxembourg Stock Exchange.

In the month of October 2018 Moody's, following a revision of the *rating* in Italy, reduced its valuation on the *Senior* securities from Aa2 to Aa3. No changes were reported, however, on behalf of DBRS.

*Servicing*

This service generated commission income of 167 thousand Euro.

Within the context of the operation and in its capacity as the *Servicer*, the *Originator* assumes the duty of managing the receipts and recovery of loans sold in the name and on behalf of the *SPV*, as well as periodically providing the *SPV* with information on the portfolio, necessary for the monitoring carried out by the parties involved in the operation.

This activity allows ViViBanca to maintain direct relations with its customers, transferring receipts of principal and interest onto accounts opened in the vehicle's name at the custodian bank (*BNP Paribas*).

*Monitoring*

The Administration and Finance Division, with the support of the *Collection* Division, performs monthly monitoring of credit quality and the relative cash flows deriving from the portfolio. This analysis - provided in the *Servicer Report* (certified annually by a specialised independent company) - is published on a dedicated page of the bank's *website* with a view to providing maximum transparency to the market. Within this context, the Board of Directors is informed on a quarterly basis of the operation's overall *status*, with particular *focus* on the portfolio *triggers*.

**ERIDANO II SPV**

*Strategies, processes, objectives, and characteristics of the operation*

In November 2018, the bank completed a (traditional) securitisation of its unimpaired salary and pension-backed loans (all accompanied by guarantees), periodically selling portfolios with specific eligibility criteria on a payment basis, over a *ramp-up* (or credit "increase") period of 18 months.

This operation, created to diversify funding sources and optimise capital creation, involved the following parties:

| | |
|---|---|
| *Originator* | ViViBanca S.p.A. |
| *Arranger* | Société Générale |
| *Servicer* | ViViBanca S.p.A. |
| *Corporate Servicer* | Securitisation Services S.p.A. |
| *Back Up Servicer* | Quinservizi S.p.A. |
| *Representative of the Noteholders* | Securitisation Services S.p.A. |
| *Calculation Agent* | Securitisation Services S.p.A. |
| *Account Bank* | BNP Paribas Securities Services, Milan Branch S.A. |
| *Paying Agent* | BNP Paribas Securities Services, Milan Branch S.A. |

*Portfolio sales in 2018*

Sales of unimpaired loans in 2018 were carried out above par at the following characteristics:

| Number of contracts sold | Gross credit sold (a) | Impairment (b) | Net credit sold (c=a-b) | Sale price (d) | Revenue realised (d-c) |
|---|---|---|---|---|---|
| 5,136 | 104,393 | (312) | 104,081 | 118,403 | 14,322 |

*Description of the accumulated risks portfolio*

On 31 December 2018, the complete SPBL portfolio, with a gross exposure equal to 117.4 million Euro, for which the total impairment equalled 0.3 million Euro, presented a high granularity (average gross exposure equal to 22.9 thousand Euro) to Italian families, delocalised thus:

| Exposures/Counterparties | Italy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | North-West | | North-East | | Central | | South and islands | |
| | Net exposure | Total impairments | Net exposure | Total impairments | Net exposure | Total impairments | Net exposure | Total impairments |
| **On-balance sheet exposures** | | | | | | | | |
| Non-performing | | | | | | | | |
| Probable default | | | | | | | | |
| Past due impaired exposures | | | | | | | | |
| Unimpaired exposures | 27,077 | (54) | 16,523 | (33) | 34,923 | (70) | 38,615 | (78) |
| **Total** | **27,077** | **(54)** | **16,523** | **(33)** | **34,923** | **(70)** | **38,615** | **(78)** |

<u>*Financial instruments held in the portfolio and their ratings*</u>

The sales performed through Eridano II SPV (established in accordance with Law 130/99 on securitisation), with its registered office in Conegliano in Via Vittorio Alfieri 1, were financed through the issue of "*Asset Backed Securities*" (*ABS*) with *partly paid* (or filling) nature, subdivided into three classes:

- *Senior* (Class A1, A2 and A3), equal to 87% of the *outstanding* sold, with variable rate (*Ramp Up Period*: 1M Euribor +80 bps – *Amortization Period*: 1M Euribor +100 bps), issued for a nominal value of 386.1 million Euro, subscribed by the Société Générale for the portion exceeding the *vertical slice,* except the A3 class that remains the property of ViViBanca*;*

- *Mezzanine* (Class B), equal to 7% of the *outstanding* sold, with variable rate (1M Euribor with floor at zero +300 bps), issued for a nominal value of 29.4 million Euro, subscribed by ViViBanca and concurrently resold on equal terms to third party investors for the portion exceeding the *vertical slice;*

- *Junior* (Class C), equal to 6% of the *outstanding*, plus the technical reserves, with a variable rate, issued for a nominal value of 80 million Euro and subscribed by ViViBanca and concurrently resold on equal terms to third party investors for the portion exceeding the *vertical slice;*

As previously noted, ViViBanca sold the *Mezzanine* and *Junior* securities, exceeding 5% of classes B and C, with the resulting accounting and credit risk *derecognition* sold to the vehicle company.

The alienation of the significant risks and benefits associated with the operation was certified through a technical report approved by the Board of Directors and through the request of the *Significant Risk Transfer* to the *regulator*, in compliance with the current regulatory provisions.

As of 31 December 2018, and in compliance with the above-mentioned *retention rule*, ViViBanca retained a net economic interest in the operation equal to 5.000% of the value of the securities issued:

| Class | ISIN | Initial value | Residual value | Rating | Issue date | Maturity date |
|---|---|---|---|---|---|---|
| A1 | IT0005352809 | 42,970 | 42,970 | NO | 23/11/2018 | 31/05/2035 |
| A2 | IT0005352817 | 42,970 | 42,970 | NO | 23/11/2018 | 31/05/2035 |
| A3 | IT0005353401 | 1 | 1 | NO | 23/11/2018 | 31/05/2035 |
| B | IT0005352825 | 6,915 | 6,915 | NO | 23/11/2018 | 31/05/2035 |
| C | IT0005352833 | 22,631 | 22,631 | NO | 23/11/2018 | 31/05/2035 |

At this moment the Bank expects, with the support of the *Arranger*, to request the *rating*, over the course of 2019, regarding the *Senior* (classes A1 and A2) and Mezzanine (class B) securities, for a potential subsequent quotation of securities of greater *seniority* at a regulated market.

<u>*Servicing*</u>

This service generated commission income of nine thousand Euro.

Within the context of the operation and in its capacity as the *Servicer*, the *Originator* assumes the duty of managing the receipts and recovery of loans sold in the name and on behalf of the *SPV*, as well as periodically providing the *SPV* with information on the portfolio, necessary for the monitoring carried out by the parties involved in the operation.

This activity allows ViViBanca to maintain direct relations with its customers, transferring receipts of principal and interest onto accounts opened in the vehicle's name at the custodian bank (*BNP Paribas*).

<u>*Monitoring*</u>

The Administration and Finance Division, with the support of the *Collection* Division, performs monthly monitoring of credit quality and the relative cash flows deriving from the portfolio. This analysis - provided in the *Servicer Report* (certified annually by a specialised independent company) - is published on a dedicated page of the bank's *website* with a view to providing maximum transparency to the market. Within this context, the Board of Directors is informed on a quarterly basis of the operation's overall *status*, with particular *focus* on the portfolio *triggers*.

**ADRIATICO FINANCE SPV**

*Strategies, processes, objectives, and characteristics of the operation*

The management, in the capacity of *sub-servicer*, is underway for the activity of financial Lease subject to the operation of securitisation performed in September 2008, relating at the time to a number of 1,227 contracts for a total maturing principle value equal to 118.7 million Euro, with *de-risking* purpose and consequent attainment of liquidity. The transferee vehicle company used is Adriatico Finance SME Srl, with its registered office in Milan, Via San Prospero 4. It was founded on 16 March 2007 with the exclusive corporate purpose of performing loan securitisation operations. This vehicle company has already been used for other mortgage securitisation operations performed by Banca Popolare di Bari, formerly Banca Tercas, and involving the following parties:

| | |
|---|---|
| *Originator* | ViViBanca SpA, formerly Terfinance SpA, formerly Terleasing SpA |
| *Servicer* | Banca Popolare di Bari, formerly Banca Tercas SpA |
| *Sub-servicer* | ViViBanca SpA, formerly Terfinance SpA, formerly Terleasing SpA |
| *Asset Manager* | ViViBanca SpA, formerly Terfinance SpA – Vega Management Srl until 18 July 2008 |
| *Corporate Servicer* | Zenith Service SpA |
| *Representative of the Noteholders* | Talete Creative Finance Srl |
| *Collection Account Bank* | HSBC Bank Plc |
| *Computation Agent* | Talete Creative Finance Srl |
| *Italian Account Bank* | HSBC Bank plc |
| *Principal Paying Agent* | HSBC Bank plc |

*Description of the portfolio*

The securitised loans existing at 31 December 2018 totalled 39.6 million Euro, 27.2 million Euro of which were impaired, net of associated receipts for a total of 3.7 million Euro.

*Financial instruments*

All the security *classes* issued (*Senior*, *Mezzanine*, and *Junior*) have been fully subscribed by Banca Popolare di Bari, therefore ViViBanca does not hold any stakes. Further, it is noted that since July 2010, none of the securities have been rated (on 31 December 2009, Class A had a AA *rating*).

As required under applicable regulations, the appropriate *derecognition* analyses have been performed, from which it has emerged that substantially all the risks and rewards associated with the loans portfolio sold have been transferred, and the assets have therefore been derecognised by ViViBanca, formerly Terfinance.

*Sub - Servicing*

This service generated commission income of 29 thousand Euro.

Within the context of the operation and in its capacity as the *Sub-servicer*, the *Originator* assumes the duty of managing the receipts and recovery of loans sold in the name and on behalf of the SPV, as well as periodically providing the SPV with information on the portfolio, necessary for the monitoring carried out by the parties involved in the operation.

## Quantitative information

*C.1 Exposures deriving from the bank's main securitisation operations, distributed by type of securitisation activity and by type of exposure*

| Type of asset securitised/Exposures | On-balance sheet exposures | | | | | | Guarantees given | | | | | | Credit lines | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | | Senior | | Mezzanine | | Junior | |
| | Book value | Value adjustments/reinstatements | Book value | Value adjustments/reinstatements | Book value | Value adjustments/reinstatements | Book value | Value adjustments/reinstatements | Book value | Value adjustments/reinstatements | Book value | Value adjustments/reinstatements | Book value | Value adjustments/reinstatements | Book value | Value adjustments/reinstatements | Book value | Value adjustments/reinstatements |
| **A. Subject to full derecognition in the financial statements** | **213,934** | | **6,915** | | **37,549** | | | | | | | | | | | | | |
| Type of asset | | | | | | | | | | | | | | | | | | |
| - SPBL (Eridano SPV) | 127,993 | | | | 37,549 | | | | | | | | | | | | | |
| - SPBL (Eridano II SPV) | 85,941 | | 6,915 | | 22,631 | | | | | | | | | | | | | |
| **B. Subject to partial derecognition in the financial statements** | | | | | | | | | | | | | | | | | | |
| **C. Not derecognised in the financial statement** | **11,009** | **(33)** | **347** | **(1)** | **3,011** | | | | | | | | | | | | | |
| Type of asset | | | | | | | | | | | | | | | | | | |
| - SPBL (Eridano SPV) | 6,649 | (20) | | | 1,879 | | | | | | | | | | | | | |
| - SPBL (Eridano II SPV) | 4,360 | (13) | 347 | (1) | 1,132 | | | | | | | | | | | | | |

The sub-item "Not derecognised" represents the amount of ABS held in compliance with the *retention rules*.

*C.2 Exposures deriving from the main securitisation operations of third parties, distributed by type of securitisation activity and by type of exposure*

The bank does not hold any exposures deriving from third party securitisation operations.

*C.3 Securitisation vehicle companies*

| Name of securitisation / Name of vehicle company | Registered office | Consolidation | Assets | | | Liabilities | | |
|---|---|---|---|---|---|---|---|---|
| | | | Loans | Debt securities | Other | Senior | Mezzanine | Junior |
| Eridano SPV Srl | Milan, Via Vittorio Betteloni, 2 | No | 165,542 | | | 127,993 | | 37,549 |
| Eridano II SPV Srl | Conegliano, Via Vittorio Veneto, 1 | No | 115,487 | | | 85,941 | 6,915 | 22,631 |

The company does not hold any stakes in the vehicle company.

*C.4 Non-consolidated securitisation vehicle companies*

The bank has not sponsored securitisation vehicles within the meaning of IFRS 12, paragraphs 3, 27, 31, B25, and B26.

*C.5 Servicer activities – own securitisations: receipts from securitised loans and redemption of securities issued by the vehicle company for the securitisation*

| Company vehicle | Securitised assets (data from period end) | | Receipts from loans realised in the year | | Percentage of securities redeemed (data from period end) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Senior | | Mezzanine | | Junior | |
| | Impaired | Unimpaired | Impaired | Unimpaired | Assets impaired | Assets unimpaired | Assets impaired | Assets unimpaired | Assets impaired | Assets unimpaired |
| Eridano SPV Srl | 130 | 165,412 | 1,281 | 22,012 | | 0.18 | | | | |
| Eridano II SPV Srl | | 115,487 | | 1,020 | | | | | | |

## D. Information on structured entities not consolidated in the financial statements (other than the securitisation vehicle companies)

### Qualitative information

The bank holds a single, non-significant exposure to the UCI Minibond PMI Italia, the underlying asset of which is a bond.

### Quantitative information

| Items of financial statements/Type of structured entity | Portfolios accounting of assets | Total assets (A) | Portfolios accounting of liabilities | Total liabilities (B) | Value accounting net (C=A-B) | Exposure maximum of risk of loss (D) | Difference between exposure to risk of loss and book value accounting (E=D-C) |
|---|---|---|---|---|---|---|---|
| 1. Minibond PMI Italia UCI | Other financial assets obligatorily valuated at fair value | 44 | | | 44 | 44 | - |

## E. Sale transactions

*A. Financial assets sold and not fully derecognised*

### Qualitative information

The Bank holds financial assets that are sold and not cancelled that consist of Italian state short-term securities, financed through repurchase agreement operations of a banking nature. Such liabilities present a duration coinciding with the investments made.

The government securities indicated, being the object of repurchase agreement, are (bound) under guarantee of the liability mentioned, determining:
- benefits in terms of financial spread, deriving from the asset's yield, with regard to the cost of the relative associated liability; and
- residual risks, considering the nature of the investment and its sensitivity to market rates, taking into account the aforementioned timeframe.

### Quantitative information

*E.1 Financial assets sold recognised in full and associated financial liability: book values*

| | Fully recognised financial assets sold | | | | Associated financial liabilities | | |
|---|---|---|---|---|---|---|---|
| | Value of financial statements | of which: forming the object of securitisation operations | of which: forming the object of sales contracts with repurchasing agreement | which is impaired | Book value | of which: forming the object of securitisation operations | of which: forming the object of sales contracts with repurchasing agreement |
| **Financial assets held for trading** | | | | | | | |
| 1. Debt securities | | | | X | | | |
| 2. Equity securities | | | | X | | | |
| 3. Loans | | | | X | | | |
| 4. Derivatives | | | | X | | | |
| **Other financial assets obligatorily valuated at fair value** | | | | | | | |
| 1. Debt securities | | | | | | | |
| 2. Equity securities | | | | X | | | |
| 3. Loans | | | | | | | |
| **Financial assets designated at fair value** | | | | | | | |
| 1. Debt securities | | | | | | | |
| 2. Loans | | | | | | | |
| **Financial assets valuated at fair value with impact on total profitability** | | | | | | | |
| 1. Debt securities | | | | | | | |
| 2. Equity securities | | | | X | | | |
| 3. Loans | | | | | | | |
| **Financial assets valuated at amortised cost** | | | | | | | |
| 1. Debt securities | 89,933 | | 89,933 | | | | |
| 2. Loans | | | | | | | |
| **Total T** | **89,933** | | **89,933** | | | | |
| **Total T-1** | | | | | | | |

*E.2 Financial assets sold recognised partially and associated financial liabilities: book values*

The Bank does not present financial assets sold recognised partially and associated financial liabilities.

*E.3 Operations of sales with liabilities having reimbursement exclusively on the assets sold and not fully derecognised: fair value*

The Bank does not present operations of sales with liabilities having reimbursement exclusively on the assets sold and not fully derecognised.

*B Financial assets sold and fully derecognised, with recognition of continuing involvement*

The bank does not hold any financial assets sold and fully derecognised, with recognition of continuing involvement.

*E.4 Operations of covered bond*

The Bank does not hold operations of *covered bond.*

**F. Credit risk measurement models**

The Bank prepares yearly and updates its ICAPP report and the management plan of the NPLs, which measure the risks concerning the financial assets, analysing the suitability of the capital destined for their hedging.

The credit risk is calculated in terms of:
- expected loss: through a process of *impairment* defined through internal models, governed by the IFRS 9 policy approved by the Board of Directors;
- unexpected loss: through the application of the *standard* method used by the Supervision Entity.

These notions are reflected in the instruments used by the Bank:
- *vintage SPBL analysis*: supervises the *performance* of production (during the lifetime of the products), through the comparison of historical data;
- *roll rate* (trend analysis): observes the performance of the financial asset (in terms of credit quality) in a determinate timeframe;
- *portfolio analysis*: monitors the evolution of the portfolio, its *stock* of financial assets in *default* and their grade of *coverage*;
- *PD and LGD*: support the analysis of the performance of the portfolio and the relative recovery rates in case of *default*;
- Comparison of the capital absorption: examines the evolution of the capital absorption;
- *stress test:* analyses in the context of strategic planning the potential tensions (through more aggressive PD and LGD) and the strategies suited to the mitigation of the risk.

## *Section 2 – Market risk*

### *2.1 Interest rate risk and price risk – supervisory trading portfolio*

The bank does not hold a supervisory trading portfolio.

### *2.2 Interest rate risk and price risk - banking portfolio*

#### Qualitative information

*A. General aspects, management procedures, and methods for valuating interest rate risk and price risk*

Given the characteristics of lending and funding instruments used, interest rate risk and liquidity risk are the main forms of financial risk implicit in the company's activities.

Interest rate risk means the probability that the financial assets/liabilities will register an increase or decrease in value due to changes in interest rate values. The concept of rate risk therefore includes the possible occurrence of either favourable or unfavourable events.

The concept of risk is tied to the concept of risk exposure; thus, a risk exists for an entity that is required to manage it if and insofar as this risk has effects on its assets/liabilities. Therefore, rate risk involves the possibility that an entity that holds assets/liabilities indexed on a market rate parameter will experience a change in its cash inflows and/or outflows following a change in interest rates.

The structure of the ViViBanca financial statements is characterised, with respect to assets, by a predominantly fixed rate medium- to long-term lending portfolio (SPBL contracts) and, with respect to liabilities, by short- to medium-term funding/loan operations.
Interest rate risk originates from the difference in maturities and interest rate repricing dates of the company's assets and liabilities. In the presence of these differences, interest rates changes create volatility in the expected interest margin, on one hand, and cause a change in the value of assets and liabilities, on the other hand, with a resulting change in the economic value of the company's shareholders' equity.

To manage the bank's financial structure, indicators are used that take into account a balancing of interest-bearing assets and interest-bearing liabilities. Regulatory indicators also fall within this context, as do any other indexes used within the context of liquidity risk management and governance process.
ViViBanca thus guarantees its cash flows in an integrated manner, through measurement and control methods that are summarised in detailed reports speaking primarily to the following subject areas:

- *maturity ladders*, identifying the sensitivity of the bank's asset liability management to any changes in the interest rate curve;
- *loan to deposit*, i.e., the ratio of customer lending to direct funding, as a general indicator of financial equilibrium;
- financial leverage, defined as the ratio of liabilities to assets (not risk weighted);
- financial *reporting* on expected cash flows/liquidity flows;
- *Counterbalancing capacity* and net balance of the total liquidity.

The most important indicators are integrated into the *risk appetite framework* or RAF, i.e., the framework of reference that defines – in compliance with the maximum assumable risk, the *business model*, and the strategic plan – risk appetite, tolerance thresholds, risk limits, risk management policies, and the key processes needed to define and implement them. The RAF is periodically reviewed (normally at the time of approval of the annual *budget*), with a view to ensuring that it remains consistent with the bank's strategy, as well as following any significant changes in the internal context of reference (e.g., significant deviation from objectives), the external context of reference (e.g., emerging financial or regulatory risks), the *business* model, the scale of operations, or funding capacity.

With a view to the internal coordination of financial risks, the Financial Risks Committee provides a consultation and proposal role, supporting guidance, monitoring, and governance of the risks in question, and coordination between areas of operation. The Committee offers proposals and consultation to top management, which governs the Committee itself and summarises the *risk management* process (avoid / reduce / share / transfer / accept risk). For its areas of responsibility, and where established limits are exceeded, it supports the Board of Directors and general management in evaluating the most appropriate measures for restoring previous levels.

**Quantitative information**

*1. Banking portfolio: distribution by residual duration (by repricing date) of the financial assets and liabilities*

| Items/Residual duration | On sight | Up to three months | 3 months > 6 months | 6 months > 1 year | 1 year > 5 years | 5 years > 10 years | Beyond 10 years | Indefinite duration |
|---|---|---|---|---|---|---|---|---|
| **1. On-balance sheet assets** | | | | | | | | |
| 1.1 Debt securities | | | | | | | | |
| - with early repayment option | | | | | | | | |
| - other | | 14,333 | 10,638 | 99,944 | 9,853 | 5,750 | | |
| 1.2 Loans to banks | 70,173 | 54,000 | | | | | | |
| 1.3 Loans to customers | | | | | | | | |
| - bank accounts | 7,990 | 161 | | | 283 | | | |
| - other loans | | | | | | | | |
| - with early repayment option | 1,876 | 4 | 3,208 | 12 | 64 | 14 | | |
| - other | 8,096 | 14,122 | 1,065 | 2,032 | 4,850 | 3,540 | 3,134 | |
| **2. On-balance sheet liabilities** | | | | | | | | |
| 2.1 Due to customers | | | | | | | | |
| - bank accounts | 28,588 | 26,055 | 27,859 | 13,637 | 74,127 | 77 | | |
| - other payables | | | | | | | | |
| - with early repayment option | | | | | | | | |
| - other | 518 | | | | | | | |
| 2.2 Due to banks | | | | | | | | |
| - bank accounts | 35 | | | | | | | |
| - other payables | 525 | | | 93,274 | 3,021 | | | |
| 2.3 Debt securities | | | | | | | | |
| - with early repayment option | | | | | | | | |
| - other | 6,810 | 5 | 3,525 | 1,435 | 1,350 | | | |
| 2.4 Other liabilities | | | | | | | | |
| - with early repayment option | | | | | | | | |
| - other | | | | | | | | |
| **3. Financial derivatives** | | | | | | | | |
| 3.1 With underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + long positions | | | | | | | | |
| + short positions | | | | | | | | |
| - Other derivatives | | | | | | | | |
| + long positions | | | | | | | | |
| + short positions | | | | | | | | |
| 3.2 Without underlying security | | | | | | | | |
| - Options | | | | | | | | |
| + long positions | | | | | | | | |
| + short positions | | | | | | | | |
| - Other derivatives | | | | | | | | |
| + long positions | | | | | | | | |
| + short positions | | | | | | | | |
| **4. Other off-balance sheet operations** | | | | | | | | |
| + long positions | | | | | 53 | | | |
| + short positions | 53 | | | | | | | |

*2. Banking portfolio: internal models and other methods to analyse sensitivity*

The bank does not have any internal models additional to the models required under regulations.

***2.3 Exchange rate risk***

**Qualitative information**

*A. General aspects, management processes, and methods for valuating exchange rate risk*

Exposure to exchange rate risk is limited (also through internal policy) and does not present speculative characteristics.

*B. Exchange rate risk hedging activities*

The bank does not perform any exchange rate risk hedging activities.

**Quantitative information**

*1. Distribution of assets, liabilities, and derivatives by foreign currency*

| Items | Currencies | | | | | |
|---|---|---|---|---|---|---|
| | US Dollar | Pound | Yen | Canadian Dollar | Swiss Franc | Other currencies |
| **A. Financial assets** | | **1** | | | | |
| A.1 Debt securities | | | | | | |
| A.2 Equity securities | | | | | | |
| A.3 Loans to banks | | 1 | | | | |
| A.4 Loans to customers | | | | | | |
| A.5 Other financial assets | | | | | | |
| **B. Other assets** | | | | | | |
| **C. Financial liabilities** | | | | | | |
| C.1 Due to banks | | | | | | |
| C.2 Due to customers | | | | | | |
| C.3 Debt securities | | | | | | |
| C.4 Other financial liabilities | | | | | | |
| **D. Other liabilities** | | | | | | |
| **E. Financial derivatives** | | | | | | |
| - Options | | | | | | |
| + Long positions | | | | | | |
| + Short positions | | | | | | |
| - Other derivatives | | | | | | |
| + Long positions | | | | | | |
| + Short positions | | | | | | |
| **Total assets** | | **1** | | | | |
| **Total liabilities** | | | | | | |
| **Imbalance (+/-)** | | **1** | | | | |

*2. Internal models and other methods to analyse sensitivity*

The bank does not have any internal models additional to the models required under regulations.

## *Section 3 – The derivative instruments and the hedging policies*

The bank does not hold derivative instruments.

## *Section 4 – Liquidity risk*

**Qualitative information**

*A. General aspects, management processes, and methods for measuring liquidity risk*

Within a banking context, liquidity is the ability to meet payment commitments in a timely manner in relation to cash inflows and outflows. Liquidity risk therefore consists of the bank's impossibility of fulfilling its obligations at their maturity, due either to an inability to procure new finds (*funding liquidity risk*) and/or to an inability to liquidate assets on the market owing to maturity transformation (*market liquidity risk*).

Liquidity risk also includes the risk of being required to fulfil payment commitments at above-market costs, with the consequence of sustaining a high cost of funding and incurring capital losses on the divestment of assets.

In order to preserve the strategic objective of safeguarding its financial stability, in consideration of the aspects defined in the *Risk Appetite Framework* and consistent with previously established profitability and capitalisation objectives, ViViBanca has decided to implement controlled growth of lending and funding volumes.

Aside from the RAF, the most important safeguard is the *Contingency Funding & Recovery Plan*, which defines the liquidity management and control processes and responsibilities, in consideration of the nature and complexity of the bank and in compliance with supervisory regulations. The entire bank, each person in accordance with his or her responsibilities, is required to comply with this *policy*.

It is the *Contingency Funding & Recovery Plan* (hereinafter also the CFRP) that establishes the necessary measures to be taken in the event of liquidity stress, defining the necessary emergency procedures to procure financing.

A list of liquidity indicators currently monitored and the relative activation thresholds for the different scenarios identified are provided below. For each indicator, specific thresholds/different scenarios are defined based on the RAF and the *business model* adopted:

- to assess the bank's vulnerability in the short term (30 days), reference is made to the *Liquidity Coverage Ratio* (LCR), i.e., the ratio between the volume of high quality liquid assets held and the net cash outflows that could arise under *stress* conditions within the next 30 days;

- another indicator useful for monitoring the structural equilibrium between the bank's balance sheet items is the Internal Rate of Return (IRR), which is obtained from the ratio of volumes related to direct funding from customers and lending to customers. This ratio assists in guiding the bank's strategic choices, avoiding possible liquidity imbalances over the long term;

- the 2018 "incoming" indicator, i.e., the *Net Stable Funding Ratio* (NSFR), likewise merits mention: it determined by the proportion of Available Stable Funding (ASF) to Required Stable Funding (RSF), which requires that a minimum stable funding level be maintained, based on the liquidity levels of the balance sheet assets, commitments, and any other off-balance sheet exposures, in order to avoid possible imbalances in the structure resulting from asset and liability maturities.

In order to consolidate and supplement the liquidity risk management and control system, ViViBanca has also decided to create its own set of management indicators to examine the evolution of the bank's internal context and market context.

To this end, the bank intends to adopt its own series of indicators, for which any exceeding of thresholds would be a *warning* sign that, under certain conditions, would give warning of a possible liquidity crisis or specific and/or systemic stress and would result in the immediate activation of corrective measures. In particular, the functional indexes selected are:

- Global cumulative liquidity index;
- Imbalance in lending/direct funding – deviations from the *budget*;
- Differential between the 3M OIS rate and the 3M Euribor rate.

Finally, for the purposes of internal coordination and as indicated in the table, the Financial Risks Committee has been established as a consultation body whose activities support general management in its financial asset management.

The Committee supports the Executive in establishing acceptable limits on financial risk (operational autonomy, financial instruments, markets and counterparties, etc.). It defines and updates systems and models for risk measurement (including financial *reporting*), and proposes, from a consultation perspective, the actions that should be taken based on the RAF model defined by the bank.

### Quantitative information

*1. Accrual-basis distribution by residual contractual duration of financial assets and liabilities*

| | On sight | From more than one day to seven | From more than seven days to | From more than 15 days to one | From more than one month to | From more than three months to | From more than six months to | From more than one year to Five | Beyond five years | Indefinite duration |
|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance sheet assets** | | | | | | | | | | |
| A.1 Government securities | | | | | | | 90,032 | 9,853 | 25,750 | |
| A.2 Other debt securities | | | | | | | | | 50,584 | |
| A.3 Shares in UCIs | 44 | | | | | | | | | |
| A.4 Loans | | | | | | | | | | |
| - banks | 33,544 | | | | 54,000 | | | 766 | 2,467 | |
| - customers | 37,812 | 6 | 27 | 307 | 888 | 887 | 1,899 | 10,634 | 12,779 | 5,992 |
| **On-balance sheet liabilities** | | | | | | | | | | |
| B.1 Deposits and bank accounts | | | | | | | | | | |
| - banks | 35 | | | | | | 4,000 | 3,000 | | |
| - customers | 29,193 | 14,500 | 2,217 | 8,410 | 807 | 27,806 | 13,580 | 73,565 | 77 | |
| B.2 Debt securities | | | 5 | | | 3,493 | 1,423 | 1,228 | 7,000 | |
| B.3 Other liabilities | 572 | | | | | | 89,466 | | | |
| **"Off-balance sheet" operations** | | | | | | | | | | |
| C.1 Financial derivatives with exchange of capital | | | | | | | | | | |
| - long positions | | | | | | | | | | |
| - short positions | | | | | | | | | | |
| C.2 Financial derivatives without exchange of capital | | | | | | | | | | |
| - long positions | | | | | | | | | | |
| - short positions | | | | | | | | | | |
| C.3 Deposits and loans receivable | | | | | | | | | | |
| - long positions | | | | | | | | | | |
| - short positions | | | | | | | | | | |
| C.4 Irrevocable commitments to disburse funds | | | | | | | | | | |
| - long positions | | | | | | | | | | |
| - short positions | | | | | | | | 53 | | |
| C.5 Financial guarantees given | | | | | | | | | | |
| 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 | | | | | | | | | | |

## *Section 5 - Operational risk*

### Qualitative information

*A. General aspects, management processes, and methods for measuring operational risk*

ViViBanca defines operational risk as the risk of suffering losses deriving from inadequate or dysfunctional procedures, human resources, or internal systems, or from external events. This type of risk includes, inter alia, losses deriving from fraud, human error, a disruption of operations, system unavailability, breach of contract, natural disasters. Operational risk also includes legal risk.

To this end, the company protects itself against corporate risk by establishing procedures for the disbursement and placement of loans, using a monitoring system of corporate controls assigned to *process owners* (managers of processes and/or of operative units) for first level controls, with second level controls by the Risk Management and Compliance Department and third level controls by the Internal Audit department.

In particular, the Organisation and Security unit, jointly with the Compliance unit and Anti-Money Laundering, which own the corporate procedures management system, circulate the necessary operating instructions, updates to sector regulations, and modifications to the computer system to all levels of the bank through the user of circulars intended to inform personnel in a timely manner of changes to the operating procedures; processes are continuously updated and formalised in manuals, which are published on the company intranet and are intended to govern operations and the organisational structure.

The process for identifying corporate risk is carried out on an ongoing basis by way of a constant mapping of the company's *core* processes, which are defined by management; these activities are also carried out with the assistance of external consulting firms.

These analyses are also used to develop IT measures and concurrent updates of relative procedures of reference, with a resulting reduction in manual processes and the attainment of qualitative benefits.

The operating losses database is updated on an ongoing basis, with contributions from each *Risk-Taking Unit*: coordination is entrusted to the *Risk Management* Department which analyses risk levels, even in terms of their economic impact.

### Quantitative information

With respect to operational risk, regulatory capital requirements are determined by applying the *Basic Indicator Approach (BIA)*, which provides for application of the regulatory weighting factor to the relevant indicator, determined as the three year average of operational volumes generated by the company.

| Year | Relevant indicator | Average | Weighting factor | Capital requirement |
|---|---|---|---|---|
| 2018 | 21,716 | 18,475 | 15% | 2,771 |
| 2017 | 19,269 | | | |
| 2016 | 14,441 | | | |

**Part F – INFORMATION ON SHAREHOLDERS' EQUITY**

## Section 1 - Company equity

### A. Qualitative information

The company's shareholders' equity management activities are focused on identifying and maintaining the correct amount of shareholders' equity, as well as the optimal combination of the various alternative capitalisation instruments, in order to ensure full compliance with supervisory requirements and consistency with the risk profiles identified.

Among the equity-related strategic objectives are included the appropriate expected profitability levels, in addition to maintaining capitalisation levels, in terms of both absolute value and capital *ratios*.

In this context, the supervisory authority with the provision of 5 April 2019 indicated to the entity the new binding minimum requirements for capital compared with the previous<:

- CET1 Ratio: 10.00% previous, 6.89 % new;
- TIER1 Ratio: 11.70% previous, 9.20% new;
- Total Capital Ratio: 15.60% previous, 12.27% new.

ViViBanca ensures maintenance of levels through valuation and monitoring activities that are based on the following instruments:

- *Capital Planning* is the process that measures the availability of regulatory capital over the reference period and subsequent periods, in function of expected evolution, with the objective of meeting the minimum mandatory requirement levels and anticipating any corrective measures; *capital planning* identifies the regulatory capital components, the corresponding RWAs, and the relevant indicators (*CET 1 ratio, Tier 1 ratio, Total Capital Ratio*);
-
- *ICAAP (Internal Capital Adequacy Assessment Process)* is the process that measures capital adequacy vis-à-vis the material risks inherent in the company's operations and the reference markets. The Second Pillar, i.e., the process of control over the total risk exposure of supervised banks, supplements the *Internal Capital Adequacy Assessment Process or ICAAP* with the quantitative rules established in the First Pillar for the calculation of prudential capital requirements. Through appropriate self-assessment, this process considers the characteristics and specific risk profiles of the individual entity and assesses its potential impact.

## B. Quantitative information

*B.1 Company equity: composition*

| Items/Values | Total as of 31/12/2018 | Total as of 31/12/2017 |
|---|---|---|
| 1. Share capital | 31,398 | 31,398 |
| 2. Share premium reserve | | |
| 3. Reserves | (5,691) | (265) |
| - profits | (5,691) | (265) |
| a) legal | 76 | |
| b) statutory | | |
| c) treasury shares | | |
| d) other | (5,767) | (265) |
| - other | | |
| 4. Capital instruments | | |
| 5. (Treasury shares) | | |
| 6. Valuation reserves | 1,285 | (98) |
| - Equity securities designated at fair value with impact on total profitability | | |
| - Hedging of equity securities designated at fair value with impact on total profitability | | |
| - Financial assets (other than equity securities) valuated at fair value with impact on total profitability | 1,367 | (26) |
| - Tangible assets | | |
| - Intangible assets | | |
| - Hedging of foreign investments | | |
| - Hedging of cash flows | | |
| - Hedging instruments (non-designated elements) | | |
| - Exchange rate differences | | |
| - Non-current assets and groups of assets held for sale | | |
| - Financial liabilities designated at fair value with impact on income statement (change in own credit rating) | | |
| - Actuarial profits (losses) relating to pension plans and defined benefits | (82) | (72) |
| - Portions of valuation reserves relating to subsidiaries valued using the equity method | | |
| - Special revaluation laws | | |
| 7. Profit (loss) for the period | 2,517 | 1,008 |
| **Total** | **29,509** | **32,042** |

*B.2 Valuation reserves of the financial assets valuated at fair value with impact on the total profitability: composition*

| Asset/Value | Total 31/12/2018 | | Total as of 31/12/2017 | |
|---|---|---|---|---|
| | Positive reserve | Negative reserve | Positive reserve | Negative reserve |
| 1. Debt securities | 23 | | | (28) |
| 2. Equity securities | | | | |
| 3. Loans | 1,344 | | | |
| **Total** | **1,367** | | | **(28)** |

*B.3 Valuation reserves of the financial assets valuated at fair value with impact on the total profitability: annual changes*

| | Debt securities | Equity securities | Loans |
|---|---|---|---|
| **1. Initial figures** | **(28)** | | |
| **2. Increases** | **345** | | **21,806** |
| 2.1 Fair value increases | 327 | | 21,034 |
| 2.2 Impairments for credit risk | 18 | X | 772 |
| 2.3 Reversal on the income statement of negative reserves from disposals | | X | |
| 2.4 Transfers to other components of shareholders' equity (equity securities) | | | |
| 2.5 Other changes | | | |
| **3. Decreases** | **(294)** | | **(20,462)** |
| 3.1 Fair value decreases | | | |
| 3.2 Value reinstatements for credit risk | | | (639) |
| 3.3 Reversal to the income statement of positive reserves from disposals | (294) | | (19,823) |
| 3.4 Transfers to other components of shareholders' equity (equity securities) | | | |
| 3.5 Other changes | | | |
| **4. Closing figures** | **23** | | **1,344** |

*B.4 Valuation reserves relative to defined benefit plans: annual changes*

During the financial year, a decrease of 10 thousand Euro (net of the tax effect) was observed in the valuation reserves relative to defined benefit plans which was included in the total profitability of the period.

## Section 2 - Own funds and supervisory ratios

Please refer to the information on own funds and the capital adequacy contained in the public disclosure (“Third Pillar”).

**Part G - BUSINESS COMBINATIONS INVOLVING COMPANIES OR COMPANY BRANCHES**

Over the financial year, the Bank has not created business combinations involving companies or company branches.

**Part H - OPERATIONS WITH RELATED PARTIES**

*1. Information on the remuneration of executives with strategic responsibilities*

As prescribed by EU Regulation no. 632/2010 of the Commission of 19 July 2010, IAS 24 defines the concept of related parties and identifies the correlation between related parties and the reporting entity.

In according with these concepts, the related parties of ViViBanca are:
- the majority shareholders and the companies controlled by them, including jointly, and their associates;
- executives with strategic responsibilities;
- the close relatives of shareholders and executives with strategic responsibilities, and the companies controlled, including jointly, by them or by their close relatives.

For the purposes of the management of operations with related parties, the bank makes reference to the provisions of CONSOB Regulation 17221/2010 (deriving from the provisions of Art. 2391-bis of the Italian Civil Code) and the provisions introduced in 2011 by Title V, Chapter 5 of Bank of Italy Circular 263/2006, as well as the provisions of Art. 136, Legislative Decree 385/1993, by virtue of which the company representatives may assume obligations with regard to the bank and that they direct, manage or control only subject to the unanimous approval of the bank's Board of Directors.

ViViBanca, in its capacity as an issuer (of financial instruments that are widely held by the public within the meaning of Art. 116 of the TUF - Italian Consolidated Finance Law) and an entity subject to the supervision of the Bank of Italy, has adopted the "Regulations for operations with related parties" for the management of operations with parties having a conflict of interest, intended to establish rules for investigation and approval with respect to the operations implemented with related parties, and to govern, taking into consideration the specific aspects characterising the above-referenced provisions, the procedures necessary to comply with the disclosure obligations to company bodies and to the market.

*2. Information on operations with related parties*

The following reports the remuneration of executives with strategic responsibility is provided below, such persons being understood as those having the authority and responsibility for planning, directing, and controlling the activities of the entity.

| | Directors | Auditors | Executives | Total |
|---|---|---|---|---|
| Short-term benefits | 441 | 80 | 1,250 | **1,771** |
| Post-employment benefits | | | 53 | **53** |
| Other long-term benefits | | | | |
| Indemnities upon termination of the employment relationship | | | | |
| Share-based payments | | | | |
| **Total** | **441** | **80** | **1,303** | **1,824** |

All transactions with related parties during the financial year were carried out at market conditions.
The relative details are provided below:

**Balance sheet**

| Items/Related parties | Shareholders (*) | Executives with strategic responsibilities | Total | % of financial statement item |
|---|---|---|---|---|
| Financial assets valuated at fair value with impact on total profitability | 45 | | 45 | 0.1% |
| | 37,358 | 92 | 37,450 | 14.3% |
| Financial assets valuated at amortised cost | | | | |
| a) due from banks | 37,358 | | 37,358 | 40.7% |
| a) due from customers | | 92 | 92 | 0.1% |
| **Total assets** | **37,403** | **92** | **37,495** | **10.9%** |
| Financial liabilities valuated at amortised cost | (119,414) | (2,371) | (121,785) | 43.4% |
| a) due to bank | (89,983) | | (89,983) | 92.9% |
| b) due to customers | (21,824) | (2,371) | (24,195) | 14.2% |
| c) securities issued | (7,607) | | (7,607) | 58.0% |
| **Total liabilities** | **(119,414)** | **(2,371)** | **(121,785)** | **(35.5%)** |
| **Guarantees issued and commitments** | | | **-** | **-** |

**Income Statement**

| Items/Related parties | Shareholders (*) | Executives with strategic responsibilities | Total | % of financial statement item |
|---|---|---|---|---|
| Profit/loss from sales or repurchases | 3,123 | | 3,123 | 15.4% |
| **Total revenues** | **3,123** | **-** | **3,123** | **9.8%** |
| Interest expenses and similar expenses | (446) | (9) | (455) | 20.6% |
| Personnel expenses | | (1,824) | (1,824) | 26.9% |
| **Total costs** | **(446)** | **(1,833)** | **(2,279)** | **8.2%** |

**Legend:**
(*) = Shareholders and related company groups holding an equity investment of more than 5% in ViViBanca's share capital represented by shares with voting rights.

Information regarding the close relatives of shareholders and executives with strategic responsibilities (i.e., relatives who may be expected to influence, or by influenced by, the interested party) is included in their respective items.

The item "Shareholders" includes the following significant operations:
- interbank relations, distribution of products in effect with Banca Popolare di Bari ScpA, Banca Alpi Marittime Credito Cooperativo di Carrù ScpA and Banca Valsabbina ScpA;
- insurance agreements offered by Gruppo Net Insurance SpA;
- liquidity deposits by shareholder members of the shareholders' agreement and companies associated with them.

*Other information*

Pursuant to Art. 2427, para. 16.a), of the Italian Civil Code, the following reports the total amount of the fees charged due to the independent audit firm:

| Assets (Euro)* | Audit of the annual financial statements ** | Audit of the semi-annual limited financial statements | Verification of due financial record-keeping | Verification on the determination of the industrial cost of the SPBL product | Total |
|---|---|---|---|---|---|
| BDO Italia SpA | 23,000 | 5,000 | 5,000 | 7,000 | 40,000 |

* Amounts exclusive of flat-rate expenses, the supervisory fee, and VAT.
** Activities inclusive of the signature of tax declarations and certifications of the Italian National Fund for Credit Guarantees

## Part I – PAYMENT AGREEMENTS BASED ON THE BANK'S EQUITY INSTRUMENTS

The bank has not stipulated any payment agreements based on its equity instruments.

**Part L - SECTOR INFORMATION**

Although an issuer of widely-held securities, the bank does not display the sector information, since it is not relevant.

# REPORT OF THE BOARD OF STATUTORY AUDITORS

**RELAZIONE DEL COLLEGIO SINDACALE SUL BILANCIO AL 31 DICEMBRE 2018**
**E SULL'ATTIVITÀ DI VIGILANZA SVOLTA NELL'ANNO 2018**
**(art. 2429, COMMA 2, Codice Civile)**

**ALL'ASSEMBLEA DEGLI AZIONISTI DELLA**
**ViViBanca S.p.A.**

Signori Azionisti,

tenuto conto dell'articolo 2403 del Codice Civile, il Collegio Sindacale con la presente Relazione Vi informa di quanto segue.

ViViBanca è una società specializzata nella Cessione del Quinto dello Stipendio con una quota di mercato del 3,34%, due filiali (Torino e Salerno) e 84 dipendenti.

I principali eventi caratterizzanti la gestione 2018 della Banca sono ampiamente descritti nella Relazione sulla Gestione; si citano:

a) la cessione pro-soluto di crediti performing CQSP e la loro successiva gestione in qualità di servicer, che sono parti integranti del business model di ViViBanca;
b) l'ulteriore cessione di crediti NPL per € 12,3 milioni, come previsto dal Programma di Attività approvato dagli Organi di Vigilanza, in occasione della richiesta d'autorizzazione all'operazione di fusione con il Credito Salernitano;
c) il lancio del nuovo prodotto Prestiti contro cessione del Trattamento di Fine Servizio (TFS) e l'inizio dell'erogazione di deleghe private che presenta tassi di redditività interessanti il cui più elevato rischio è mitigato da una selettiva politica assuntiva;
d) l'incremento del 59% circa della raccolta diretta riconducibile anche ad un aumento dei depositi vincolati (time deposit) per circa € 67 milioni del canale on line, avviato ad aprile 2018, che ha permesso di mantenere un rapporto raccolte/impieghi equilibrato con una remunerazione coerente con le condizioni di mercato;
e) l'introduzione del principio contabile IFRS 9.

Si segnala inoltre che l'ispezione da parte della Banca d'Italia della durata di circa 8 settimane si è conclusa con un giudizio complessivo "parzialmente favorevole" senza richieste di rettifica su crediti, ma con alcuni punti di attenzione sulle attività operative ed organizzative, che il Consiglio di Amministrazione della Banca ha attentamente analizzato ponendo in essere le dovute azioni correttive, alcune delle quali ad oggi già completate. Tali azioni correttive sono costantemente monitorate dal Collegio Sindacale compresa quella relativa alla rete agenziale ed al "sistema dei controlli interni" con il quale il Collegio Sindacale ha tenuto nel 2018 e continua ad organizzare periodiche riunioni al fine di ottimizzare i flussi informativi, garantire l'efficacia dei controlli e ulteriormente migliorare l'incisività della propria azione, anche sui rilievi/osservazioni sollevati dalla stessa Banca d'Italia.

Il Comitato Parti Correlate ed il Comitato Remunerazioni hanno svolto la propria attività, così come l'Organismo di Vigilanza, che è composto dagli stessi componenti il Collegio Sindacale

Da ultimo, nel febbraio 2019 si è conclusa l'operazione di aumento del capitale sociale di ViViBanca per € 4 milioni complessivi di cui € 1,6 di sovrapprezzo, in esecuzione della delibera assunta dall'assemblea straordinaria degli azionisti del 4 febbraio 2019.

Relativamente all'attività di vigilanza effettuata vi confermiamo che il Collegio Sindacale:

- ha partecipato alle mensili riunioni del Consiglio di Amministrazione, assicurandosi che le stesse si svolgessero nel rispetto della legge e dello Statuto;
- ha ottenuto dagli Amministratori tempestive ed idonee informazioni sull'attività sociale, sul generale andamento della gestione e sulla sua prevedibile evoluzione sia nel corso dei Consigli di Amministrazione tenuti mensilmente sia nel corso delle periodiche verifiche trimestrali e degli altri incontri organizzati su temi specifici;
- ha constatato, per quanto di propria competenza, il rispetto dei principi di corretta amministrazione da parte degli Amministratori nell'adempimento dei loro compiti, con osservazioni dirette e raccolta di informazioni dai responsabili preposti agli adempimenti amministrativi.

A seguito dei controlli effettuati e delle informazioni ricevute, l'operato degli Amministratori è risultato conforme a quanto previsto dalle norme di legge e di Statuto, orientato agli interessi della Società e improntato sulla ragionevolezza e diligenza della gestione.

Il Collegio Sindacale non ha riscontrato operazioni atipiche e/o inusuali con terzi, con parti correlate o infragruppo, che sono ampiamente descritte nella Nota Integrativa, sezione H del bilancio 2018 e che sono state preventivamente vagliate dal Comitato Parti Correlate.

Per quello che concerne il sistema di controllo interno nel corso dell'esercizio 2018 il Collegio Sindacale dà atto:

- di aver mantenuto un adeguato collegamento con le funzioni di controllo interno (Internal Audit, Risk Management e Compliance), ricevendo dalle stesse risultanze degli interventi previsti dai relativi piani di attività con incontri durante le veridiche trimestrali ed avendone verificato l'adeguatezza per l'efficace gestione e monitoraggio dei rischi e la presenza di adeguate risorse, tenendo anche conto del principio di proporzionalità;
- di aver provveduto alla costante verifica della coerenza del sistema di controllo interno e della sua efficacia, anche in relazione al processo di adeguamento successivo alla fusione. Laddove ritenuto suscettibile di miglioramento, il Collegio Sindacale ha formulato proprie raccomandazioni, che sono state sostanzialmente recepite dalla Banca.

In riferimento al sistema amministrativo e contabile, il Collegio Sindacale comunica di aver scambiato con la società incaricata della revisione legale dei conti BDO Italia S.p.A., anche con specifici incontri, reciproche informazioni che hanno permesso di confermare la sostanziale affidabilità del sistema amministrativo-contabile nel rappresentare correttamente i fatti di gestione.

In relazione all'adeguatezza della struttura organizzativa il Collegio Sindacale ha proseguito, nell'ambito dei propri doveri, nel monitoraggio del processo di adeguamento della stessa.

Con riguardo ai fatti societari il Collegio Sindacale dà atto che sono state rispettate le norme che regolano il deposito e la pubblicazione degli atti societari, nonché l'invio delle comunicazioni ed informative alle Autorità di Vigilanza.

Relativamente al bilancio di esercizio al 31 dicembre 2018, approvato dal Consiglio di Amministrazione del 25 marzo 2019 unitamente alla Relazione sulla Gestione, che presenta un utile di esercizio di € 2.516.841, il Collegio Sindacale afferma quanto segue:

a) Il bilancio, in conformità al D. Lgs. del 28 febbraio 2005 n. 38, è redatto secondo i principi contabili IAS/IFRS emanati all'*International Accounting Standards Board* (IASB) e le relative interpretazioni dell'*International Financial Reporting Interpretations Committee* (IFRIC), omologati dalla Commissione Europea, come stabilito dal Regolamento Comunitario n. 1606 del 19 luglio 2002, nonché secondo gli schemi e le regole di compilazione contenuti nella Circolare della Banca d'Italia n. 262 del 22 dicembre 2005 (5° aggiornamento del 22 dicembre 2017). Nella predisposizione dell'elaborato sono stati applicati i principi IAS/IFRS in vigore alla data di riferimento della relazione (inclusi i documenti interpretativi denominati SIC e IFRIC), così come omologati dalla Commissione Europea;

b) Il bilancio è stato redatto nel presupposto che venga assicurata la continuità aziendale e rappresenta la reale situazione della società, come confermato dalla società di revisione BDO Italia S.p.A nella relazione sulla revisione dello stesso, datata 12 aprile 2019;

c) Il bilancio è stato redatto con l'osservanza delle norme di legge e dello Statuto in ordine alla sua impostazione e alla sua formazione, senza l'esercizio della deroga di cui all'art. 2423, comma 4 del Codice Civile, nonché sul rispetto della normativa specifica per la redazione dei bilanci bancari;

d) gli Amministratori, nella valutazione delle poste di bilancio, hanno rispettato sia il postulato della prudenza che quello della competenza economica. In particolare, la Società ha correttamente valutato gli impatti economici e patrimoniali seguenti alla prima applicazione del nuovo principio contabile IFRS 9 che dal 1° gennaio 2018 sostituisce lo IAS 39; tali effetti sono stati descritti nella Nota Integrativa – parte A, sezione 4 (Politiche Contabili);

e) il bilancio tiene conto dei rischi e delle perdite dell'esercizio anche se detti eventi sono stati conosciuti dopo la chiusura dell'esercizio;

f) il bilancio è comparabile con i dati riferiti all'esercizio precedente.

Il Collegio Sindacale esprime il proprio consenso al mantenimento della capitalizzazione dell'avviamento di € 1,236 milioni derivante dall'aggregazione tra Terfinance S.p.A. e Credito Salernitano S.p.A..

Nell'informarvi che nel corso dell'attività di vigilanza e di controllo, come sopra descritta, non sono emersi fatti censurabili, omissioni o irregolarità da segnalare ai competenti Organi di controllo o da menzionare nella presente Relazione, il Collegio Sindacale esprime parere favorevole all'approvazione del bilancio al 31 dicembre 2018, chiuso con un utile di € 2.516.841 ed alla sua destinazione alla Riserva Legale ed alla Riserva Utili.

Per il Collegio Sindacale

Il Presidente

dr. prof. Franco Vernassa

Franco Vernassa

Torino, 13 aprile 2019

# REPORT BY THE INDEPENDENT AUDIT FIRM

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**Relazione della società di revisione indipendente**
ai sensi dell'art. 14 del D.Lgs. 27 gennaio 2010, n. 39 e dell'art.10 del Regolamento (UE) n. 537/2014

Agli Azionisti della
ViViBanca S.p.A.

## Relazione sulla revisione contabile del bilancio d'esercizio

### Giudizio

Abbiamo svolto la revisione contabile del bilancio d'esercizio della ViViBanca S.p.A. (la Società), costituito dallo stato patrimoniale al 31 dicembre 2018, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario per l'esercizio chiuso a tale data e dalla nota integrativa al bilancio che include anche la sintesi dei più significativi principi contabili applicati.

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria della Società al 31 dicembre 2018, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art.43 del D.Lgs.136/15.

### Elementi alla base del giudizio

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nella sezione *Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio* della presente relazione.

Siamo indipendenti rispetto alla Società in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

### Aspetti chiave della revisione contabile

Gli aspetti chiave della revisione contabile sono quegli aspetti che, secondo il nostro giudizio professionale, sono stati maggiormente significativi nell'ambito della revisione contabile del bilancio dell'esercizio in esame. Tali aspetti sono stati da noi affrontati nell'ambito della revisione contabile e nella formazione del nostro giudizio sul bilancio d'esercizio nel suo complesso; pertanto su tali aspetti non esprimiamo un giudizio separato.

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Pescara, Roma, Torino, Treviso, Trieste, Verona, Vicenza

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| Aspetti chiave | Procedure di revisione in risposta agli aspetti chiave |
|---|---|
| *VALUTAZIONE DEI CREDITI VERSO LA CLIENTELA*<br><br>*Nota integrativa:*<br><br>*Parte B - Informazioni sullo stato patrimoniale alla sezione 4 dell'attivo;*<br><br>*Parte C - informazioni sul conto economico alla sezione 8;*<br><br>*Parte E - informazioni sui rischi e sulle relative politiche di copertura.*<br><br>I crediti verso la clientela al 31 dicembre 2018 mostrano un saldo complessivo pari ad Euro 202,8 milioni (di cui Euro 32,9 milioni tra le attività finanziarie valutate al fair value con impatto sulla redditività complessiva e Euro 169,9 milioni tra le attività finanziarie valutate al costo ammortizzato), corrispondente al 59,1% del totale dell'attivo del bilancio d'esercizio. Tale voce è stata ritenuta significativa ai fini dell'attività di revisione in considerazione del suo ammontare e delle caratteristiche dei processi e delle modalità di valutazione, che includono la stima di alcune componenti quali l'esistenza di indicatori di possibili perdite di valore, la determinazione dei flussi di cassa attesi ed i relativi tempi di recupero e il valore di realizzo delle garanzie correlate ai crediti. | Le principali procedure di revisione effettuate in risposta all'aspetto chiave relativo alla valutazione dei crediti verso clientela hanno riguardato:<br><br>• l'analisi delle procedure e dei processi relativi alla voce in oggetto e verifiche dell'efficacia dei controlli a presidio di tali procedure e processi;<br><br>• l'analisi dell'adeguatezza dell'ambiente informatico relativo agli applicativi informatici rilevanti ai fini del processo di valutazione dei crediti verso la clientela;<br><br>• procedure di quadratura e di riconciliazione tra i dati presenti nei sistemi gestionali e le informazioni riportate in bilancio;<br><br>• procedure di analisi comparativa ed analisi delle risultanze con le funzioni aziendali coinvolte;<br><br>• analisi dei criteri e delle modalità di valutazione dei crediti (analitiche e collettive) e verifica su base campionaria della ragionevolezza delle assunzioni e delle componenti utilizzate per la valutazione e delle relative risultanze;<br><br>• l'ottenimento e l'esame delle conferme scritte da parte dei legali incaricati dalla Società, al fine di acquisire le informazioni e gli elementi a supporto della valutazione;<br><br>• analisi degli eventi successivi alla data di chiusura del bilancio;<br><br>• la verifica dell'informativa fornita in nota integrativa. |

| Aspetti chiave | Procedure di revisione in risposta agli aspetti chiave |
|---|---|
| *PRIMA APPLICAZIONE DEL PRINCIPIO CONTABILE INTERNAZIONALE IFRS 9 "STRUMENTI FINANZIARI"*<br><br>*Informativa di bilancio relativa agli effetti della prima applicazione del principio contabile IFRS 9, riportata in Nota integrativa Parte A, Sezione 4 - Altri aspetti - "L'adozione dei nuovi principi contabili (efficacia 1° gennaio 2018 - IFRS 9".*<br><br>A partire dal 1 gennaio 2018, data di prima applicazione dell'IFRS 9 "Strumenti finanziari", i valori patrimoniali presenti alla fine del precedente esercizio sono stati assoggettati a processi di riclassificazione e misurazione, previsti dal nuovo principio contabile, basate sulle modalità di gestione di tali attività finanziarie (Business Model) e sulle caratteristiche dei flussi di cassa contrattuali dello strumento finanziario; inoltre, per quanto riguarda la valutazione delle attività finanziarie diverse da quelle misurate al fair value con contropartita a conto economico, alla definizione di una nuova metodologia di determinazione delle rettifiche di valore (impairment) secondo il modello delle perdite attese (expected credit losses).<br><br>Come previsto dal principio contabile internazionale IAS 8 e dalle disposizioni contenute nel 5° aggiornamento della Circolare Banca d'Italia 262/2005, la Società ha fornito l'informativa in merito agli effetti che l'applicazione di tale nuovo principio contabile ha comportato sul patrimonio netto, evidenziando un incremento delle riserve di valutazione per Euro 1,7 milioni e la rilevazione di una riserva di utili da FTA negativa per Euro 6,4 milioni, con un effetto complessivo netto, inclusivo dell'impatto fiscale, negativo per Euro 4,7 milioni.<br><br>Ai fini dell'attività di revisione, gli impatti della introduzione di tale nuovo principio contabile sono ritenuti significativi in considerazione delle complessità relative alla prima applicazione. | Le principali procedure di revisione effettuate in risposta agli aspetti chiave relativi all'applicazione dell'IFRS 9 hanno riguardato:<br><br>• Analisi delle procedure e dei processi relativi alla classificazione e alla misurazione delle attività finanziarie, con particolare riferimento alla definizione dei business model per la gestione degli strumenti finanziari e alle policy relative all'esame delle caratteristiche dei flussi di cassa degli strumenti finanziari (SPPI test);<br><br>• Analisi delle procedure e dei processi relativi al modello di impairment dei crediti, con particolare riferimento alla comprensione dei criteri di staging e alla determinazione del significativo incremento del rischio di credito per il passaggio da stage 1 a stage 2 e alla comprensione dei modelli utilizzati per la misurazione delle perdite attese ("Expected credit losses" o "ECL") e metodologie per la definizione dei parametri del modello di impairment (PD, LGD, EAD);<br><br>• Analisi delle procedure di quadratura e di verifica dei dati riportati nei prospetti di riconciliazione tra i dati di chiusura al 31 dicembre 2017 dell'ultimo bilancio approvato ed i dati di apertura al 1° gennaio 2018 del primo bilancio redatto in base all'IFRS 9;<br><br>• Analisi delle procedure di quadratura tra i dati presenti nei sistemi gestionali e le informazioni riportate nei prospetti di riconciliazione;<br><br>• Analisi dell'adeguatezza dell'informativa fornita in nota integrativa. |

| Aspetti chiave | Procedure di revisione in risposta agli aspetti chiave |
|---|---|
| *CANCELLAZIONE CONTABILE DI UN PORTAFOGLIO DI CREDITI A SEGUITO DI CESSIONE TRAMITE CARTOLARIZZAZIONE*<br><br>*Nota integrativa:*<br><br>*Parte E - Informazioni sui rischi e sulle relative politiche di copertura*<br><br>La Banca nel mese di novembre 2018 ha perfezionato un'operazione di cartolarizzazione propria di crediti non deteriorati CQSP, cedendo con cadenza periodica a titolo oneroso portafogli con specifici criteri di eleggibilità, durante un periodo di *ramp up* di 18 mesi. Le cessioni, realizzate verso la società veicolo Eridano II SPV, sono state interamente finanziate tramite l'emissione di titoli "*Asset Backet Securities*" con natura *partly paid* suddivisi in tre classi: Senior (Classe A1, A2 e A3), pari all'87% dell'*outstanding* ceduto; Mezzanine (Classe B), pari al 7% dell'*outstanding* ceduto; Junior (Classe C), pari al 6% dell'*outstanding* ceduto. ViViBanca S.p.A. ha mantenuto la titolarità delle classi B e C per un valore non eccedente il 5% (*vertical slice*), effettuando la conseguente *derecognition* contabile dei crediti ceduti alla società veicolo.<br><br>In considerazione della complessità dell'operazione e della rilevanza degli effetti contabili connessi, abbiamo ritenuto che la cancellazione contabile dei crediti in oggetto di cessione tramite cartolarizzazione rappresenti un aspetto chiave della revisione del bilancio di ViViBanca S.p.A.. | Le principali procedure di revisione effettuate in risposta all'aspetto chiave relativo alla cancellazione contabile dei crediti a seguito di cessione tramite cartolarizzazione hanno riguardato:<br><br>• comprensione della struttura e delle modalità di realizzazione dell'operazione di cessione tramite cartolarizzazione mediante ottenimento e analisi della documentazione contrattuale, dell'ulteriore documentazione disponibile, nonché colloqui con la Direzione della Banca;<br><br>• analisi della documentazione prodotta dalla Banca al fine di dimostrare il rispetto dei requisiti previsti dall'IFRS 9 per la cancellazione contabile dei crediti oggetto della cessione;<br><br>• verifica della sussistenza delle condizioni richieste dal principio contabile internazionale IFRS 9 per la cancellazione contabile dallo stato patrimoniale della Banca dei crediti oggetto di cartolarizzazione;<br><br>• la verifica della completezza e della conformità dell'informativa fornita in bilancio rispetto a quanto previsto dai principi contabili di riferimento e dalla normativa applicabile. |

**Responsabilità degli amministratori e del collegio sindacale per il bilancio d'esercizio**
Gli amministratori sono responsabili per la redazione del bilancio d'esercizio che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art.43 del D.Lgs.136/15 e, nei termini previsti dalla legge, per quella parte del controllo interno dagli stessi ritenuta necessaria per consentire la redazione di un bilancio che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli amministratori sono responsabili per la valutazione della capacità della Società di continuare ad operare come un'entità in funzionamento e, nella redazione del bilancio d'esercizio, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale, nonché per una adeguata informativa in materia. Gli amministratori utilizzano il presupposto della continuità aziendale nella redazione del bilancio d'esercizio a meno che abbiano valutato che sussistono le condizioni per la liquidazione della Società o per l'interruzione dell'attività o non abbiano alternative realistiche a tali scelte.

Il collegio sindacale ha la responsabilità della vigilanza, nei termini previsti dalla legge, sul processo di predisposizione dell'informativa finanziaria della Società.

**Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio**
I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio d'esercizio nel suo complesso non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali, e l'emissione di una relazione di revisione che includa il nostro giudizio. Per ragionevole sicurezza si intende un livello elevato di sicurezza che, tuttavia, non fornisce la garanzia che una revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia) individui sempre un errore significativo, qualora esistente. Gli errori possono derivare da frodi o da comportamenti o eventi non intenzionali e sono considerati significativi qualora ci si possa ragionevolmente attendere che essi, singolarmente o nel loro insieme, siano in grado di influenzare le decisioni economiche degli utilizzatori prese sulla base del bilancio d'esercizio.

Nell'ambito della revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia), abbiamo esercitato il giudizio professionale e abbiamo mantenuto lo scetticismo professionale per tutta la durata della revisione contabile. Inoltre:

- abbiamo identificato e valutato i rischi di errori significativi nel bilancio d'esercizio, dovuti a frodi o a comportamenti o eventi non intenzionali; abbiamo definito e svolto procedure di revisione in risposta a tali rischi; abbiamo acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio. Il rischio di non individuare un errore significativo dovuto a frodi è più elevato rispetto al rischio di non individuare un errore significativo derivante da comportamenti o eventi non intenzionali, poiché la frode può implicare l'esistenza di collusioni, falsificazioni, omissioni intenzionali, rappresentazioni fuorvianti o forzature del controllo interno;
- abbiamo acquisito una comprensione del controllo interno rilevante ai fini della revisione contabile allo scopo di definire procedure di revisione appropriate nelle circostanze e non per esprimere un giudizio sull'efficacia del controllo interno della Società;
- abbiamo valutato l'appropriatezza dei principi contabili utilizzati nonché la ragionevolezza delle stime contabili effettuate dagli amministratori, inclusa la relativa informativa;

- siamo giunti ad una conclusione sull'appropriatezza dell'utilizzo da parte degli amministratori del presupposto della continuità aziendale e, in base agli elementi probativi acquisiti, sull'eventuale esistenza di una incertezza significativa riguardo a eventi o circostanze che possono far sorgere dubbi significativi sulla capacità della Società di continuare ad operare come un'entità in funzionamento. In presenza di un'incertezza significativa, siamo tenuti a richiamare l'attenzione nella relazione di revisione sulla relativa informativa di bilancio ovvero, qualora tale informativa sia inadeguata, a riflettere tale circostanza nella formulazione del nostro giudizio. Le nostre conclusioni sono basate sugli elementi probativi acquisiti fino alla data della presente relazione. Tuttavia, eventi o circostanze successivi possono comportare che la Società cessi di operare come un'entità in funzionamento;
- abbiamo valutato la presentazione, la struttura e il contenuto del bilancio d'esercizio nel suo complesso, inclusa l'informativa, e se il bilancio d'esercizio rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione.

Abbiamo comunicato ai responsabili delle attività di governance, identificati ad un livello appropriato come richiesto dagli ISA Italia, tra gli altri aspetti, la portata e la tempistica pianificate per la revisione contabile e i risultati significativi emersi, incluse le eventuali carenze significative nel controllo interno identificate nel corso della revisione contabile.

Abbiamo fornito ai responsabili delle attività di governance anche una dichiarazione sul fatto che abbiamo rispettato le norme e i principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano e abbiamo comunicato loro ogni situazione che possa ragionevolmente avere un effetto sulla nostra indipendenza e, ove applicabile, le relative misure di salvaguardia.

Tra gli aspetti comunicati ai responsabili delle attività di governance, abbiamo identificato quelli che sono stati più rilevanti nell'ambito della revisione contabile del bilancio dell'esercizio in esame, che hanno costituito quindi gli aspetti chiave della revisione. Abbiamo descritto tali aspetti nella relazione di revisione.

**Altre informazioni comunicate ai sensi dell'art. 10 del Regolamento (UE) 537/2014**

L'assemblea degli azionisti della ViViBanca S.p.A. ci ha conferito in data 20 maggio 2012 l'incarico di revisione legale del bilancio d'esercizio della Società per gli esercizi dal 31 dicembre 2012 al 31 dicembre 2020.

Dichiariamo che non sono stati prestati servizi diversi dalla revisione contabile vietati ai sensi dell'art. 5, par. 1, del Regolamento (UE) 537/2014 e che siamo rimasti indipendenti rispetto alla Società nell'esecuzione della revisione legale.

Confermiamo che il giudizio sul bilancio d'esercizio espresso nella presente relazione è in linea con quanto indicato nella relazione aggiuntiva destinata al collegio sindacale, nella sua funzione di comitato per il controllo interno e la revisione legale, predisposta ai sensi dell'art. 11 del citato Regolamento.

**Relazione su altre disposizioni di legge e regolamentari**

**Giudizio ai sensi dell'art.14, comma 2, lettera e), del D.Lgs. 39/10.**

Gli amministratori della ViViBanca S.p.A. sono responsabili per la predisposizione della relazione sulla gestione della ViViBanca S.p.A. al 31 dicembre 2018, inclusa la sua coerenza con il relativo bilancio d'esercizio e la sua conformità alle norme di legge.

Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n. 720B al fine di esprimere un giudizio sulla coerenza della relazione sulla gestione con il bilancio d'esercizio della ViViBanca S.p.A. al 31 dicembre 2018 e sulla conformità della stessa alle norme di legge, nonché di rilasciare una dichiarazione su eventuali errori significativi.

A nostro giudizio, la relazione sulla gestione sopra richiamata è coerente con il bilancio d'esercizio della ViViBanca S.p.A. al 31 dicembre 2018 ed è redatta in conformità alle norme di legge.

Con riferimento alla dichiarazione di cui all'art. 14, co. 2, lettera e), del D.Lgs. 39/10, rilasciata sulla base delle conoscenze e della comprensione dell'impresa e del relativo contesto acquisite nel corso dell'attività di revisione, non abbiamo nulla da riportare.

Torino, 12 aprile 2019

BDO Italia S.p.A.

Eugenio Vicari
(Socio)