2018

ANNUAL REPORT

65TH FINANCIAL YEAR

ANNUAL REPORT AND ACCOUNTS AS AT 31 DECEMBER 2018

MEDIOCREDITO TRENTINO - ALTO ADIGE - S.P.A.

Fully paid-up capital €58,484,608
Fiscal code and Trento Register of companies no. 00108470220
Bank Register no. 4764
Parent company of Gruppo Bancario Mediocredito Trentino – Alto Adige
Registered with the Banking Group Register

www.mediocredito.it
mc@mediocredito.it

REGISTERED OFFICE AND HEADQUARTERS

38122 Trento, Via Paradisi 1
Tel. 0461/888511

SECONDARY HEADQUARTERS

39100 Bolzano, Via Alto Adige 60
Tel. 0471/305111

BRANCHES

Treviso
Piazza delle Istituzioni 27 - 31100 Treviso
Tel. 0422/216411

Bologna
Via del Lavoro 53 – 40033 Casalecchio di Reno
Tel. 051/3390711

Padua
Via G. Gozzi 24 - 35131 Padua
Tel. 049/8236011

Brescia
Piazza Mons. Almici 23 - 25124 Brescia
Tel. 030/2284211

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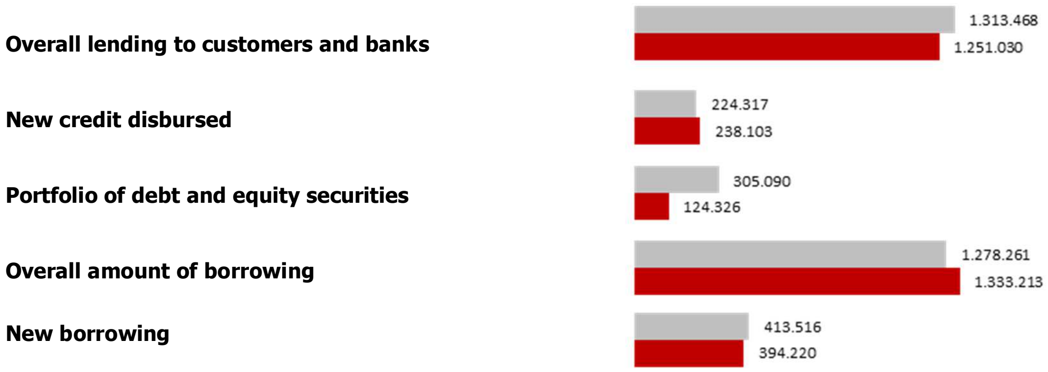
KEY RATIOS[1]

(Amounts are in thousands of Euros)

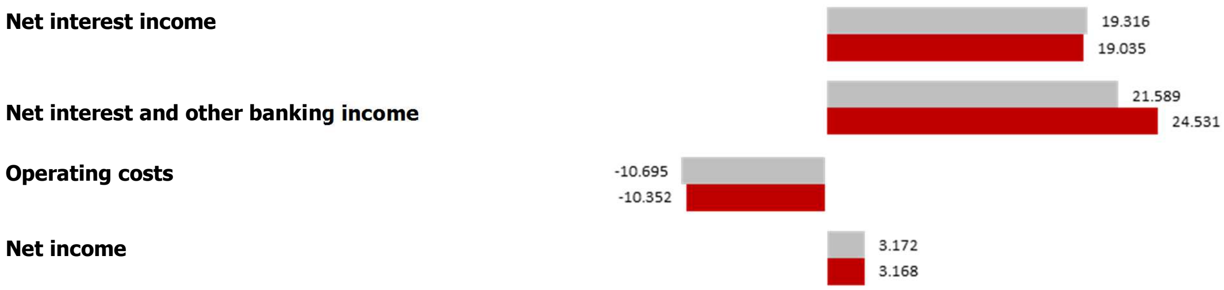
Rating

MOODY'S INVESTOR SERVICE	2018	2017
- Issuer Rating	Ba1	Ba1
- Bank Deposits	Baa3 / P-3	Baa3 / P-3
- Outlook	Stable	Stable

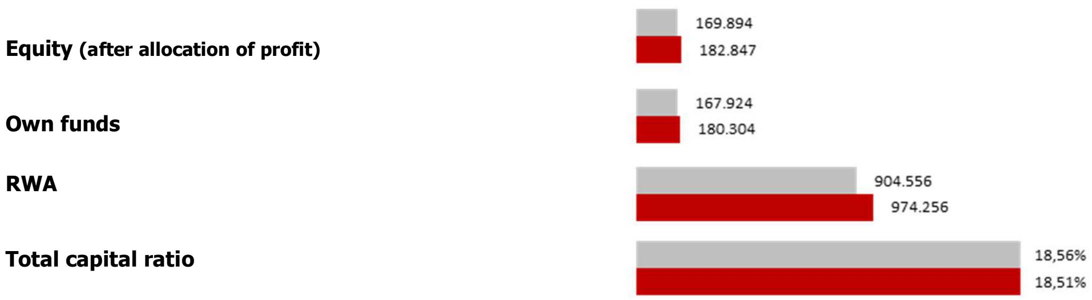
Data sheet and flow data



Financial data



Capital and capital ratios



1 All the ratios in the table are explained clearly in appendix 2 "Glossary of ratios".

Risk ratios

Gross doubtful loans to gross loans to customers	8,20%	10,10%
Net doubtful loans to net loans to customers	3,80%	5,70%
Gross doubtful loans to own funds	56,90%	67,10%
Net doubtful loans to own funds	24,90%	35,50%
Gross impaired loans to gross loans to customers	11,80%	13,90%
Net impaired loans to net loans to customers	6,50%	8,80%
Gross impaired loans to own funds	82,20%	93,10%
Net impaired loans to own funds	42,50%	54,90%
Texas ratio	62,0%	70,4%

Other ratios

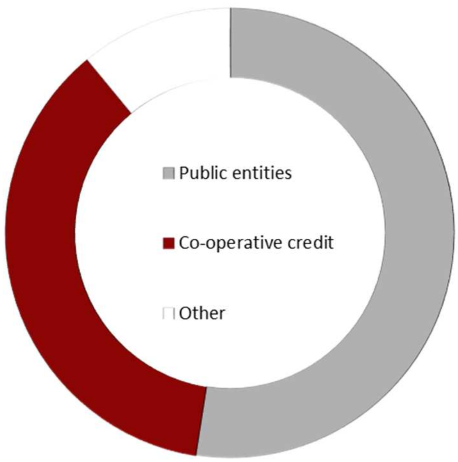
Average number of employees (part-time weighted)	78,3	79,7
Cost to income ratio	49,50%	42,20%

SHAREHOLDERS

Public entities	
17.489%	AUTONOMOUS REGION OF TRENTINO SOUTH TYROL
17.489%	AUTONOMOUS PROVINCE OF TRENTO
17.489%	AUTONOMOUS PROVINCE OF BOLZANO
52.466%	

Co-operative banks	
35.207%	CASSE RURALI - RAIFFEISEN FINANZIARIA also referred to as CRR-
0.213%	BCC DI ROMA -SOCIETA' COOPERATIVA
0.192%	BCC DI VENEZIA, PADOVA E ROVIGO - BANCA ANNIA
0.231%	CENTROMARCA BANCA-CREDITO COOPERATIVO DI TREVISO E VENEZIA
0.178%	BANCA PER LO SVILUPPO DELLA COOPERAZIONE DI CREDITO
0.107%	BANCA ALTO VICENTINO CREDITO COOPERATIVO DI SCHIO, PEDEMONTE E ROANA
0.078%	ROVIGOBANCA CREDITO COOPERATIVO SOC.COOP.
0.071%	BANCA DELLA MARCA CREDITO COOPERATIVO – S.C. DI ORSAGO
0.064%	CASSA PADANA BCC – SOCIETÀ COOPERATIVA
0.043%	BANCA VERONESE CREDITO COOPERATIVO DI CONCAMARISE
0.043%	BCC DELLE PREALPI
0.043%	CASSA RURALE ED ARTIGIANA DI VESTENANOVA CREDITO
0.043%	FEDERAZIONE TRENTINA DELLA COOPERAZIONE
0.043%	FEDERAZIONE VENETA BANCHE DI CREDITO COOP.
0.001%	CASSA CENTRALE BANCA SPA
0.001%	CASSA CENTRALE RAIFFEISEN DELL'ALTO ADIGE SPA
36.556%	

Other	
7.802%	CASSA DI RISPARMIO DI BOLZANO SPA
2.895%	BANCA POPOLARE DELL'ALTO ADIGE SPA
0.196%	ITAS
0.085%	VENETO BANCA S.p.A. IN L.C.A.
10.978%	



STATUTORY BOARDS

BOARD OF DIRECTORS

CHAIRMAN
Franco Senesi

DEPUTY CHAIRMAN
Michael Grüner

DIRECTORS
Hansjörg Bergmeister
Andrea Bologna[2]
Giovanni Dies
Zenone Giacomuzzi
Lorenzo Liviero
Giorgio Marchiodi
Stefano Mengoni
Cristina Odorizzi[2]
Katrin Teutsch

BOARD OF STATUTORY AUDITORS

CHAIRMAN
Astrid Marinelli

STANDING AUDITORS
Renato Beltrami
Patrick Bergmeister[2]

ALTERNATE AUDITORS
Antonio Maffei
Klaus Steckholzer[2]

ADMINISTRATION

GENERAL MANAGER
Diego Pelizzari

OTHER POSITIONS

MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS
Leo Nicolussi Paolaz

AUDITING COMPANY
PricewaterhouseCoopers S.p.A.

2 Appointed at Ordinary Shareholders' Meeting of 23 April 2018.

SHAREHOLDERS' ORDINARY GENERAL MEETING

The Shareholders are requested to attend the Ordinary General Meeting on the 17 April 2019 at 8.00am for the first meeting date and if necessary on the 18 April 2019 as a second option at 11.00am, at the Company Headquarters in Trento – via Paradisi 1, to deliberate upon the following:

Agenda

1. Annual Report as at 31 December 2018; report on operations by the Board of Directors and Independent Auditors report; report by the Board of Statutory Auditors; related and following resolutions;
2. Assignment of the task of accounting control pursuant to Articles 2409-bis *et seq.* of the Italian Civil Code for the 2019-2027 financial years.
3. Internal policies regarding controls on risk activities and conflicts of interest with regard to related parties.
4. Remuneration policies: approval of new regulations pursuant to Article 6 of the By-laws and information to shareholders.

Pursuant to Article 9 of the Company By-laws, Shareholders have the right to attend the General Meetings and have the right to vote if, at least five days prior to the date on which the meeting is held, they lodged shares with the Company or affiliated Banks or, with reference to Public Entities, with their respective Treasurers. Holders of shares on which an uninterrupted series of endorsements appear also have the right to attend the General Meetings provided they lodged shares as specified above.

The Chairman
Franco Senesi

TRANSITION TO IFRS 9

Regulation (EU) 2016/2067 of the European Commission endorsed the international accounting standard "International Financial Reporting Standard 9 Financial Instruments", which replaced IAS 39 as of the financial statements for the year as at 1 January 2018.
An examination of the classification, recognition, measurement and derecognition criteria of the income components of each item in the financial statements is provided in the notes to the financial statements, Part A - Accounting Policies.

THE BANK'S CHOICES

It is appropriate to make some preliminary remarks regarding the "general" choices made by the Bank with regard to the recording of the impacts deriving from the application of the new rules of impairment on own funds, according to the recent changes introduced to the prudential regulations, and the representation of the comparative balances in the year of first-time adoption of the standard:

- on 12 December 2017, the European Parliament and the Council issued Regulation (EU) 2017/2395 "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds" which updates CRR Regulation 575/2013, introducing the new article 473 bis "Introduction of IFRS 9", which offers banks the possibility of mitigating the impact on own funds deriving from the introduction of IFRS 9 in a transitional period of 5 years (from March 2018 to December 2022) by sterilising the impact in CET1 with the application of decreasing percentages over time. The Bank chose not to adopt this approach by calculating the entire effect due to the higher impairment, net of the tax component, in its own funds in 2018;
- With reference to the methods for presenting the effects of first-time adoption of the standard, the Bank exercised the option envisaged in paragraph 7.2.15 of IFRS 9 and in paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which - without prejudice to the retrospective application of the new rules of measurement and representation required by the standard - the mandatory restatement on a like-for-like basis of the comparative data in the financial statements of first-time adoption of the new standard is not envisaged. According to the indications contained in the deed of issue of the 5th update of Circular 262 "Banks' financial statements: layouts and preparation", banks using the exemption from the obligation to restate the comparative values must, however, include, in the first financial statements drawn up on the basis of the new Circular 262, a reconciliation statement that provides a reconciliation between the data of the last approved financial statements and the first financial statements drawn up based on the new provisions. The form and content of this report are independently up to the competent company bodies.

GOVERNANCE OF THE TRANSITION TO THE NEW STANDARD

The Bank carried out the process of implementing the new IFRS 9 standard by setting up a special Working group consisting of personnel from the Budget, Tax and Reporting Office, the System, Planning and Control Office and the Risk Manager.
Moreover, the Board of Directors and the Credit Risk Management Committee were involved, during the course of the project, as part of the implementation of the standard.
The process of determining value adjustments is regulated by the "Policy for the management of non-performing loans - NPLs", whose individual impairment (stage 3) regulations were amended to include the management of the various recovery scenarios as well as the collective impairment (stages 1 and 2) regulations to reflect the changes introduced by IFRS 9 (staging and determination of Expected Credit Loss).
The process of classifying financial instruments was regulated through an update of the "Policy - Classification and Measurement of financial assets and liabilities", approved by the Board of Directors, aimed at defining and setting out the elements forming the various business models with which the Bank operates, which, together with the method used to carry out the SPPI test, make it possible to determine the correct approach to the measurement of financial assets.

The effects of the first-time adoption of IFRS 9 on assets, liabilities, own funds and prudential ratios are described in detail in the section "The effects of the first-time adoption (FTA) of IFRS 9" in the Report on Operations.

REPORT ON OPERATIONS

GENERAL ECONOMIC OVERVIEW

Italian and international economic situation

In 2018, the international scenario was characterised by geopolitical tensions and conflicts over international trade, which did not have a positive impact on both the real economy and the financial markets.
The Eurozone industry suffered from recession at the end of the year, albeit 2018 showed a profit: industrial production in the Eurozone was up 1.1% and in the EU-28 member states it was up 1.3%. The data published by Eurostat shows that for the last month of last year the output of the Eurozone countries fell by 0.9% compared to the previous month (against expectations for a more modest decline of 0.4%) and by 4.2% on an annual basis, the worst result in six years. The decline recorded in December was however lower than that of November (-1.7%), thanks to the first signs of recovery in the car industry, but certifies the second consecutive quarter of decline in production.
Uncertainties in the economic environment had an impact on the international financial markets, with a decline in long-term yields and fall in share prices. The global outlook is burdened by the risks related to a negative outcome to the trade negotiations between the United States and China, the possible worsening of financial tensions in emerging countries and the way in which Great Britain's exit from the European Union will take place. According to the World Bank, in 2018 the global economy showed signs of slowing down, especially in Europe, China, Turkey and Japan. It is estimated that a climate of uncertainty will continue to prevail in 2019.
The economic slowdown in Italy was already evident in the third quarter and continued also in the last part of last year, particularly affecting the industrial sector and international demand. In the fourth quarter of 2018, the Italian GDP recorded the second consecutive negative change in the economy caused by a further decline in domestic demand. According to the latest ISTAT[3] projections, gross domestic product in Italy reported a worrying slowdown in the last two quarters (-0.2% in the last quarter), although it grew by 0.8% over the whole year compared to 2017.
Therefore, the expansionary phase of the last few years seems to have come to an end and the worsening of industrial production has led the European Research Centre[4] to lower its estimate of the trend in GDP in the first quarter of 2019. In economic terms, there would be a decrease for the third time in a row. The OECD[5] is also reviewing Italy's growth estimates: according to the Interim Economic Outlook, Italy's GDP will be negative - -0.2% in 2019 - rising to 0.5% in 2020.
In 2018, national industrial production showed signs of slowing down, especially in the consumer goods sector (-7.2% in December), with particular suffering in the wood, paper and printing sectors (-13.0%) and the textiles and clothing sector (-11.1%). In December, in particular, there was a significant reduction in industrial production compared with the same period of 2017 (-5.5%). ISTAT's actual trend data show that the balance of trade is still positive, but declining, mainly due to a decrease in exports of passenger cars and industrial vehicles.
The labour market confirmed the picture of substantial stability of employment in the presence of only slight improvements in the unemployment rate, while the trend of decelerating prices is confirmed, conditioned by the fall in energy costs, with the differential compared to inflation in the Eurozone on the up. Consumer and business confidence, according to ISTAT, is also still falling: for businesses it is the lowest value since February 2015.

Economic situation in the areas of interest for the Bank[6]

In the Regions where the bank operates, with a special reference to manufacturing companies, the overall situation was better than the general one, especially in Trentino Alto Adige. In Lombardy, Veneto and Emilia Romagna, despite the positive data on average for the year, we can already see the first signs of a slowdown, with expectations for the first quarter of 2019 in decline.

3 National Institute of Statistics - 2018 Quarterly economic accounts
4 The ERC is one of three forecasting bodies that are part of the panel of the Parliamentary Budget Office
5 Interim Economic Outlook OECD - March 2019
6 Economic reports of the regional Chambers of Commerce.

In detail, the manufacturing sector in Trentino, after the slowdown in the third quarter, started to grow again at a faster pace, with a 4.7% annual turnover trend. The contribution of all demand components was positive: local (+5.3%), national (+3.8%) and foreign (+5.2%). The most brilliant performances are achieved by companies that process non-metallic minerals, while those that produce food and beverages were characterised by a decrease in sales revenues. Entrepreneurs' opinions on their company's performance in perspective terms were slightly worse than in the third quarter.
In South Tyrol, the data reported in autumn 2018 in the manufacturing sector showed a positive trend in turnover, supported both by domestic demand and by demand from non-provincial markets. Companies were pleased with the volume of exports and investments, which in 2018 grew mainly in the printing, machinery and equipment manufacturing, metalworking and food production sectors.
Industrial production in Lombardy, after a second and third disappointing quarter, started to grow again in the fourth quarter of 2018, with a +1% compared to the third quarter. This economic result means that the average annual growth was close to the good result of last year (+3.0% compared to +3.7% in 2017). The expectations of Lombardy's industrial entrepreneurs for production, orders and employment worsened, as well as for domestic demand, which was negative again.
In Veneto, there was a growth of +2.2%: however, compared to the other quarters, the increase was less intense, bringing the indicator on average for the year to +3.2% (+4% in 2017). Growth was driven by companies producing investment goods (+4.8%), while the increase was more limited for companies producing intermediate goods (+2%) and consumer goods (+0.4%). The expectations of the entrepreneurs for the first three months of 2019 worsened and all indicators are expected to decrease: internal and external orders, turnover.
In Emilia Romagna, the trend in regional industrial production in the first nine months of 2018 was positive (+2.2%) but lower than in 2017. However, the aggregate result is the consequence of different business trends. On the one hand, the large aggregate of the mechanical, electrical and transport industries (+3.8%) was the main driving force behind the regional industry. Metallurgy and the manufacture of metal products (+2.4%) and the small wood and furniture industry (+2.1%) followed. On the other hand, food production was little more than unchanged, but above all the production of the fashion industry lost 1.0%. Exports (+5.2%) and tourism (+4%) were very good.

Trends in credit, mini-bonds and AIM Italia

With regard to the indebtedness of SMEs, the analysis of the Cerved report[7] provides us with a picture where the debt/equity ratio of SMEs further decreased, from 72.6% to 68.0%, thanks to the strong improvement in capitalisation and reinvested profits.
The most recent Bank of Italy statistics on financial accounts for the third quarter of 2018 show that the existing stock of short-term bank loans for all non-financial companies has fallen over 12 months from €239bn to €221bn, while long-term loans have fallen from €491bn to €474bn. The data also shows differences between different macro-sectors for 2018: credit for manufacturing companies increased (with increase percentages always positive from 2017) but it continued to decrease in the construction world.
According to the Economic Bulletin of the Bank of Italy, the worsening of funding conditions for Italian banks in 2018 resulted in a slight tightening of the general terms and conditions of the loans disbursed.
As for the mini-bond market, in 2018, there were 198 emissions, an increase compared to 170 in 2017, with an amount of €4.3bn (it was €5.5bn) due to the reduction in the average value of emissions[8].
The number of issuers equal to 176 was up sharply, of which 123 appeared on the market for the first time and 42 with a turnover of less than €10m. A particularly significant trend can be seen among Limited Liability Companies, which more than doubled in the last year (from 21 to 45). Compared to the previous year, 2018 also marked a slight increase in the average coupon, 5.10%, compared to 4.83% a year earlier, as well as slightly lengthening the maturity, from 4.9 to 5.2 years. For securities under €50m, there has been an increase in the sectoral diversification of issuers and the forms of guarantee that increasingly accompany issues.
2018 was also an interesting year for AIM Italia[9], which recorded the highest number of listings and capital raised since the start of the market, increasing the strategic role of financial support to the growth path of Italian SMEs for the collection of capital functional to industrial development and internationalisation.

7 2018 Cerved SME Report, Cerved.
8 5th Report of the Mini-Bond Observatory of the School of Management of the Milan Polytechnic.
9 2018 AIM Italia Observatory – IR TOP Consulting.

As at December 2018, there were a total of 113 listed companies with a total capitalisation of €6.7bn; the most important sectors in terms of number of companies are Finance (21%), Industry (16%), Media (14%), Technology (12%). The regions most present on AIM are Lombardy (50%), Emilia-Romagna (12%), Lazio (11%) and Veneto (7%).
With regard to institutional investors, the market saw an 80% growth in 2018 (108 institutional investors compared to 60 in 2017), the share of foreign investors, equal to 52%, was up by 21% (compared to a share of 43% according to the analysis of the 2017 AIM Observatory). About 25% of the free float on AIM Italia was held by PIR Funds.

THE BANK IN 2018

Mediocredito's activities, which started at the beginning of the year with new concessions and disbursements in line with the positive trend in investments by SMEs, were affected by a slight slowdown during the second half of the year, due to less sustained growth rates in the economy.
However, thanks to the commercial activity of its business units and the offer of new innovative financial instruments to corporate customers, the Bank was able to consolidate the good results achieved in terms of operating volumes of the previous year.
The flow of new disbursements, which reached approximately €224m, made it possible to consolidate the volume of the portfolio of core performing loans over €1bn (-1.4% compared to 2017), despite tranches of early repayment of approximately €32m.
The credit granted remained at levels similar to last year, both in terms of amount (€261m), and for the number of loans and advances granted (293 compared to 298 last year), confirming the usual risk spreading policy.
In the same direction, with reference to the risk of loans, the performance of the portfolio of impaired loans continued to show a virtuous downward trend over the last three years.
The NPLs were further and markedly reduced, reaching 6.5% in net terms and 11.8% in gross terms, with a management plan that envisages bringing the net impaired portfolio back to 4% by 2021, at levels lower than those before the crisis.
The process of containing NPLs was supported, in particular, by the sharp slowdown in the net flow of new impaired loans from performing loans that, for the current year, amounted to approximately €14m, bringing the total flow figure for the last three years to €26.6m, compared with €72.5m in the previous three years.
The constant and significant reabsorption of the impact of impaired loans took place without the need for major bulk sales of NPLs portfolios on the market, which would have entailed inevitable transfers of value.
The reduction in impaired loans certainly benefited from the improvement in the economic cycle over the last two years, but above all from the investments the bank made over the years in new credit selection and assessment models, in the focus of its activities on corporate customers and in the continuous and specialised training of its analysts.
The level of coverage of the impaired portfolio, which had been a weakness in previous years - also as a result of the higher write-downs determined at the time of the first-time adoption of the new international accounting standard IFRS 9 - improved significantly, going from 41% to 48% (it was 34% in 2016).
The coverage ratios of the individual categories of NPLs were therefore in line with the system averages, thanks to the attention that Mediocredito has always paid to maintaining a high level of fragmentation of its portfolio, which is also well guaranteed on average.
As regards liabilities, the bank managed the covering of the financial needs through borrowing of €232m – mostly granted by the system of Co-operative Credit Banks – with withdrawals from Cassa Depositi e Prestiti of €11m under the new Sabatini Law.
Moreover, in order to strengthen the average duration of liabilities, a major tranche of a €170m bonds listed under the European MTN programme, maturing in January 2018, has been rescheduled in July 2020. During the financial year, confirming on the other hand the trend of the entire banking system, Mediocredito did not issue or place any bonds on the market, considering the level of cost that makes other forms of interbank fund raising still preferable.
In order to cover liquidity risk, which represents a significant component of current risks, the Bank has adequate reserves of securities and volumes of credit assets eligible as collateral, which make it possible in the short term to keep the supervisory ratios under control.
From an economic point of view, net interest income increased compared to the previous year (+1.5%) benefiting from the growth in the average volume of the securities portfolio combined with the substantial stability of the spread of money management compared to 2017 (1.33% vs. 1.34%).
However, margins remain under pressure given the limited profitability of assets related to the persistent maintenance of very low interest rate benchmarks and to the competitive pressure on the spreads applied to the best customer counterparties.
Net interest and other banking income also benefited from income from securities trading lower than in previous years (-€2.3m compared to 2017) and was partly affected by the negative changes in fair value recognised in the income statement from the investment in Fondi Immobiliari (-€1.2m compared to 2017).
As a result of the factors described above, the gross operating result of €10.9m was down 32% on the 2017 data (data that benefited from the extraordinary capital gain from the sale of the Bolzano office). However, the stability of operating costs and lower write-downs on loans and advances made it possible to achieve a net profit of €3,172m, in line with the previous year.

The efficiency indicator - cost to income - remained at levels of excellence at 49.5% compared to 42.2% in 2017.
As already pointed out, as part of the measurement process of financial statement assets, the Bank significantly strengthened the coverage of impaired loans, even at the time of the first-time adoption of IFRS 9.
These measurements were shared during the inspection visit of the Bank of Italy during the fourth quarter of the year. This visit was successful in terms of loan classification, the assessment of the business model, as well as feedback on the capital strength and adequacy of the organisational and control system.
In summary, 2018 saw the Bank close the three-year period of the 2016-2018 business plan, improving its overall positioning, both in terms of business volumes disbursed and economic results, with an important role in supporting the deserving investment projects of the territory.
In terms of equity, following the impact of the IFRS 9 FTA fully absorbed by own funds, the level of solidity was maintained at 18.56% for the Tier 1 and Total Capital Ratio indicators and the Texas Ratio improved further, from 70.4% to 62.0%.
Last but not least, the high reputation achieved in our reference market, the recognition by all stakeholders of the Bank's responsible support for the local economy and for the various initiatives with a social impact, the attention paid to communication and the corporate image, the effort made to offer new innovative products to serve corporate customers, are values that must be monitored and further strengthened.

BUSINESS REVIEW

LENDING OPERATIONS

Outline of lending operations (thousands of Euros)

Surveyed activities		2018	2017	% Chg.
Credit granted	number	293	298	-1.7
	amount	261,460	267,162	-2.1
Credit disbursed amount		224,317	238,103	-5.8
		31 Dec 2018	**31 Dec 2017**[10]	**% Chg.**
Total lending		1,125,234	1,251,030	-10.1
- loans and advances to banks		40,960	124,326	-67.1
- loans and advances to customers		1,084,274[11]	1,126,704	-3.8
	impaired	*70,777*	*99,018*	*-28.5*
	performing	*1,013,497*	*1,027,686*	*-1.4*

Credit granted

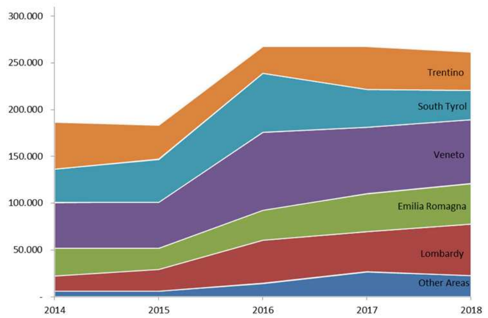
The credit granted in 2018 amounted to €261.5m, a marginal decrease compared to 2017 (-2.1%). In terms of numbers, there was a similar trend; this has led to a constant average amount approved, which continues to be €0.9m.

The breakdown by area of the forbearance measures shows Trentino - Alto Adige Region with 27.7%, which remains the area with the highest concentration of loans, followed by Veneto, which confirms its position at 26%. The remaining volume, equal to approximately 46%, is divided between Lombardy (21%), Emilia Romagna (16%) and Other Areas (9%). The reduction in loans, limited to approximately 2%, is the result of significant growth in the area supervised by the Brescia branch (+€12m, +27%) combined with a virtuous consolidation in Emilia Romagna (+€3m, +7%) offset by the reduction in Trentino-Alto Adige. In particular, the reduction in South Tyrol (-€9m) is mainly related to the lack of the financing channel to local public entities following the review of the methods of management of public finance by the Autonomous Province of Bolzano.

Breakdown of credit granted by area (thousands of Euros)

	2018	%	2017	%	Chg.	Chg. %
Trentino	41,036	15.7	45,612	17.1	-4,576	-10.0
South Tyrol	31,395	12.0	40,401	15.1	-9,006	-22.3
Veneto	68,128	26.0	70,845	26.5	-2,717	-3.8
Emilia Romagna	43,237	16.5	40,476	15.2	+2,761	+6.8
Lombardy	55,261	21.1	43,542	16.3	+11,719	+26.9
Other Areas	22,403	8.6	26,286	9.8	-3,883	-14.8
Total	**261,460**	**100.0**	**267,162**	**100.0**	**-5,702**	**-2.1**

Trend in credit granted by area 2014-2018



10 The data shown is that reported in the financial statements as at 31 December 2017; the effects of the First Time Adoption of IFRS 9 have not been considered in management terms.

11 The data includes €11.4m of receivables for cash reserves relating to self-securitisations that did not pass the SPPI test and that, therefore, are shown under item 20.c of the financial statement assets.

As part of the disbursements of loans to non-financial corporations (down by €14.8m; -6%), it should be noted in particular the decrease in forbearance measures in favour of the energy sector (-€11.2m; -37.6%) related to lower attractiveness of the government incentive system in favour of the renewable energy sector; on the other hand, the transport sector (+€7m; +62%), the retail sector (+€5.4m; +28%) and the hotel sector (+€2.9m; +29%) recovered. Public sector lending increased significantly (+€13m; +129%) thanks to the growth of public-private partnership operations carried out through the instrument of financial lease on public entities located outside the Trentino - South Tyrol region.

Breakdown of credit granted by counterparty and economic sector (thousands of Euros)

	2018	%	2017	%	Chg.	Chg. %
Non-financial corporations	**231,680**	**88.6**	**246,508**	**92.3**	**-14,828**	**-6.0**
Manufacturing	106,933	40.9	114,573	42.9	-7,640	-6.7
Other services	25,234	9.7	31,828	11.6	-6,594	-20.7
Market services	24,656	9.4	19,231	7.2	+5,425	+28.2
Energy	18,520	7.1	29,690	11.1	-11,170	-37.6
Transport services	18,406	7.0	11,377	4.3	+7,029	+61.8
Real Estate	18,316	7.0	13,846	5.2	+4,470	+32.3
Hospitality	12,900	4.9	10,020	3.8	+2,880	+28.7
Building industry	5,555	2.1	8,643	3.2	-3,088	-35.7
Agriculture	1,160	0.4	7,299	2.7	-6,139	-84.1
Government Agencies, families and others	**23,280**	**8.9**	**10,154**	**3.8**	**+13,126**	**+129.3**
Financial corporations and banks	**6,500**	**2.5**	**10,500**	**3.9**	**-4,000**	**-38.1**
Total	**261,460**	**100.0**	**267,162**	**100.0**	**-5,702**	**-2.1**

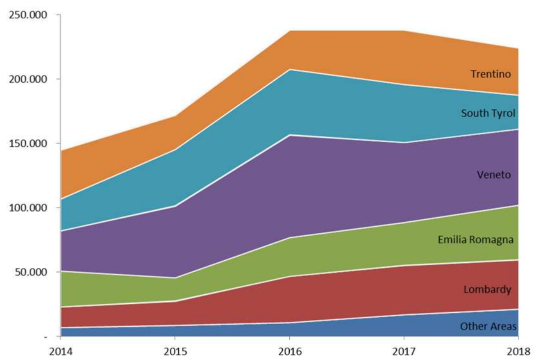
Credit disbursed

The trend in disbursements is similar to that in loans, with a drop in disbursement volumes (-€14m; -6%) particularly evident in South Tyrol (-€18m; -41%) - related to the above phenomenon - and in Trentino (-€6m; -14%) that was also characterised by particularly high volumes in 2017 due to the presence of important LBOs; in contrast, disbursements in Emilia Romagna (+€9m; +27%) and in the Other Areas (+€4.5m; +27%), where commercial effectiveness regained momentum, rose sharply.

Breakdown of credit disbursed by area (thousands of Euros)

	2018	%	2017	%	Chg.	Chg. %
Trentino	36,460	16.3	42,387	17.8	-5,927	-14.0
South Tyrol	26,564	11.8	44,937	18.9	-18,373	-40.9
Veneto	59,214	26.4	62,262	26.1	-3,048	-4.9
Emilia Romagna	42,687	19.0	33,475	14.1	+9,212	+27.5
Lombardy	38,169	17.0	38,277	16.1	-108	-0.3
Other Areas	21,223	9.5	16,766	7.0	+4,457	+26.6
Total	**224,317**	**100.0**	**238,103**	**100.0**	**-13,786**	**-5.8**

Trend in credit disbursed by area 2014-2018



With regard to the distribution of disbursements by counterparty and economic sector, compared to loans, the significant decrease in the energy sector (-€10.3m; -39.3%) and the equally significant increase in disbursements to the transport sector (+€7.2m; +90%) were confirmed. The impact of lending operations in the public sector (+89%) may become more evident in absolute terms in future years.

Breakdown of credit disbursed by counterparty and economic sector (thousands of Euros)

	2018	%	2017	%	Chg.	Chg. %
Non-financial corporations	**210,538**	**93.9**	**226,589**	**95.2**	**-16,051**	**-7.1**
Manufacturing	99,161	44.2	99,646	41.9	-485	-0.5
Other services	24,556	10.9	28,065	11.8	-3,509	-12.5
Market services	22,708	10.1	20,904	8.8	+1,804	+8.6
Energy	15,836	7.1	26,094	11.0	-10,258	-39.3
Transport services	15,184	6.8	7,977	3.4	+7,207	+90.4
Real Estate	14,347	6.4	14,646	6.2	-301	-2.0
Hospitality	11,621	5.2	13,966	5.9	-2,345	-16.8
Building industry	4,897	2.2	9,847	4.1	-4,950	-50.3
Agriculture	2,228	1.0	5,445	2.3	-3,217	-59.1
Government Agencies, families and others	**7,593**	**3.4**	**4,014**	**1.7**	**+3,579**	**+89.2**
Financial corporations and banks	**6,186**	**2.8**	**7,500**	**3.1**	**-1,314**	**-17.5**
Total	**224,317**	**44.2**	**238,103**	**100.0**	**-13,786**	**-5.8**

Operations in synergy with the co-operative credit system recorded a decrease: when considering, in addition to direct presentations, participations in syndicated loans linked to the co-operative system or in which it is involved, the percentage of disbursements was 16.0% of the total compared to 24.3% of 2017.

Minibonds

Tranches of mini-bonds are also included in credit granted and disbursed: in 2018, 3 minibonds were subscribed for a total of €4.0m issued by companies operating in other services whereas, in 2017, 2 bonds were subscribed for a total of €1.4m, also issued by companies operating in other services.
In particular, in 2018 the entire issue was subscribed - for €3m - relating to a minibond for which the Bank also acted as arranger and advisor.

Performing loans[12]

Typical performing loans and advances to customers show a decrease by 1.8% compared to the end of 2017; this phenomenon is due to the sharp decrease recorded in the South Tyrolean area (-12.0%), almost entirely offset by increases in all non-regional areas: Lombardy (+9.4%), Emilia Romagna (+6.2%) and Other Areas (+10.1%). On the other hand, the portfolio in Veneto was substantially stable (-0.4%). All-in-all, it should be noted that 46% of the performing loans portfolio was still granted in favour of investments in Trentino-Alto Adige; this percentage would be 49% considering the allocation of loans in favour of companies based in the Region.

Breakdown of typical gross performing loans and advances by area (thousands of Euros)

	31 Dec 2018	%	31 Dec 2017	%	Chg.	Chg. %
Trentino	227,707	23.0	237,438	23.5	-9,731	-4.1
South Tyrol	224,761	22.7	255,449	25.3	-30,688	-12.0
Veneto	231,462	23.4	232,450	23.0	-988	-0.4
Emilia Romagna	110,029	11.1	103,596	10.3	+6,433	+6.2
Lombardy	123,443	12.5	112,869	11.2	+10,574	+9.4
Other Areas	73,555	7.4	66,811	6.6	+6,744	+10.1
Total typical loans and advances	**990,957**	**100.0**	**1,008,612**	**100.0**	**-17,655**	**-1.8**
current accounts and bank deposits [13]	*69,405*		*151,721*		*-82,316*	*-54.3*
Total performing loans and advances	***1,060,362***		***1,160,332***		***-99,970***	***-8.6***

Loans and advances to non-financial corporations amounted to €882m against €890m at the end of 2017: the decrease was due to widespread decreases between half a million in energy and €17m in agriculture, only partially absorbed by the significant increase in the mining/manufacturing sector (+€29m; +11.1%).

Typical performing loans and advances by counterparty and economic sector (thousands of Euro)

	31 Dec 2018	%	31 Dec 2017	%	Chg.	Chg. %
Non-financial corporations	**881,911**	**89.0**	**890,474**	**88.3**	**-8,563**	**-1.0**
Manufacturing	289,363	29.2	260,457	25.8	+28,906	+11.1
Energy	117,750	11.9	118,236	11.7	-486	-0.4
Real Estate	96,291	9.7	90,451	9.0	+5,840	+6.5
Market services	89,078	9.0	92,230	9.1	-3,152	-3.4
Hospitality	76,071	7.7	78,063	7.7	-1,992	-2.6
Other services	71,232	7.2	87,212	8.6	-15,980	-18.3
Transport services	61,792	6.2	59,215	5.9	+2,577	+4.4
Agriculture	56,759	5.7	73,491	7.3	-16,732	-22.8
Building industry	23,575	2.4	31,120	3.1	-7,545	-24.2
Government Agencies, families and others	**90,718**	**9.2**	**97,126**	**9.6**	**-6,408**	**-6.6**
Financial corporations and banks	**18,328**	**1.8**	**21,012**	**2.1**	**-2,684**	**-12.8**
Total	**990,957**	**100.0**	**1,008,612**	**100.0**	**-17,656**	**-1.8**

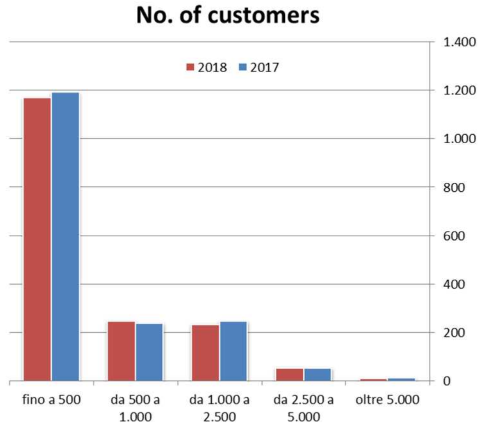
12 Loans and advances are shown in the tables relative to overall amounts, gross of depreciation but net of deposits and current accounts at banks and of contributions in relation to subsidised credit.

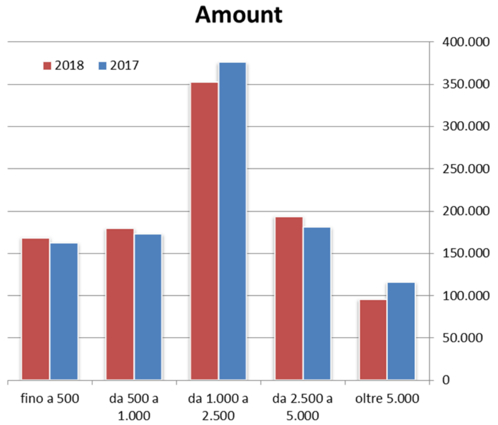
13 The figure includes €28,394 thousand in 2018 and €27,394 thousand in 2017 of loans to SPVs relating to securitisation transactions.

Typical performing loans and advances: breakdown of customers by amount loaned (thousands of Euro)

	No. of customers	Amount	customer %	amount %	Average amount
up to 500	1,173	168,817	67.7	17.0	143.9
from 500 to 1,000	251	179,765	14.4	18.1	716.2
from 1,000 to 2,500	237	352,514	13.7	35.6	1,487.4
from 2,500 to 5,000	57	194,006	3.3	19.6	3,403.6
above 5,000	14	95,855	0.8	9.7	6,846.8
Total	**1,732**	**990,957**	**100.0**	**100.0**	**572.1**

Distribution by loan amount – comparison 2018/2017 by number and amount





In relation to the indices of the performing loan portfolio, worth mentioning are the following events:

- the overall amount of transactions with borrowers, with an overall exposure exceeding €2.5m was equal to 29.2% of the total, almost stable against the end of 2017 (29.5%);
- the average amount for performing loans and advances went from €575 thousand to €572 thousand);
- the incidence on the total of the loans for the top transaction (0.9%) remained stable, whereas that of the top 20 transactions decreased (from 10.2% to 9.5%) as well as that of the top 100 (from 29.2% to 28.5%).

Typical gross performing loans and advances: top exposures (thousands of Euro)

	Dec 2018	%	Dec 2017	%
Top transaction	8,669	0.9	8,926	0.9
Top 20 transactions	93,947	9.5	102,700	10.2
Top 100 transactions	282,099	28.5	294,504	29.2

With regard to the concentration of individual borrowers, the performing loans portfolio shows that:

- overall exposure to the top borrower was stable (from 1.1% to 1.0%);
- overall exposure to the top 20 borrowers fell (from 13.9% to 12.5%), and so did the exposure to the top 100 borrowers (35.7% compared to 36.0%);
- overall exposure to the top group of borrowers went from 1.2% to 1.5%; the top 20 groups equalled 15.5% of the total (16.2% at the end of 2017) and the top 100 groups came to 39.2% (40.3% at the end of 2017).

Typical gross performing loans and advances: top customers (thousands of Euro)

	Dec 2018	%	Dec 2017	%
top borrower	10,308	1.0	11,380	1.1
top 20 borrowers	123,480	12.5	139,699	13.9
top 100 borrowers	353,956	35.7	363,449	36.0

Typical gross performing loans and advances: top groups of borrowers (thousands of Euro)

	Dec 2018	%	Dec 2017	%
top group of borrowers	14,767	1.5	11,968	1.2
top 20 groups of borrowers	153,605	15.5	162,979	16.2
top 100 groups of borrowers	388,306	39.2	406,682	40.3

It should be noted that the exposure of the top group in 2018 was related to a customer mainly active in the energy sector and that €4m was related to a short-term transaction repaid in January 2019; on the other hand, in 2017, exposure to the top group was due to the public sector.

Large exposures

With regard to «large exposures», in accordance with current legislation we can report the following situation as at 31 December 2018:

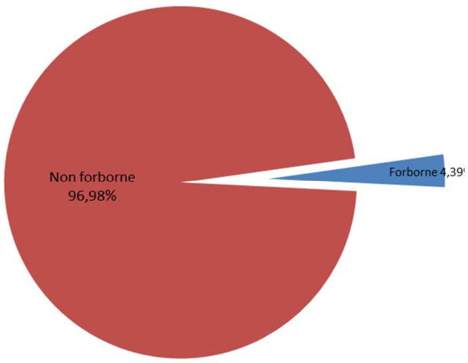
	Dec 2018		Dec 2017	
Counterparty	**Nominal**	**Weighted**	**Nominal**	**Weighted**
Governments	227,906	-	161,668	-
Banks	55,657	55,657	146,297	146,297
Ordinary customers	-	-	-	-
Total	**283,563**	**55,657**	**307,965**	**146,297**

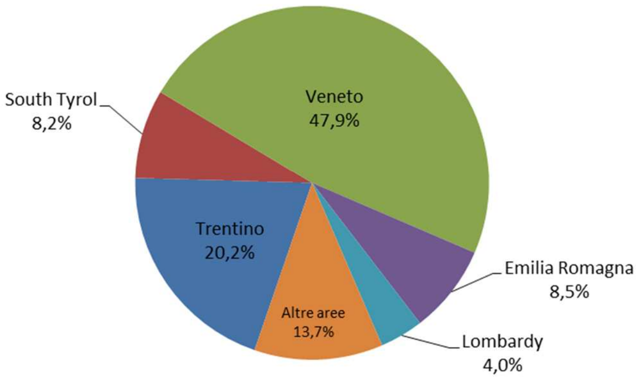
Exposures to Governments refer for the entire amount to securities eligible for refinancing with the European Central Bank.

Performing loans subject to forbearance measures – "Forborne"

Performing loans subject to forbearance measures amounted to €29.9m, equal to 3.0% of the total, and are mainly concentrated in Veneto (47.9%) and in the province of Trento (20.2%). The Bank's other areas of business each account for 4% to 12% of loan subject to forbearance measures.

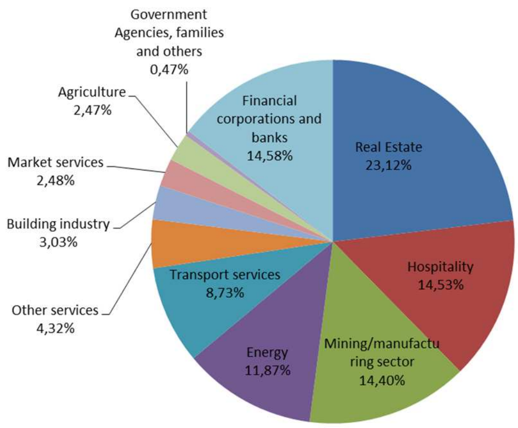
Performing loans subject to forbearance measures (forborne) by geographical area



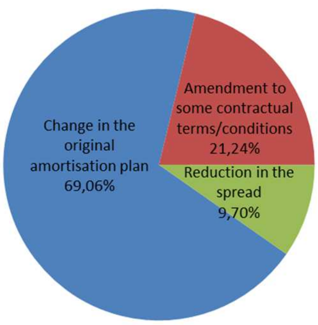


Performing loans subject to forbearance measures (forborne) by counterparty and economic sector

At sector level, 23% of forbearance measures benefited real estate companies, while the financial institutions (14.6%), the hospitality (14.5%), mining/manufacturing (14.4%) and energy (11.9%) sectors were less favoured. All other sectors include less than 9% of forborne loans.



Performing loans subject to forbearance measures (forborne) by type of forbearance measure



Depending on the type of forbearance measure, 69% of loans benefited from a change in the original amortisation plan, 21% from an amendment to some contractual terms/conditions and 10% from a reduction in the spread.

Impaired loans

The amount of gross impaired loans continued to decrease, down by 18.4%, following the -19.5% of 2017 and the -10.6% of 2016: compared to the balance as at 31 December 2015, the portfolio of impaired loans fell by a total of €96.5m, of which €46.5m due to sale transactions (€14.0m in 2016, €15.0m in 2017 and €17.5m in 2018).
Compared to 2017, the portfolio of doubtful loans decreased by €26.2m (-21.7%), unlikely to pay by €3.2m (-7.2%) and past due loans by -1.5m (-59.0%).

The following tables show the situation of impaired loans and a comparison with 2017.

Loans and advances to customers (thousands of Euro)

Dec 2018	Gross exposure	Overall adjustments	Net exposure	% gross loans	% net loans	% coverage
Impaired loans	**136,875**	**66,098**	**70,777**	***11.8***	***6.5***	**48.3**
- doubtful	94,747	53,244	41,503	*8.2*	*3.8*	56.2
- unlikely to pay	41,094	12,795	28,299	*3.6*	*2.6*	31.1
- past due	1,034	59	975	*0.1*	*0.1*	5.7
Performing loans	**1,019,350**	**5,853**	**1,013,497**	***88.2***	***93.5***	**0.6**
Total loans	**1,156,225**	**71,951**	**1,084,274**	***100.0***	***100.0***	**6.2**

Dec 2017[14]	Gross exposure	Overall adjustments	Net exposure	% gross loans	% net loans	% coverage
Impaired loans	**167,802**	**68,784**	**99,018**	***13.9***	***8.8***	**41.0**
- doubtful	120,994	56,922	64,071	*10.1*	*5.7*	47.0
- unlikely to pay	44,285	11,602	32,683	*3.7*	*2.9*	26.2
- past due	2,524	260	2,264	*0.2*	*0.2*	10.3
Performing loans[15]	**1,036,006**	**8,320**	**1,027,686**	***86.1***	***91.2***	**0.8**
Total loans	**1,203,809**	**77,105**	**1,126,704**	***100.0***	***100.0***	**6.4**

% change 2018/2017	Gross exposure	Overall adjustments	Net exposure
Impaired loans	**-18.4**	**-3.9**	**-28.5**
- doubtful	-21.7	-6.5	-35.2
- unlikely to pay	-7.2	+10.3	-13.4
- past due	-59.0	-77.3	-56.9
Performing loans	**-1.6**	**-29.7**	**-1.4**
Total loans	**-4.0**	**-6.7**	**-3.8**

The decrease in impaired loans, albeit in the presence of a decrease in performing loans (-1.4%), lead to a decrease in the incidence of impaired loans on the total portfolio of loans and advances to customers from 13.9% in December 2017 to the current 11.8%.

Note that in the first-time adoption of IFRS 9, the Bank recalculated the impairment of performing and non-performing loans in compliance with the new standard; the results of this activity, which are described in greater detail in the relevant section, are summarised below:

	Individual impairment	Collective impairment
Impaired loans	**+16,296**	
- doubtful	+11,977	
- unlikely to pay	+4,319	
- past due	-	
Performing loans		**-375**

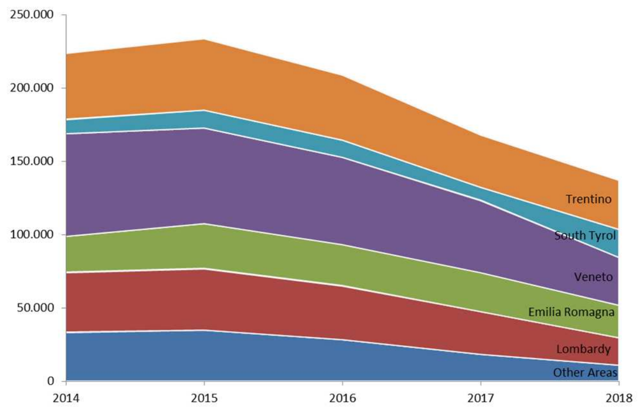
14 The data shown is that reported in the financial statements as at 31 December 2017; the effects of the First Time Adoption of IFRS 9 have not been considered in management terms.
15 The data includes €11.4m of receivables for cash reserves relating to securitisations that did not pass the SPPI test and that are shown under item 20.c of assets.

The figure net of value adjustments, which also include the effect of the First Time Adoption of IFRS 9 described above, decreased from 8.8% to 6.5%. The level of coverage of the total portfolio increased from 41.0% to 48.3%; the level of coverage of the portfolio of doubtful loans also increased (from 47.0% to 56.2%) – also after the mentioned sale transactions – and that of the portfolio of unlikely to pay loans (from 26.2% to 31.1%).

Typical gross impaired loans and advances by area (thousands of Euros)

	31 Dec 2018	%	31 Dec 2017	%	Chg.	Chg. %
Trentino	33,280	24.3	35,812	21.3	-2,532	-7.1
South Tyrol	19,218	14.0	8,664	5.2	+10,554	+121.8
Veneto	32,560	23.8	49,132	29.3	-16,572	-33.7
Emilia Romagna	22,127	16.2	26,710	15.9	-4,583	-17.2
Lombardy	18,550	13.6	29,045	17.3	-10,495	-36.1
Other Areas	11,140	8.1	18,439	11.0	-7,299	-39.6
Total typical loans and advances	**136,875**	**100.0**	**167,802**	**100.0**	**-30,927**	**-18.4**

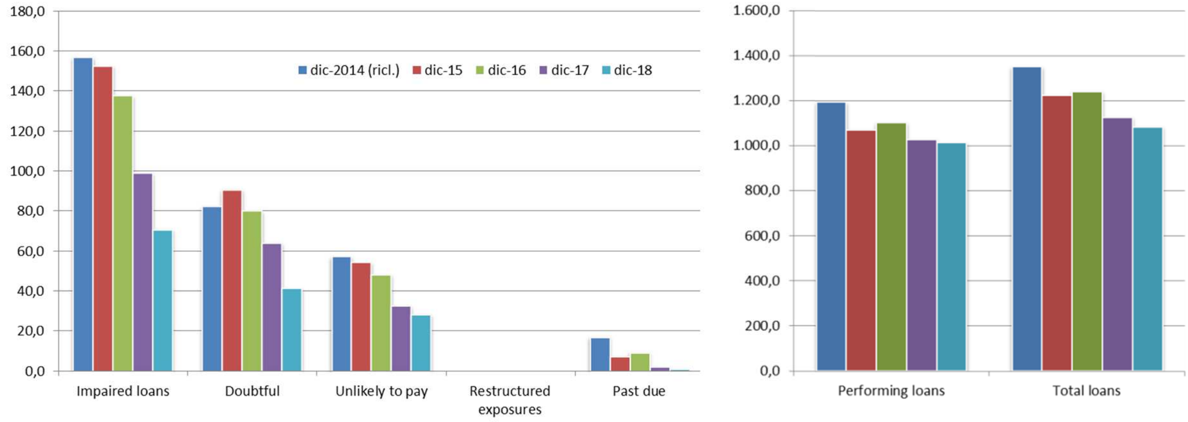
Trend in gross impaired loans and advances by area 2014-2018



Typical impaired loans and advances by counterparty and economic sector (thousands of Euro)

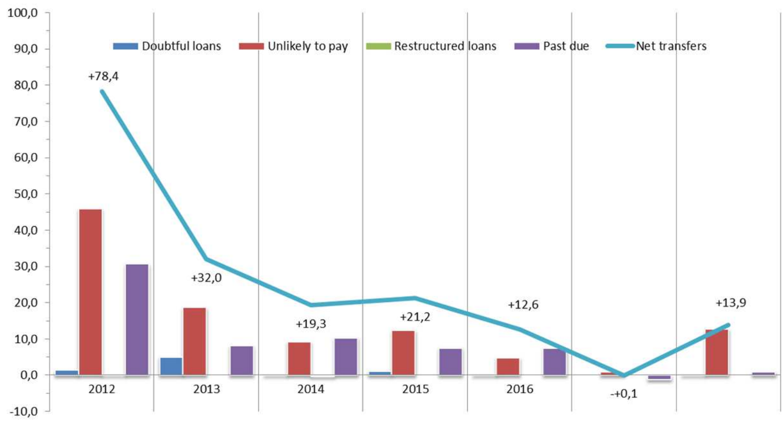
	31 Dec 2018	%	31 Dec 2017	%	Chg.	Chg. %
Non-financial corporations	**121,717**	**88.9**	**162,285**	**96.7**	**-40,569**	**-25.0**
Manufacturing	30,174	22.0	40,112	23.9	-9,938	-24.8
Building industry	29,848	21.8	48,859	29.1	-19,011	-38.9
Real Estate	29,450	21.5	34,048	20.3	-4,598	-13.5
Hospitality	10,407	7.6	11,382	6.8	-975	-8.6
Agriculture	7,426	5.4	8,231	4.9	-805	-9.8
Other services	6,257	4.6	10,240	6.1	-3,983	-38.9
Transport services	4,084	3.0	3,832	2.3	+252	+6.6
Energy	2,514	1.8	2,131	1.3	+383	+18.0
Market services	1,557	1.1	3,451	2.1	-1,894	-54.9
Government Agencies, families and others	**12,892**	**9.4**	**2,414**	**1.4**	**+10,478**	**+434.0**
Financial corporations and banks	**2,266**	**1.7**	**3,103**	**1.8**	**-837**	**-27.0**
Total	**136,875**	**100.0**	**167,802**	**100.0**	**-30,927**	**-18.4**

Trend in net loans (millions of Euro)



The net flow of new impaired loans (transfers in net of transfers out to "performing" loans) is negligible due to doubtful loans and past due loans, while there is a flow of new unlikely to pay of €12.8m, strongly affected by the classification as unlikely to pay of a customer with exposure of approximately €9m.

Net flow of new impaired loans coming from performing loans (millions of Euro)

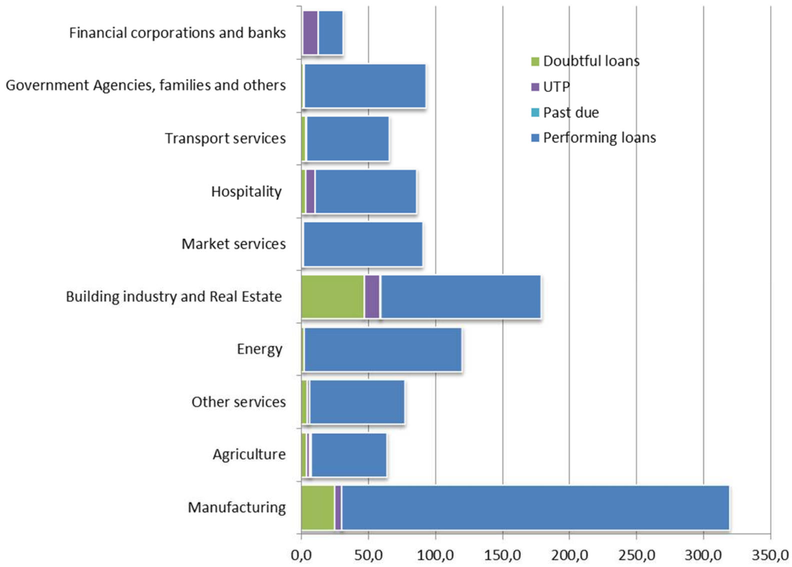


At sector level, the incidence of gross impaired loans on the total typical loans and advances portfolio is particularly relevant in sectors related to construction: 56% of loans to construction companies are impaired and approximately 25% of those to real estate businesses; however, both figures show an improvement compared to the figures of the previous year (61% and 27%, respectively). Approximately 9% of loans to companies operating in the manufacturing industry are also impaired (13% at the end of 2017).
The increase in the incidence of non-performing loans in the financial corporations sector is very evident, rising from 12.9% to 41.3% due to the above-mentioned exposure.

Gross impaired loans: incidence of each status by counterparty and economic sector (data in %)

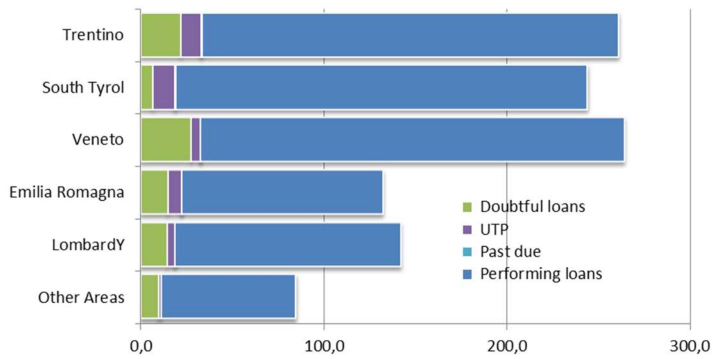
	Doubtful loans	Unlikely to pay	Past due	Total
Non-financial corporations	**9.1**	**2.9**	**0.1**	**12.1**
Manufacturing	7.9	1.5	0.0	9.4
Agriculture	6.0	3.6	1.1	10.7
Other services	4.6	1.5	0.0	6.1
Energy	2.1	0.0	0.0	2.1
Real Estate	19.0	5.7	0.2	24.8
Building industry	46.2	9.7	0.0	55.9
Market services	1.0	1.0	0.0	2.0
Hospitality	4.5	8.3	0.0	12.7
Transport services	5.6	1.1	0.0	6.7
Government Agencies, families and others	**2.0**	**0.4**	**0.0**	**2.4**
Financial corporations and banks	**3.6**	**37.7**	**0.0**	**41.3**

Gross impaired loans: overall incidence by counterparty and economic sector (millions of Euro)



Geographically speaking, the reader can see that the impairment of loans was uniformly distributed over the various areas of interest, except for the situation in the Autonomous Province of Bolzano, which always showed significantly lower levels of impairment, even if increasing compared to the previous year (7.9% vs. 3.3%).

Gross impaired loans: overall incidence by geographical area (millions of Euro)



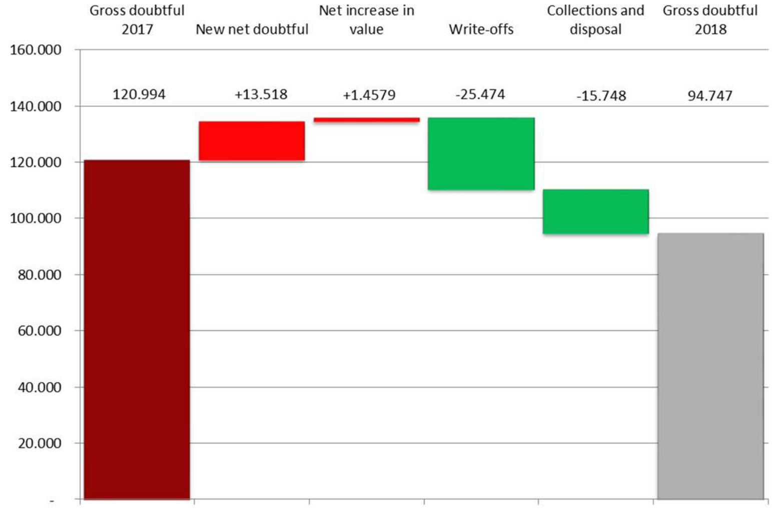
Gross impaired loans: incidence of each status by area (data in %)

	Doubtful loans	Unlikely to pay	Past due	Total
Trentino	8.3	4.3	0.2	12.8
South Tyrol	2.6	5.0	0.2	7.9
Veneto	10.4	1.9	0.0	12.3
Emilia Romagna	11.1	5.6	0.0	16.7
Lombardy	10.3	2.7	0.0	13.1
Other Areas	11.5	1.7	0.0	13.2

Doubtful loans

Doubtful loans gross of write-downs amounted to €94.8m, down by €26.2m in comparison to 2017. The trend was characterised by approximately €13.5m of new doubtful loans, €25.5m of write-offs and €15.7m of collections and disposals.

Trend in gross doubtful loans 2017-2018 (thousands of Euros)

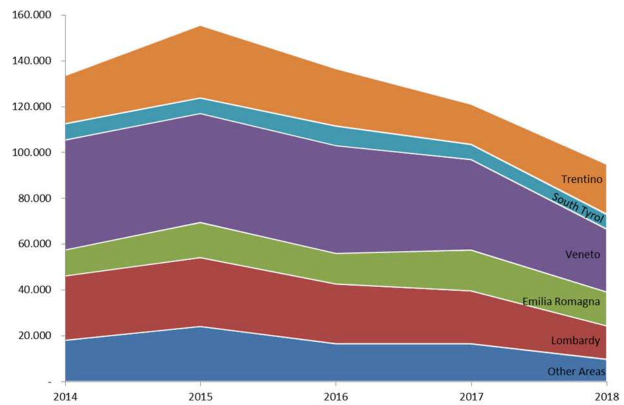


Geographically, doubtful loans were mainly concentrated in Veneto (29.1%); all areas of interest for the Bank showed significant decreases, with the exception of Trentino, which grew by 24.3%.

Breakdown of gross doubtful loans by area (thousands of Euro)

	31 Dec 2018	%	31 Dec 2017	%	Chg.	Chg. %
Trentino	21,769	23.0	17,516	14.5	+4,253	+24.3
South Tyrol	6,375	6.7	6,610	5.5	-235	-3.6
Veneto	27,562	29.1	39,412	32.6	-11,850	-30.1
Emilia Romagna	14,711	15.5	17,875	14.8	-3,164	-17.7
Lombardy	14,605	15.4	23,118	19.1	-8,513	-36.8
Other Areas	9,725	10.3	16,462	13.6	-6,737	-40.9
Total	**94,747**	**100.0**	**120,994**	**100.0**	**-26,247**	**-21.7**

Trend in gross doubtful loans by area 2014-2018



The building industry and the real estate sector (approximately €47m) remained the top collector of delinquent loans despite the most significant decrease. There were also significant decreases in the manufacturing and other services sectors. The other sectors were essentially stable.

Breakdown of gross doubtful loans by counterparty and economic sector (thousands of Euro)

	31 Dec 2018	%	31 Dec 2017	%	Chg.	Chg. %
Non-financial corporations	**91,722**	**96.8**	**118,923**	**98.3**	**-27,201**	**-22.9**
Manufacturing	25,321	26.7	35,215	29.1	-9,894	-28.1
Building industry	24,687	26.1	32,511	26.9	-7,824	-24.1
Real Estate	22,479	23.7	25,405	21.0	-2,926	-11.5
Other services	4,674	4.9	9,313	7.7	-4,639	-49.8
Hospitality	4,170	4.4	4,199	3.5	-29	-0.7
Agriculture	3,656	3.9	3,863	3.2	-207	-5.3
Transport services	3,414	3.6	3,660	3.0	-246	-6.7
Energy	2,514	2.7	2,131	1.8	+383	+18.0
Market services	807	0.9	2,628	2.2	-1,821	-69.3
Government Agencies, families and others	**1,890**	**2.0**	**2,070**	**1.7**	**-180**	**-8.7**
Financial corporations and banks	**1,135**	**1.2**	**-**	**0.0**	**+1,135**	**-**
Total	**94,747**	**100.0**	**120,994**	**100.0**	**-26,247**	**-21.7**

Doubtful loans, net of value adjustments, amounted to €41.5m, down €22.6m compared to the figure in December 2017.
The ratio of net doubtful loans to total net loans to customers was 3.8%, down compared to 5.7% at the end of the previous financial year; the ratio gross of value adjustments went from 10.1% in 2017 to 8.2%. The level of coverage of doubtful loans was 56.2%, clearly up on the percentage at the end of 2017 (47.0%).

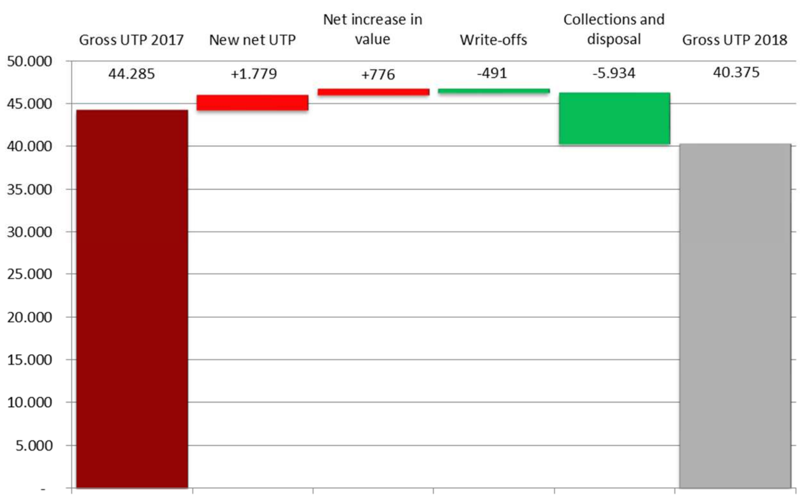
Key ratios relative to doubtful loans

in %	Dec 2018	Dec 2017
Gross doubtful loans / gross loans to customers	8.2	10.1
Gross doubtful loans / own funds	56.9	67.1
Net doubtful loans / net loans to customers	3.8	5.7
Net doubtful loans / own funds	24.9	35.5

Unlikely to pay loans

The "unlikely to pay" category gross of write-downs amounted to €41.1m (also graph), a decreased volume compared to that at the end of 2017 (-€3.2m, -7.2%). The trend is characterised by a net outflow to doubtful loans of €12.8m, €15.3m of new unlikely to pay and approximately €6m of collections and disposals.

Trend in gross unlikely to pay 2017-2018 (thousands of Euro)

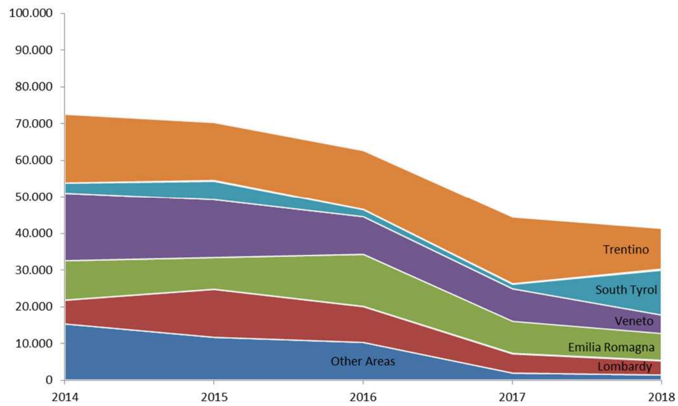


At geographical level, an increase was recorded in the unlikely to pay portfolio in South Tyrol (+€11.1m), while all other areas recorded decreases.

Breakdown of gross unlikely to pay loans by area (thousands of Euro)

	31 Dec 2018	%	31 Dec 2017	%	Chg.	Chg. %
Trentino	11,108	27.0	18,101	40.9	-6,993	-38.6
South Tyrol	12,258	29.8	1,197	2.7	+11,061	+924.3
Veneto	4,995	12.2	8,971	20.3	-3,976	-44.3
Emilia Romagna	7,415	18.0	8,826	19.9	-1,411	-16.0
Lombardy	3,903	9.5	5,214	11.8	-1,311	-25.1
Other Areas	1,415	3.4	1,977	4.5	-562	-28.4
Total	**41,094**	**100.0**	**44,285**	**100.0**	**-3,191**	**-7.2**

Trend in gross unlikely to pay by area 2014-2018



Breakdown of gross unlikely to pay loans by counterparty and economic sector (thousands of Euro)

	31 Dec 2018	%	31 Dec 2017	%	Chg.	Chg. %
Non-financial corporations	**29,003**	**70.6**	**42,538**	**96.1**	**-13,535**	**-31.8**
Hospitality	6,751	16.4	7,183	16.2	-432	-6.0
Real Estate	6,747	16.4	8,643	19.5	-1,896	-21.9
Building industry	5,160	12.6	16,341	36.9	-11,181	-68.4
Manufacturing	4,850	11.8	4,268	9.6	+582	+13.6
Agriculture	2,492	6.1	4,183	9.4	-1,691	-40.4
Other services	1,583	3.9	925	2.1	+658	+71.1
Market services	750	1.8	823	1.9	-73	-8.8
Transport services	670	1.6	171	0.4	+499	+291.5
Energy	0	0.0	-	0.0	0	
Government Agencies, families and others	**334**	**0.8**	**167**	**0.4**	**+167**	**+100.5**
Financial corporations and banks	**11,757**	**28.6**	**1,581**	**3.6**	**+10,176**	**+643.6**
Total	**41,094**	**100.0**	**44,285**	**100.0**	**-3,191**	**-7.2**

The unlikely to pay category, net of value adjustments, totalled €28.3m, down by 13.4% compared to 31 December 2017. The ratio of net unlikely to pay to total net loans and advances to customers was 2.6% compared to 2.9% at the end of the previous period.

Key ratios relative to unlikely to pay loans

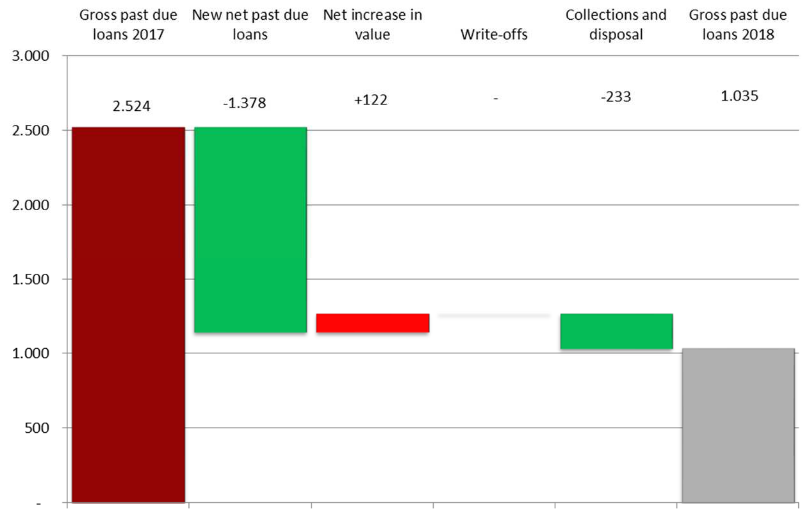
in %	**Dec 2018**	**Dec 2017**
Gross unlikely to pay/gross loans to customers	3.6	3.7
Net unlikely to pay/net loans to customers	2.6	2.9

Past due loans

This item is made up of all cash loans to borrowers (not included in the other categories of impaired loans) whose debts are overdue by more than 90 days according to the criteria established by the Supervisory Authority. Net of value adjustments these loans totalled €1.0m, a decrease (-€1.5m) compared to 31 December 2017. The ratio of past due loans to total net loans and advances is 0.1% compared to 0.2% in 2017.

The reduction in this category of impaired loans is mainly due to transfers to unlikely to pay loans and doubtful loans of €2.4m offset by net transfers from performing loans of €1.0m.

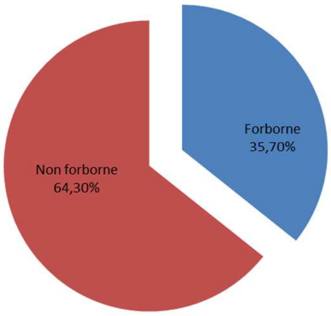
Trend of gross past due loans 2017-2018 (thousands of Euro)

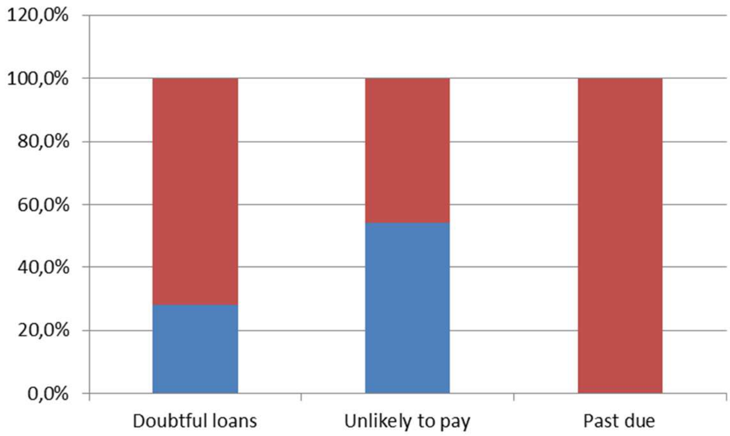


Impaired loans subject to forbearance measures – "Forborne”

Impaired loans subject to forbearance measures amounted to €48.9m, equal to 35.7% of the total; approximately 28% of doubtful loans, 54% of unlikely to pay loans and 0.3% of impaired past due loans benefited from forbearance measures.

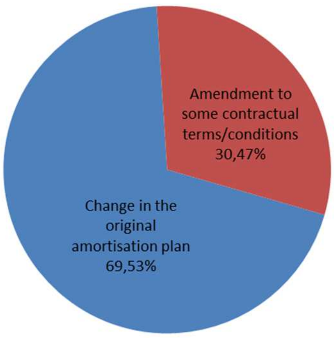
Impaired loans subject to forbearance measures (forborne) by status





Impaired loans subject to forbearance measures (forborne) by type of forbearance measure

Depending on the type of forbearance measure, approximately 70% of impaired loans benefited from a change in the original amortisation plan while the remaining 30% benefited from an amendment to some contractual terms/conditions.



EQUITY INVESTMENT ACTIVITIES

Equity Investment

Equity Investment activities both direct and through participation in closed-end securities investment funds, showed overall amounts of approximately €29.4m, essentially stable (-€0.3m) against December 2017.

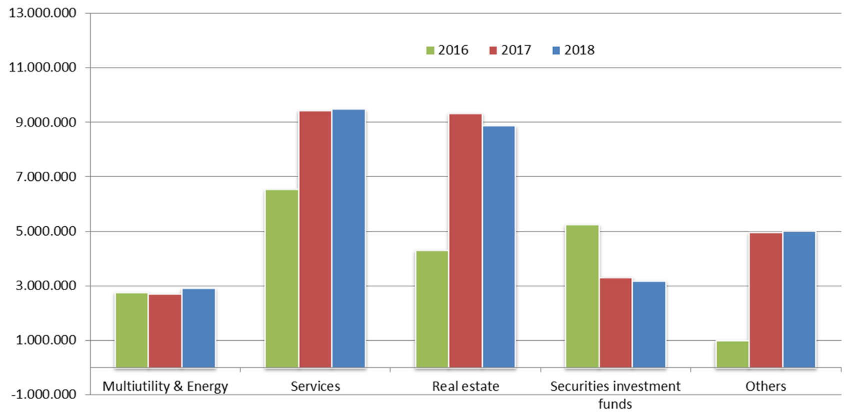
The main events that affected the portfolio during the year were as follows:
- purchase of shares in Fine Food & Pharmaceuticals NTM (formerly Innova Italy 1) of €1m;
- increase in equity investment in Aquafil S.p.A. by €0.5m;
- increase in equity investment in Capital for Progress 2 S.p.A. by €0.5m;
- increase in equity investment in Green Hunter Group S.p.A. by €0.2m;
- the business combination of Space4 S.p.A. with Guala Closures S.p.A.

In addition to the measures described above, during the year the Bank continued to develop the Securities investment funds sector through the entry in Assietta Private Equity IV and HAT Technology & Innovation, with payments of €361 thousand and €278 thousand (against subscriptions of €2.0m and €1.0m, respectively); within the same area, further payments, already subscribed in the past, to the Assietta Private Equity III fund of €350 thousand and the reimbursement of the last instalment of the MC2 Impresa fund, which has expired, of €740 thousand, should be reported.
Finally, the Bank strengthened the equity of the subsidiary Paradisidue Srl by paying €700 thousand into the loss account.

Equity Investments (thousands of Euro)

	Dec 2018				Dec 2017			
	FVTPL	**OCI Option**	**Equity investments**	**Total**	**FVTPL**	**OCI Option**	**Equity investments**	**Total**
Investments in UCITS	11,856	-	-	11,856	12,587	-	-	12,587
Institutionals and debt recovery	-	3,011	176	3,187	-	3,085	26	3,111
Other investments	-	14,375	-	14,375	-	14,015	-	14,015
Total	**11,856**	**17,386**	**176**	**29,418**	**12,587**	**17,100**	**26**	**29,713**
of which: level 1	**-**	**6,601**	**-**	**6,601**	**-**	**6,453**	**-**	**6,453**

Equity investments by economic sector (millions of Euro)



Equity investments (amounts in thousands of Euros)

Paradisidue S.r.l. – Trento

The real estate company, established in 2003 and wholly controlled by the Bank, allows the Bank to participate directly - where appropriate - in judicial auctions of real estate as collateral for disputed financing transactions. The company currently owns three buildings at a value in line with the appraisal value; in particular, one building underwent enhancement works in 2014 and activities for its placement on the real estate market are currently under way. During the year, a building was sold while another was leased. The company closed 2018 with a loss of approximately €531 thousand, covered by a capital account payment by the Parent Company.

Institutionals	
Balance as at 31/12/2017	**25.7**
Purchases	700.0
Sales/Redemptions	-
Gains	-
Losses	-550.0
Balance as at 31/12/2018	**175.7**
Stake held	**100.000**

Note on investments in UCITS

Closed-end real estate investment fund Finint Fenice

The Fund was set up by Finint Investments SGR of the Finanziaria Internazionale group. The Fenice fund consists of contributions from banks and leasing companies through the purchase and valuation of buildings already repurchased by banks, buildings under auction or bankruptcy proceedings, as well as impaired loans backed by a mortgage guarantee.
The Bank granted certain positions by subscribing units for a total amount of approximately €3.7m in 2016 and approximately €5.6m in 2017. The unit value of the shares was estimated as at 31 December 2018 generating a negative change in fair value of €475 thousand.

Balance as at 31/12/2017	**8,821.8**
Purchases	-
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-475.2
Balance as at 31/12/2018	**8,346.6**

Closed-end securities investment fund Assietta Private Equity III

This is a Private Equity fund reserved for institutional investors, which aims at investing with majority stakes in small and medium Italian businesses characterised by a good positioning in the reference sector, operating in well-established sectors, with steady cash generation, a defensible competitive positioning and good economic performance. The fund is managed by Assietta Private Equity SGR. In 2018, the Bank paid the VII and VIII call relating to the 60 shares subscribed whose unit value - valued as at 30 June 2018 by the asset management company - amounted to €42,836.988, generating a negative change in fair value of €319 thousand.

Balance as at 31/12/2017	**2,542.2**
Purchases	+347.4
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-319.4
Balance as at 31/12/2018	**2,570.2**

Closed-end securities investment fund Assietta Private Equity IV

This is a Private Equity fund reserved for institutional investors, which aims at investing with majority stakes in small and medium Italian businesses characterised by a good positioning in the reference sector, operating in well-established sectors, with steady cash generation, a defensible competitive positioning and good economic performance
The fund is managed by Assietta Private Equity SGR. In 2018, the Bank paid the I call relating to the 40 shares subscribed whose unit value - valued as at 30 September 2018 by the asset management company - amounted to €8,057.187, generating a negative change in fair value of €38 thousand.

Balance as at 31/12/2017	**-**
Purchases	+360.7
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-38.4
Balance as at 31/12/2018	**322.3**

Closed-end securities investment fund HAT Technology & Innovation

This is a Private Equity-Debt fund reserved for institutional investors, which aims at investing through direct entries into the capital, direct entries into co-investment with other specialised funds, with different instruments, such as subordinated loans, equity loans, minibonds, mezzanine finance in small and medium-sized competitive companies, with high entrepreneurial capacity, with a market share difficult to attack by the competition; companies operating in segments with high potential for sustainable growth and adequate internationalisation strategy.
It is managed by Hat Orizzonte SGR, one of the main independent managers in Italy, which holds a significant stake in GPI SpA through another fund.
Moreover, HAT Orizzonte SGR intends to make an active contribution to the management of its subsidiaries and develop a network among subsidiaries, investors and, in general, the subjects with which it interacts.
During 2018, the Bank paid the I call relating to the 100 shares subscribed for which the SGR will express the NAV in 2019, when the activity began.

Balance as at 31/12/2017	**-**
Purchases	+277.7
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-
Balance as at 31/12/2018	**277.7**

Closed-end securities investment fund MC^2– Impresa

This is a Private Equity fund established under an initiative by Mediocredito that concentrates on minority shareholdings in medium sized enterprises. In 2012, the Bank terminated its role as advisor for the fund. The role was handed over in 2014 to Assietta Private Equity SGR. The Fund was liquidated in 2018 with a loss of approximately €15 thousand.

Balance as at 31/12/2017	**758.9**
Purchases	-
Sales/Redemptions	-743.4
Gains/Losses on disposal	-15.5
Fair value changes	-
Balance as at 31/12/2018	**-**

	Closed-end real estate investment fund Clesio	Fondo immobiliare Leopardi - Milan
Balance as at 31/12/2017	**375.0**	**89.2**
Purchases	-	-
Sales/Redemptions	-	-
Gains/Losses on disposal	-	-
Fair value changes	-125.0	-
Balance as at 31/12/2018	**250.0**	**89.2**
Stake held		

Notes on other investments in equity securities under the OCI Option

Dedagroup Stealth S.p.A. - Milan

This is a spin-off of a business unit of a company of the Dedagroup SpA group, which operates in the fashion sector through the production and maintenance of a software (Stealth) for the management of production, distribution, logistics, analysis and control, already used by the most famous fashion brands.
After the subscription of €2.5m, paid in 2016, the Bank subscribed additional shares of €500 thousand during 2017. The valuation as at 31 December 2018 does not express the fair value changes with respect to 2017.

Balance as at 31/12/2017	**3,001.5**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2018	**3,001.5**
Stake held	**10.000%**

Enercoop S.r.l. – Trento (TN)

This company is a subsidiary of Fincoop S.p.A. (co-operative financial corporation in Trentino) and was set up in 2009 to purchase and manage a minority shareholding in Dolomiti Energia Holding S.p.A. Dolomiti Energia is currently one of the most important Italian multi-utility companies in relation to its size characterised by a stable business. Enercoop holds a 1.8% stake in Dolomiti Energia Holding S.p.A. for around €11m. Mediocredito purchased a 15% of Enercoop S.r.l. for €1.6m. The valuation as at 31 December 2018 does not express the fair value changes with respect to 2017.

Balance as at 31/12/2017	**1,917.2**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2018	**1,917.2**
Stake held	**15.000%**

Capital for Progress 2 S.p.A. -

It is a SPAC (Special Purpose Acquisition Company), activated by well-known Italian professionals and managers, with the aim of listing on the Milan Stock Exchange - AIM segment through the merger of the Target company identified. The operation follows a previous successful launch - GPI Spa. The bank subscribed to a value of approximately €1m by assigning 2 warrants for every 10 shares. A further 3 warrants for every 10 shares are due in the event that it joins and completes the Business Combination. During the year, the Bank increased its equity investment by a total of €496 thousand. At the Shareholders' Meeting, during which the Bank joined the merger project, the quorum required for the completion of the Business Combination was not reached. Therefore, in the absence of new events, on 4 August 2019 (24 months from the date of incorporation), SPAC will be go into liquidation.
The year-end listing resulted in a negative change in fair value of €76 thousand to be recorded.

Balance as at 31/12/2017	**937.9**
Purchases	+495.6
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-76.1
Balance as at 31/12/2018	**1,357.4**
Stake held	**2,180%**

S.W.S. Group S.p.A. - Trento

Through the subsidiary SWS Engineering S.p.A., the company operates in the area of engineering and design. Through the subsidiary Enginsoft S.p.A., it operates in automation and control engineering, specialising in consultancy, research and development of advanced applications of simulations with mathematical models.
The entry of Mediocredito in the company was finalised in 2011 in order to continue the process of exploitation and development of the company launched by the closed-end fund MC^2 Impresa.
The valuation as at 31 December 2018 does not express the fair value changes with respect to 2017.

Balance as at 31/12/2017	**1,201.0**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2018	**1,201.0**
Stake held	**14.966%**

Guala Closures S.p.A. (Spac Space 4 S.p.A.) – Alessandria (AL)

In August 2018, the company was admitted to listing in the STAR segment of the Italian Stock Exchange following its incorporation by Business Combination into the SPAC (Special Purpose Acquisition Company) Space 4 SpA. The operation of the promoters, well-known Italian professionals and managers, follows other similar successful previous launches - such as Fila Spa, Avio Spa, Aquafil Spa - and in this case it concerns an Italian company leader in the production of aluminium and non-refillable caps. The Bank subscribed a value of €2m, equal to 200,000 shares to which 40,000 warrants were assigned; the same number of warrants was assigned to the Bank following its participation in the Business Combination. The year-end listing shows a negative change in fair value of €848 thousand.

Balance as at 31/12/2017	**-**
Purchases	**1,974.9**
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-847.9
Balance as at 31/12/2018	**1,127.0**
Stake held	**0.298%**

Aquafil S.p.A. – Arco (TN)

The investment in Aquafil Spa derives from the listing and Business Combination process of the SPAC Space 3 vehicle in the STAR segment of the Italian Stock Exchange, activated by Space Holding srl during 2017. The company is one of the main international players in the production and marketing of synthetic fibres used in the textile flooring sectors for the contract and residential markets, as well as the automotive, fashion and sports markets. It is also a pioneer in the regeneration of nylon waste with the Econyl system and the prospects for development and growth are based above all on this type of green product. In the medium term, the bank is expected to achieve good profitability, considering its business sector, its management capacity and the presence of warrants accompanying the shares purchased. During the year, the Bank increased its equity investment by €475 thousand. The year-end listing resulted in a negative change in fair value of €427 thousand to be recorded.

Balance as at 31/12/2017	**1,023.3**
Purchases	+475.3
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-427.2
Balance as at 31/12/2018	**1,071.4**
Stake held	**0.237%**

Iniziative Bresciane S.p.A.

The company operates in the renewable energy sector, mainly hydroelectric, with plant located in Lombardy and is listed on the Milan Stock Exchange – AIM segment. The shareholders include Istituto Atesino di Sviluppo Spa and in 2017 the bank subscribed to a stake of approximately €1m. The company is characterised by excellent profitability margins and constant growth, also considering the recent projects in the start-up phase: in the medium term, the bank's profitability is expected to be good, given its business sector and management capacity. The year-end listing resulted in a negative change in fair value of €55 thousand to be recorded.

Balance as at 31/12/2017	**1,124.8**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-55.2
Balance as at 31/12/2018	**1,069.5**
Stake held	**1.452%**

GPI S.p.A. - Trento

The GPI group, which is headed by the Trentino entrepreneur Fausto Manzana, is one of the leading operators in the management of IT systems for healthcare, ranging from administrative software to maintenance up to the management of single booking centres. It is constantly growing and, in order to nourish the plan for future expansion, it entered the Italian Stock Exchange (AIM segment) through a SPAC (Special Purpose Acquisition Company) vehicle, in which the Bank participated with an investment of €1m, paid during 2016. In 2017, warrants were converted for a capital amount of €285 thousand. For the Bank, joining GPI represents, in addition to supporting an important local reality, an investment opportunity with good profitability prospects in the medium term. In 2018, there was a negative change in fair value of €325 thousand.

Balance as at 31/12/2017	**1,373.7**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-325.4
Balance as at 31/12/2018	**1,048.3**
Stake held	**0.817%**

Fine Foods & Pharmaceuticals NTM SpA – Zingonia (BG)

The equity investment in the company followed the listing and business combination process of the SPAC Innova Italy 1 in the AIM sector of the Italian Stock Exchange, activated during 2018. The company produces and develops on behalf of third parties generic drugs, supplements and medical devices in the form of granules, powders and pills and operates in an innovative way in the substitute meals sector. In the medium term, the bank is expected to achieve good profitability, considering its business sector, its management capacity and the presence of warrants accompanying the shares purchased. During the financial year, the Bank purchased the equity investment on the market for a total of €1m. The year-end listing resulted in a negative change in fair value of €85 thousand to be recorded.

Balance as at 31/12/2017	**-**
Purchases	+1,006.0
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-85.0
Balance as at 31/12/2018	**921.0**
Stake held	**0.446%**

Green Hunter Group S.p.A. – Milan

The company operates in the renewable energy sector. The entry of Mediocredito into the corporate structure with an investment of €1m alongside the financing of a project in 2010 coincides with the construction of a group of photovoltaic plants of approximately 20 MWp.
Following the approval of "Decreto spalma incentivi" (Incentive spreading decree) and the different reference scenario, an impairment loss was recorded for €437 thousand in 2014, based on an appraisal prepared by an independent advisor.
During the year, the Bank increased its equity investment of €200 thousand and there were no changes in fair value compared to the previous book value.

Balance as at 31/12/2017	**786.7**
Purchases	200.0
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2018	986.7
Stake held	**5.346%**

Hotel Lido Palace S.p.A. – Riva del Garda (TN)

The company was established to build a luxury hotel on the well-known tourist destination overlooking Lake Garda encouraging the involvement - alongside the public entity - of private shareholders with proven experience in this sector and adequate financial partners. Mediocredito supported this initiative acting as managing bank in the context of a financial operation and purchased a 3.25% equity investment to the amount of €354 thousand, which in 2010 grew to 4.84% following a capital increase. The hotel is developing business volumes and operating profit margins. The fair value as at 31 December 2018 is in line with the previous value.

Balance as at 31/12/2017	**674.0**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2018	**674.0**
Stake held	**4.840%**

Notes on investments in institutional equity securities under the OCI Option

Istituto Atesino di Sviluppo S.p.A. – Trento (TN)

It is a finance company set up in 1929, which is owned by clerical bodies, operating mainly within the Province of Trento: it invests, mainly by acquiring minority shareholdings, in companies with interesting development potential, with the aim of creating a medium-long term relationship with the entrepreneur and achieving satisfactory results for the shareholders. The Bank's entry into the company, managed by leading economic representatives of the provincial territory, took place in 2016 with the purchase of a minority stake of 0.5% for a value of approximately €1m. The current fair value is unchanged from the previous year.

Balance as at 31/12/2017	**979.7**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2018	**979.7**
Stake held	**0.502%**

La Finanziaria Trentina S.p.A. – Trento (TN)

It is an industrial holding established in 2004 by a group of entrepreneurs from Trentino bringing together subjects operating in various sectors in order to converge major investments in a single independent entity. In addition to the main corporate mission, private equity operations have been added to support entrepreneurs who have started processes of growth or generational change. The company's operations are carried out mainly in the energy, industry, infrastructure, real estate and venture capital sectors. The Bank's entry into the corporate structure, made up of leading entrepreneurs and economic exponents of the provincial territory, took place in 2016 and at the end of the reporting period there were no changes in fair value compared to the previous year.

Balance as at 31/12/2017	**804.9**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2018	**804.9**
Stake held	**1.191%**

	Sviluppo Aree Sciistiche Srl	Assietta Private Equity SGR S.p.A. – Milan	Cassa Centrale Banca S.p.a. - Trento	Funivie Madonna di Campiglio S.p.A. – Pinzolo (TN)
Balance as at 31/12/2017	**1,000.0**	**115.5**	**50.2**	**25.4**
Purchases	-	-	-	-
Sales/Redemptions	-	-	-	-
Gains/Losses to reserve on disposal	-	-	-	-
Fair value changes	-	-	-	-
Balance as at 31/12/2018	**1,000.0**	**115.5**	**50.2**	**25.4**
Stake held	**3.030%**	**5.000%**	**0.000%**	**0.033%**

	Funivie Folgarida Marilleva S.p.A. – Pinzolo (TN)	Restart SIIQ SpA (ex Aedes SIIQ Spa) – Milan	AEDES SIIQ SpA - Milan	Federazione Trentina delle Cooperative Scarl - Trento
Balance as at 31/12/2017	**23.3**	**18.9**	**-**	**5.1**
Purchases	-	-	+23.8	-
Sales/Redemptions	-	-23.8	-	-
Gains/Losses to reserve on disposal	-	+6.9	-	-
Fair value changes	-	-1.4	-17.9	-
Balance as at 31/12/2018	**23.3**	**0.7**	**5.9**	**5.1**
Stake held	**0.027%**	**0.016%**	**0.016%**	

	Formazione-Lavoro Società consortile per azioni - Trento	Trentino Volley S.r.l. Trento	Koelliker S.p.A. Milan	Lineapiù S.p.A. Prato
Balance as at 31/12/2017	**0.6**	**-**	**-**	**-**
Purchases	-	-	-	-
Sales/Redemptions	-	-	-	-
Gains/Losses to reserve on disposal	-	-	-	-
Fair value changes	-	-	-	-
Balance as at 31/12/2018	**0.6**	**-**	**-**	**-**
Stake held	**0.041%**	**5.350%**	**0.583%**	**1.668%**

	Trevefin S.p.A. Tarzo
Balance as at 31/12/2017	**61.7**
Purchases	-
Sales/Redemptions	-57.4
Gains/Losses to reserve on disposal	-4.3
Fair value changes	-
Balance as at 31/12/2018	**-**
Stake held	**-**

The equity investments in Funivie Madonna di Campiglio S.p.A., Funivie Folgarida Marilleva S.p.A., Koelliker S.p.A., Lineapiù S.p.A., Restart SIIQ S.p.A, Aedes SIIQ S.p.A. and Fondo Immobiliare Leopardi (linked to Aedes SIIQ S.p.A.) derive from the restructuring of impaired loans. The equity investment in Sviluppo Aree Sciistiche Srl derives from the participation in the competitive procedures called for the bankruptcy of Aeroterminal Venezia Spa for the purchase, together with other local financial shareholders and Trentino Sviluppo, of the stake of Funivie Folgarida Marilleva contributing, thanks to the progressive aggregation with Funivie Madonna di Campiglio spa, to the establishment of the largest and most profitable ski resort in the Alps located in the Autonomous Province of Trento.

SECURITIES PORTFOLIO

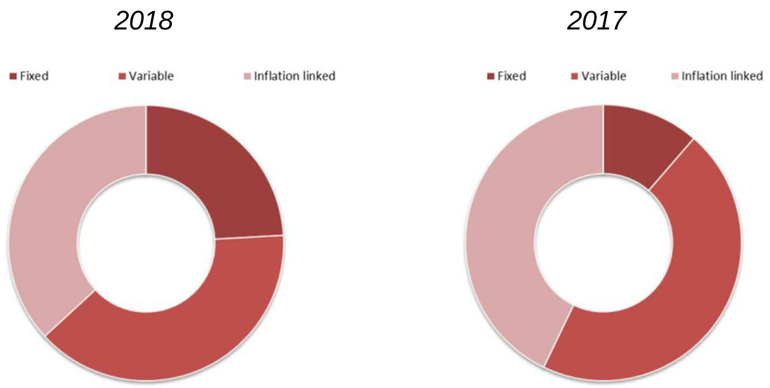
The portfolio of debt securities held as part of treasury activities is made up as follows:

Amounts of portfolio of debt securities (thousands of Euro)

Issuer	2018			2017		
	N.V.	Amortised cost	Fair Value	N.V.	Amortised cost	Fair Value
Held to Collect Business model	**185,000**	**188,499**	**178,306**	**-**		**-**
Governments	185,000	188,499	178,306	-		-
Banks	-	-	-	-		-
Held to Collect & Sell Business model	**86,970**	**89,920**	**87,615**	**209,970**	**213,932**	**214,084**
Governments	40,000	41,732	39,673	160,000	162,177	161,668
Banks	46,970	48,188	47,942	49,970	51,755	52,415
Total	**271,970**	**278,419**	**265,921**	**209,970**	**213,932**	**214,084**

The bonds issued by banks have an average life of 1.3 years while government securities (Italian State bonds) have an average life of 5.0 years. 37% of the portfolio is represented by floating rate securities, 40% by inflation-linked securities and 23% fixed-rate securities.

Allocation of securities portfolio by interest rate type



HEDGING TRANSACTIONS AND DERIVATIVES

Cap options

The Bank offers its customers cap options to hedge loans sold to them. Concurrently with the sale of individual contracts, the Bank has been purchasing symmetrical cap options to cover the risks of the operations.
No new contracts were signed during the year, given the special context related to the level and inclination of the interest-rate curve by maturity, which makes it less attractive for customers to adopt tools to manage interest-rate risk.

The table below compares overall nominal amounts as at 31 December 2018 with 2017.

Financial derivatives – cap options (in thousands of Euros)

	NEW CONTRACTS		OVERALL NOMINAL AMOUNTS	
	2018	2017	Dec 18	Dec 17
- sales (customers)	-	*4,440*	*29,745*	*32,263*
- purchases (banks)	-	*4,440*	*29,745*	*32,263*
TOTAL	**-**	**8,880**	**59,489**	**64,525**

Warrants

As part of the acquisition of certain equity investments, the Bank was assigned the following warrants, on a free basis, listed on the Italian Stock Exchange and recognised at fair value (market value).

Issuer	Dec 2018		Dec 2017	
	Quantity (no.)	Fair value (€/thousand)	Quantity (no.)	Fair value (€/thousand)
Aquafil S.p.A	20,300	20.3	20,300	53.1
Capital for Progress 2 S.p.A.	19,200	3.1	19,200	26.3
Guala Closures S.p.A.	80,000	17.3	40,000	49.0
Fine Food & Pharmaceuticals NTM S.p.A.	30,000	22.4	-	-
Total	**149,500**	**63.1**	**79,500**	**128.4**

BORROWING OPERATIONS AND TREASURY MANAGEMENT

Borrowing flows for 2018 were essentially represented by deposits with maturities of between 18 months and 2 years for €158m and with a shorter maturity of €60m placed on Cooperative Credit Banks and by the partial rescheduling of a series of bonds with original maturity in January 2018; new corporate deposits of €15m and withdrawals from Cassa Depositi e Prestiti of €11m were also made.

Flows of funds (thousands of Euro)

TYPE	FLOWS				
	2018	**%**	**2017**	**%**	**Chg. %**
BONDS	**170,300**	**41.2**	**-**	**-**	
FUNDS FROM BANKS	**217,500**	**52.6**	**359,320**	**91.1**	**-39.5**
- EIB funds	*-*	*-*	*-*	*-*	*-*
- ECB funds	*-*	*-*	*49,070*	*12.4*	*-100.0*
- other medium/long term bonds	*157,500*	*38.1*	*294,250*	*74.6*	*-46.5*
- current accounts and short-term deposits	*60,000*	*14.5*	*16,000*	*4.1*	*+275.0*
FUNDS FROM CUSTOMERS	**25,716**	**6.2**	**34,900**	**8.9**	**-26.3**
- CDP funds	*10,716*	*2.6*	*13,337*	*3.4*	*-19.7*
- funds from third parties	*-*	*0.0*	*1,063*	*0.3*	
- corporate deposits	*15,000*	*3.6*	*20,500*	*5.2*	*-26.8*
TOTAL	**413,516**	**100.0**	**394,220**	**100.0**	**+4.9**

In terms of overall amounts, the bond issues decreased by 34% as net result of the rescheduling described above and the repayments of matured bonds. Compared with €218m of the new fund described above, borrowings from banks increased by €27m. Funds from third parties decreased by €7m, while corporate deposits, mainly short-term, increased by about €28m.
The overall amount of funding decreased by 4.1% to €1.278m.

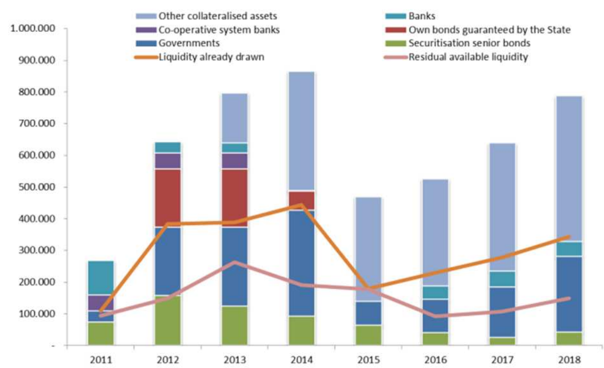
Overall amounts of borrowing operations (in thousands of Euros)

TYPE	OVERALL AMOUNTS				
	Dec 18	**%**	**Dec 17**	**%**	**Chg. %**
BONDS	**192,168**	**15.0**	**289,979**	**21.8**	**-33.7**
FUNDS FROM BANKS	**901,097**	**70.5**	**873,637**	**65.5**	**+3.1**
- EIB funds	*66,462*	*5.2*	*82,568*	*6.2*	*-19.5*
- ECB funds	*276,676*	*21.6*	*277,807*	*20.8*	*-0.4*
- other medium/long term bonds	*458,251*	*35.8*	*491,312*	*36.9*	*-6.7*
- current accounts and short-term deposits	*99,708*	*7.8*	*21,950*	*1.6*	*+354.3*
FUNDS FROM CUSTOMERS	**184,996**	**14.5**	**169,597**	**12.7**	**+9.1**
- CDP funds	*42,329*	*3.3*	*47,653*	*3.6*	-11.2
- funds from third parties	*39,321*	*3.1*	*46,803*	*3.5*	-16.0
- corporate deposits	*103,346*	*8.1*	*75,141*	*5.6*	+37.5
TOTAL	**1,278,261**	**100.0**	**1,333,213**	**100.0**	**-4.1**

With regard to the reserves of liquid assets, in the portfolio for a greater amount than at the end of 2017 (+€127m), the new liquid assets available from the ECB and other counterparties as at 31 December 2018 amounted to approximately €149m, thanks also to the contribution by collateralised banking assets (approximately €222m).

Breakdown of eligible securities (thousands of Euro)

Issuer	Eligible	Potential liquidity
Governments	225,000	199,096
Banks	46,570	38,749
Securitisation senior bonds	33,613	30,158
Total bonds	**305,183**	**268,003**
Other collateralised assets	459,650	222,329
Total bonds and other assets	**764,833**	**490,332**
Liquidity already drawn		341,632
Residual available liquidity		**148,700**



PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible assets are functional investments that amount to approximately €8.3m, mainly buildings where the Trento headquarters and the Treviso and Bologna branches are located.
These assets did not increase due to new investments, while they were affected by the reduction resulting from the amortisation/depreciation process.

	Dec 2018	%	Dec 2017	%	% Chg.
Functional assets	**8,151**	**98.6**	**8,550**	**98.7**	**-4.7**
- Land and buildings	7,278	88.0	7,509	86.6	-3.1
- Furnishing	266	3.2	371	4.3	-28.3
- IT equipment	79	1.0	73	0.8	+8.2
- Other equipment	442	5.3	476	5.5	-7.1
- Vehicles	38	0.5	57	0.7	-33.3
- Software	48	0.6	64	0.7	-25.0
Investment land	**116**	**1.4**	**116**	**1.3**	**-**
Total	**8,267**	**100.0**	**8,666**	**100.0**	**-4.6**

During 2018, the Bank continued to implement some technical and organisational measures in connection with workplace safety regulations with the purpose of minimising the risk of accidents and mitigating environmental risks. In particular, note that the bank undertook an in-depth assessment of the psycho-environmental context to study the actual and potential sources of work-related stress, the results of which will be analysed in 2019. For further details on this, see the chapter on the System of internal controls and regulations compliance; no significant phenomenon or information concerning environmental risks was recorded in any case.

In 2018, the Bank tested the effectiveness of its Disaster Recovery Plan with the outsourcer of the IT System managed by SIBT S.r.l. The result of the test was positive, which means that should the need arise, it would be possible to maintain a sufficient level of business continuity for the Bank, characterised by low average levels of operational risk.

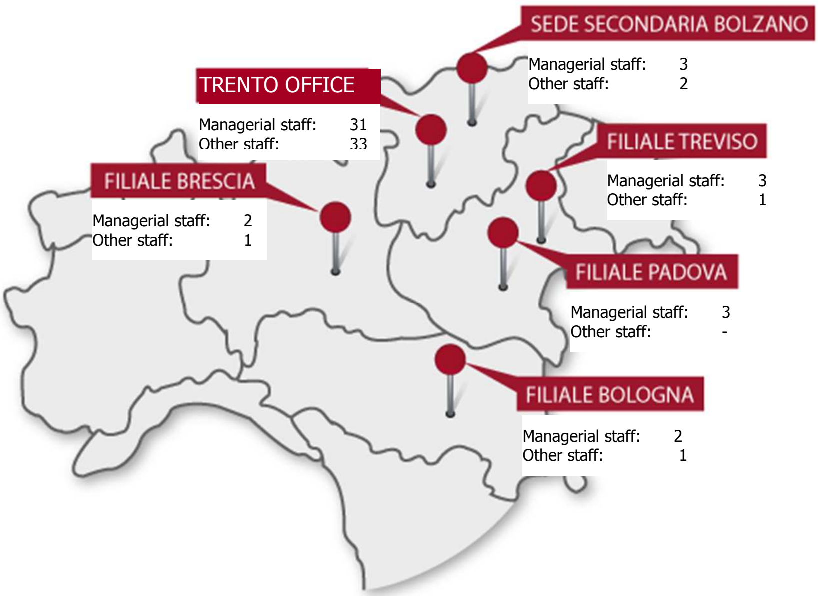
OPERATIONAL STRUCTURE

As at 31 December 2018, the number of employees decreased by 2 units compared to 31 December 2017. There were 82 employees, 3 of whom on temporary contracts: 64 contracts were full-time and 18 part-time.

Position and movement of employees

	31.12.2017 situation	Resignation	Recruitments	Change of positions	31.12.2018 situation
Managerial staff (Executives)	5	-	-	-	5
Managerial staff	39	-1	+1	-	39
Professional areas	40	-4	+2	-1+1	38
Total	**84**	**-5**	**+3**	**-**	**82**

Breakdown by area[16]



Breakdown by age

	Men	Women	Total
≤ 30 years	6	0	6
> 30 years ≤ 45 years	9	8	17
> 45 years ≤ 55 years	26	18	44
>55 years	8	7	15
Total	**49**	**33**	**82**

Breakdown by length of service

	Men	Women	Total
≤ 5 years	8	2	10
> 5 years ≤ 10 years	5	4	9
> 10 years ≤ 20 years	13	8	21
> 20 years	23	19	42
Total	**49**	**33**	**82**

A total of 2,010 hours were dedicated to staff training; the following table shows a breakdown of "classroom days":

Area / Services	Planned behavioural training		Planned technical training		Unplanned technical training	
	Days	No. of attendees	Days	No. of attendees	Days	No. of attendees
Control functions	-	-	6.5	5	3.0	2
Management and Staff	-	-	59.3	20	11.0	12
Market Area	18.0	5	81.7	18	5.5	12
Credit area	-	-	19.4	12	1.8	1
Legal area	-	-	10.7	10	7.2	3
Admin. and Finance Area	-	-	35.4	20	13	6
Total	**18.0**	**5**	**213.0**	**85**	**41.5**	**36**

The Administrative Board carried out their activities through 17 meetings of the Board of Directors, 6 meetings of the Board of Statutory Auditors and 1 Ordinary Shareholders' Meeting.

16 The item "Other staff" includes employees belonging to professional areas.

PRINCIPAL TRENDS IN THE FINANCIAL STATEMENTS AND STATE OF AFFAIRS

RECLASSIFIED STATEMENT OF FINANCIAL POSITION (ABRIDGED)

(in thousands Euro)

Assets	31.12.2018	31.12.2017[17]	Chg.	Chg. %
CASH AND CASH EQUIVALENTS	4	2	+3	+139.7
DERIVATIVES	274	452	-179	-39.5
EQUITY SECURITIES	29,242	24,026	-731	-3.0
DEBT SECURITIES	275,848	214,084	+61,764	+28.9
LOANS AND ADVANCES TO BANKS	40,960	124,326	-83,367	-67.1
LOANS AND ADVANCES TO CUSTOMERS	1,084,275	1,115,265	-30,990	-2.8
EQUITY INVESTMENTS	176	26	+150	+583.7
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	8,267	8,666	-400	-4.6
TAX ASSETS	18,221	14,551	+3,670	+25.2
OTHER ASSETS	5,334	12,303	-6,968	-56.6
TOTAL ASSETS	**1,462,601**	**1,530,801**	**-68,200**	**-4.5**

Equity and liabilities	31.12.2018	31.12.2017	Chg.	Chg. %
DUE TO BANKS	901,097	873,637	+27,460	+3.1
DUE TO CUSTOMERS	184,996	169,597	+15,399	+9.1
DEBT SECURITIES IN ISSUE	192,168	289,979	-97,810	-33.7
FINANCIAL LIABILITIES HELD FOR TRADING	202	312	-110	-35.3
TAX LIABILITIES	5,425	6,183	-758	-12.3
OTHER LIABILITIES	7,093	6,513	+579	+8.9
VALUATION RESERVES	187	4,425	-4,238	-95.8
CAPITAL AND RESERVES	168,260	176,987	-8,726	-4.9
NET INCOME FOR THE PERIOD	3,172	3,168	+4	+0.1
TOTAL EQUITY AND LIABILITIES	**1,462,601**	**1,530,801**	**-68,200**	**-4.5**

Each amount reported is rounded: any possible discrepancies are due to rounding.

17 As indicated in the chapter "Transition to IFRS 9", the Bank used the exemption from the obligation to restate the comparative values envisaged in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 “First-Time Adoption of International Financial Reporting Standards”, based on which the mandatory restatement on a like-for-like basis of the comparative data in the financial statements of first-time adoption of the new standard is not envisaged. As a result, the statement of financial position and income statement balances for the previous year were not restated using the measurement criteria introduced by the new IFRS 9, but only reclassified under the new items envisaged by the Bank of Italy's Circular 262/2005.

RECLASSIFIED ABRIDGED INCOME STATEMENT[18]

(in thousands Euro)

Items	2018	2017[19]	Chg.	Chg. %
NET INTEREST INCOME	**19,316**	**19,035**	**+281**	**+1.5**
Net fee and commission income	1,470	1,514	-44	-2.9
Dividends	584	244	+340	+139.6
Revenues from sale	1,261	3,599	-2,338	-65.0
Net fair value results	(1,042)	139	-1,181	-848.2
NET INTEREST AND OTHER BANKING INCOME	**21,589**	**24,531**	**-2,941**	**-12.0**
OPERATING COSTS	(10,695)	(10,352)	-343	+3.3
Gross income from discontinued operations	-	1,856	-1,856	-100.0
GROSS OPERATING INCOME	**10,895**	**16,035**	**-5,140**	**-32.1**
NET IMPAIRMENT ADJUSTMENTS	(6,220)	(11,939)	+5,719	-47.9
PROFIT (LOSS) BEFORE INCOME TAXES	**4,674**	**4,095**	**+579**	**+14.1**
INCOME TAXES	(1,503)	(928)	-575	+62.0
NET INCOME FOR THE PERIOD	**3,172**	**3,168**	**+4**	**+0.1**

Each amount reported is rounded: any possible discrepancies are due to rounding.

COMPOSITION OF INTERIM RESULTS WITH RESPECT TO NET INTEREST AND OTHER BANKING INCOME

(data in %)	2018	2017
Net interest income / Net interest and other banking income	89.5	77.6
Gross operating income / Net interest and other banking income	50.5	65.4
Profit (loss) before income taxes / Net interest and other banking income	21.7	16.7
Net income for the period / Net interest and other banking income	14.7	12.9

18 The half-yearly results of the reclassified income statement are presented here to highlight the gross operating income by separating the components related to the business from those arising from impairment processes. This result was obtained by reclassifying time reversal write-backs on loans from "interest income" to "net impairment adjustments" of €1.967m in 2018 and €2.885m in 2017, profits/losses from the sale of loans from net interest and other banking income to "net impairment adjustments" of €40 thousand (profits) in 2018 and of €30 thousand (profits) in 2017 and the provisions for legal risks relating to disputes on loans from "operating costs" to "net impairment adjustments" of €838 thousand in 2018 and €802 thousand in 2017. Capital gains from the sale of assets of €8 thousand in 2018 and €6 thousand in 2017 were also reclassified under operating costs and net losses on equity investments of €550 thousand (€99 thousand in 2017) under net impairment adjustments.

19 As indicated in the chapter "Transition to IFRS 9", the Bank used the exemption from the obligation to restate the comparative values envisaged in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", based on which the mandatory restatement on a like-for-like basis of the comparative data in the financial statements of first-time adoption of the new standard is not envisaged. As a result, the statement of financial position and income statement balances for the previous year were not restated using the measurement criteria introduced by the new IFRS 9, but only reclassified under the new items envisaged by the Bank of Italy's Circular 262/2005.

INCOME STATEMENT DYNAMICS

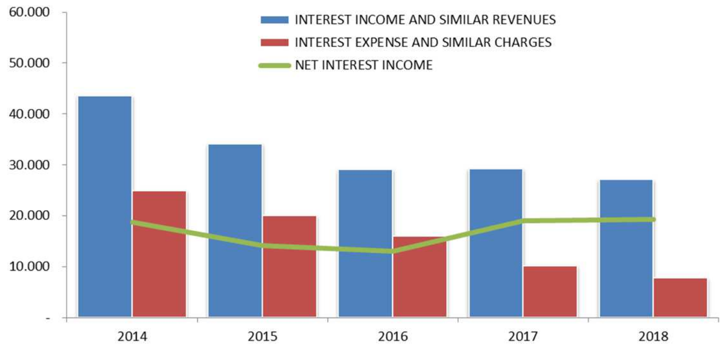
Net interest income

Breakdown of the net interest income (thousands of Euros)

Items	2018	2017	Chg.	Chg. %
INTEREST INCOME AND SIMILAR REVENUES	27,134	29,233	-2,099	-7.2
INTEREST EXPENSE AND SIMILAR CHARGES	(7,818)	(10,198)	+2,380	-23.3
NET INTEREST INCOME	**19,316**	**19,035**	**+281**	**+1.5**

As a whole, the money management spread (net interest income net of interest on arrears and doubtful loans) remained at the same level as in 2017 (1.33% vs 1.34%), resulting from a fall in the yield on interest-bearing assets (1.83% vs 2.01%; -0.17%) offset by a similar reduction in the cost of borrowing (0.50% vs 0.67%; -0.17%); the trend in margins was also related to the growth in the average volume of the securities portfolio and the decrease in impaired loans.

Trend in net interest income (thousands of Euro)



Net revenues from services and net interest and other banking income

Net commissions, amounting to €1.470m, fell by €44 thousand (-2.9%) compared to 2017, following the reduction in commissions for early repayments (-€187 thousand) and the increase in commission expense on guarantees (+€70 thousand), only partially offset by the increase in corporate commissions (+€205 thousand) which are also characterised by a higher industrial content.

Net revenue from services (thousands of Euro)

Items	2018	2017	Chg.	Chg. %
FEE AND COMMISSION INCOME	**1,918**	**1,850**	**+69**	**+3.7**
- survey and investigation	891	833	+58	+7.0
- corporate finance	723	518	+205	+39.6
- expense refunds in relation to administrative deeds	100	87	+13	+14.5
- prepayment penalties	143	330	-187	-56.6
- others	61	81	-21	-25.4
FEE AND COMMISSION EXPENSE	**(448)**	**(336)**	**-113**	**+33.6**
- intermediation of applications for credit lines	(109)	(68)	+41	+60.0
- guarantees on lending/borrowing	(312)	(246)	+66	+27.0
- others	(27)	(22)	+5	+24.9
NET COMMISSIONS	**1,470**	**1,514**	**-44**	**-2.9**

In 2018, dividends of €584 thousand (€244 thousand in 2017) were collected whereas securities portfolio management generated capital gains of €1.3m (compared to €3.6m in 2017, which also included capital gains on equity investments of €332 thousand).
Net change in financial assets and liabilities at fair value included capital losses of €68 thousand as a result of changes in fair value of cap options and warrants, as well as capital losses of €973 thousand due to negative changes in fair value of investments in UCITS (of which €250 thousand due to the distribution of income by the APE III fund).
The above-mentioned results, when added to net fees and commissions, bring net interest and other banking income to €21.589m, down by 12% (-€2.9m) with respect to the comparative data of the previous year.

Operating costs

Operating costs came to €10.695m, up by €343 thousand compared to the previous year (€10.352m) as a result of the higher ordinary and extraordinary contributions required by the bank resolution fund for approximately €300 thousand.
In particular, payroll costs increased slightly (+€28 thousand), despite the lack of severance packages that in the previous year amounted to €70 thousand.
Other administrative costs also increased slightly (+€45 thousand) compared to the same period of the previous year: the increase is related to higher costs for information and cadastral services (+€23 thousand), higher IT costs (+€33 thousand) also related to regulatory compliance requirements, higher costs for the vehicle fleet (+€26 thousand) and higher costs for consultancy (+€23 thousand), mainly due to the charges related to the certification of TLTRO-II data, while legal and procedural costs decreased (-€67 thousand).

Operating costs (thousands of Euros)

Items	31.12.2018	31.12.2017	Chg.	Chg. %
ADMINISTRATIVE COSTS:	(9,946)	(9,574)	-372	+3.9
a) payroll:	(6,930)	(6,903)	-27	+0.4
- employees costs	*(6,455)*	*(6,427)*	*-28*	*+0.4*
- directors and auditors costs	*(475)*	*(476)*	*+1*	*-0.2*
b) other administrative costs [20]	(2,270)	(2,224)	-45	+2.0
c) contribution to the banking crisis resolution fund [21]	(746)	(446)	-300	+67.1
NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES	(150)	(54)	-86	+175.3
NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	(557)	(601)	+44	-7.3
OTHER OPERATING CHARGES/INCOME	(42)	(122)	+81	-66.0
OPERATING COSTS	**(10,695)**	**(10,352)**	**-343**	**+3.3**

Net provisions for risks and charges (€150 thousand) relate to the personnel incentive scheme.
Amortisation and depreciation for the period totalled €557 thousand, down by €44 thousand compared to December 2017. Taking into consideration other net expenses of €42 thousand, operating costs recorded a decrease of €343 thousand, bringing the cost to income ratio to 49.5%, compared to 42.2% in 2017; net of the extraordinary components[22], the ratio increased to 48.6% from 41.9% in December 2017.

Efficiency indices

Items	2018	2017	Chg.
Operating costs/Net interest and other banking income (%)	49.5	42.2	+7.3
Payroll/Net interest and other banking income (%)	32.1	28.1	+4.0
Average cost per employee (thousands of Euros)	82.5	80.7	+1.8
Net interest and other banking income/average number of employees (thousands of Euros)	275.8	307.9	-32.1
Positive total/average number of employees (thousands of Euros)	18,681.8	19,078.7	-396.8

Net of the operating costs shown above, the Gross operating income stood at €10.895m, down (-€5.1m, -32.1%) compared to the result in the previous year.

Value adjustments

The analytical valuation (for which the valuation of impaired loans was carried out by discounting the anticipated inflows) produced value adjustments of €11.743m and write-backs of €5.153m, as well as recoveries of €128 thousand from collections on doubtful loans classified as loss-generating in previous periods. The collective valuation process of the portfolio produced total net write-backs of €2.111m.
The collective valuation of HTC securities - minibonds and government securities classified as loans and

20 Recoveries from customers for indirect expenses and taxes incurred by the Bank (+€804 thousand in 2018, +€611 thousand in 2017) were reclassified, as a direct adjustment of the same, from the item "Other operating charges/income" to the item "Administrative costs". The item "Gains/losses on disposal of investments" (+€8.0 thousand in 2018, +€5.8 thousand in 2017) was reclassified to the item "Net adjustments to property, plant and equipment and intangible assets".

21 The amount relating to the contribution to the banking crisis resolution fund was split off from the item "other administrative costs" for a better understanding of their trend.

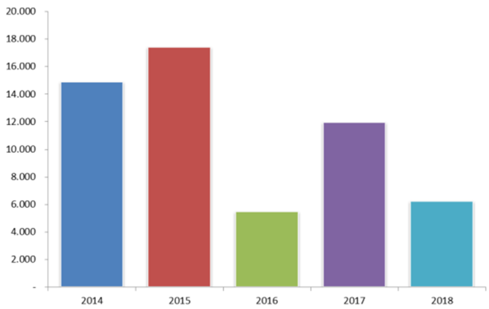
22 The extraordinary contribution to the bank crisis resolution fund (€203 thousand in 2018; absent in 2017) and early retirement incentives (€70 thousand in 2017) are considered extraordinary components, if any.

advances to customers - generated net adjustments of €260 thousand, while the analytical valuation of an unlikely to pay minibond generated adjustments of €272 thousand.
The collective valuation of the guarantees issued and the available margins generated write-backs of €279 thousand.
During the period, losses of €161 thousand were charged directly to the income statement. The sale of doubtful loans generated net gains amounting to €40 thousand.
The collective valuation of HTCS securities - government securities and securities issued by banks - generated net adjustments of €104 thousand, while the valuation of the subsidiary Paradisidue resulted in adjustments of €550 thousand. Moreover, net provisions of €838 thousand were made for legal disputes underway, the result of a provision against a revocatory action and disputes arising from the disposal of loans.
The total net value adjustments on financial assets reached €6.220m, compared to €11.939m in the previous year.
The measurement of the financial statement assets is summarised in the table below:

(thousands of Euro)

Items		31.12.2018	31.12.2017	Chg.	Chg. %
Value adjustments on HTC loans and advances	(see part C tab. 8.1)	(5,043)	(11,293)	+6,250	-55.3
Net gains on the sale of HTC loans and advances	(see part C tab. 6.1)	40	30	+10	+33.2
Provisions for legal disputes on loans and advances	(see part C tab. 11.3)	(838)	(802)	-37	+4.6
Value adjustments on HTCS debt securities	(see part C tab. 8.2)	(104)	-	-104	
Value adjustments on equity investments	(see part C tab. 15.1)	(550)	149	-699	-468.6
Value adjustments on other fin. transactions	(see part C tab. 11.1)	275	(24)	+299	-1,232.5
Total value adjustments		**(6,220)**	**(11,939)**	**+5,719**	**-47.9**

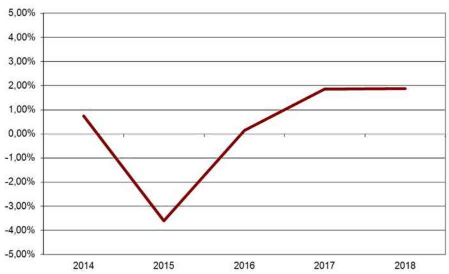
Trend in adjustments to loans and advances (thousands of Euro)



Profit (loss) for the year

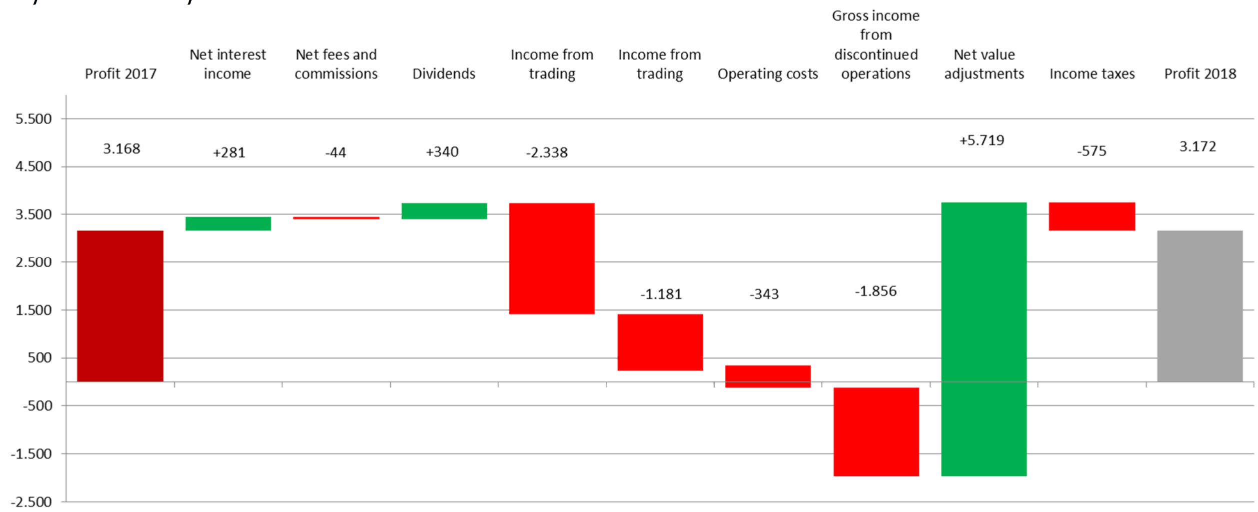
The profit on current operations before taxes was €4.674m, marking an increase by 14% compared to the previous year (+€579 thousand). The net profit for the period was €3.172m, after the calculation of the tax burden of €1.503m[23].

Trend for ROE



23 During the calculation of the 2018 tax burden, it was decided to maintain the recognition of deferred tax assets on the tax loss for the 2015 financial year (residual amount of €347 thousand) in that the tax profit for the 2019-2021 financial years is expected to allow said credit to be recovered. To support the recognition of deferred tax assets on the tax loss, the Bank updated the "Probability Test", hence verifying, with reasonable certainty, the presence of taxable income able to allow their re-absorption.

Comparison of net profit 2017 and 2018



Equity and the state of affairs of the Company

Equity

Reserves increased by €1.435m due to the allocation of the profit for 2017, and decreased by €9.746m due to the introduction of IFRS 9.
Valuation reserves decreased by €3.315m due to the adjustment of the value of financial assets measured at fair value through other comprehensive income and defined benefit plans (actuarial gains/losses) and by €1.338m due to the introduction of IFRS 9.
As shown in the table below, after taking into account the net income for the period, equity amounted to €171,619m, down by €12.961m (of which €11.085m from IFRS 9 FTA).

(in thousands Euro)

	Items	Dec 2018	Dec 2017	Chg.
130.	Valuation reserves	187	4,840	-4,653
160.	Reserves	79,934	88,246	-8,312
170.	Additional paid-in capital	29,841	29,841	-
180.	Share capital	58,485	58,485	-
200.	Income for the period	3,172	3,168	+4
	Total equity	**171,619**	**184,580**	**-12,961**

Own funds and capital adequacy

Own funds as well as the capital adequacy ratios were calculated on the data taken from the financial statements prepared in application of the international accounting standards IAS/IFRS and the supervisory regulations.
It should be noted here that on 12 December 2017, the European Parliament and the Council issued Regulation (EU) 2017/2395 "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds" that updates CRR Regulation 575/2013, introducing the new article 473 bis "Introduction of IFRS 9", which offers banks the possibility of mitigating the impact on own funds deriving from the introduction of IFRS 9 in a transitional period of 5 years (from March 2018 to December 2022) by sterilising the impact in CET1 with the application of decreasing percentages over time. Mediocredito chose not to adopt this approach by calculating the entire effect due to the higher impairment, net of the tax component, in its own funds in 2018.

Common Equity Tier 1 capital – CET1

Common Equity Tier 1 capital consists of the share capital (€58.485m), additional paid-in capital (€29.841m), the reserves (the aggregate of the legal reserve, the extraordinary reserve, the reserves of special revaluation laws and those formed at the time of application/review of IAS/IFRS) for an overall amount of €84.253m[24].

It includes also the valuation reserves related to the equity securities under the OCI Option and the debt securities managed in the HTC&S business model amounting to €3.737m (negative) and reserves from actuarial gains/losses related to defined benefit plans (severance indemnities) amounting to €394 thousand (negative).
It is adjusted by negative elements attributable to intangible assets of €48 thousand and to deferred tax assets that depend on future profitability and do not derive from temporary differences of €347 thousand, from supplementary value adjustments to regulatory capital of €129 thousand and from the impact of the regulations set forth for the transitory period (2014-2017) relating, for €212 thousand, to the deduction of 20% of the amount of positive valuation reserves relating to equity securities and investments in UCITS classified as available for sale and for €248 thousand to the recovery of 20% of the amount of deferred tax assets that depend on future profitability and do not derive from temporary differences deducted from own funds.

2. Additional Tier 1 Capital (AT1)

The capital structure of the Bank does not present elements included in the Additional Tier 1 capital.

3. Tier 2 capital (T2)

The capital structure of the Bank does not present elements included in the Additional Tier 1 capital.

	2018	2017
A1. CET 1 before the application of prudential filters	**168,447**	**181,532**
of which CET1 instruments subject to transitional provisions	-	1,059
B. CET 1 prudential filters (+/-)	-129	-66
C. CET1 gross of the elements to be deducted and of the effects of the transitional regime (A+/- B)	**168,319**	**181,466**
D. Elements to be deducted from CET1	**+395**	**+1,304**
E. Transitional regime – Impact on CET1 (+/-)	**-**	**+36**
F. Total CET 1 (C-D+/-E)	**167,924**	**180,198**
G. AT1 gross of the elements to be deducted and of the effects of the transitional regime	-	-
of which AT1 instruments subject to transitional provisions	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**	**-**
L. Total AT1 (G-H+/-I)	**-**	**-**
M. T2 gross of the elements to be deducted and of the effects of the transitional regime	-	-
of which T2 instruments subject to transitional provisions	-	-
N. Elements to be deducted from T2	**-**	**-**
O. Transitional regime - Impact on T2 (+/-)	**-**	**+106**
P. Total T2 (M-N+/-O)	**-**	**+106**
Q. Total own funds (F+L+P)	**167,924**	**180,304**

The Own Funds are the first safeguard against risks that a bank has to deal with and, looking forward, the level of capitalisation is a crucial lever for developing the typical business of the Bank whilst simultaneously preserving its stability.
The statement included in part B. details the single items that contribute to determining the "risk-weighted assets" for the purposes of calculating the "solvency ratios", applying the standard method, as per the rules laid down by Basel III regulations; in particular:
- CET1 ratio: CET1 data / risk-weighted assets;
- T1 ratio: Tier 1 capital data / risk-weighted assets;
- Own funds ratio: Own funds data / risk-weighted assets.

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24 The calculation of CET1 does not include the profit for the year in that the requirements set forth in Article 26, paragraph 2 of Regulation (EU) 575/2013 as specified by Decision (EU) 2015/656 of 4 February 2015 are not complied with.

With the acknowledgement in Italy of Directive 2013/36/EU (CRD IV) and in compliance with the provisions of the EBA with the *Guidelines on common SREP*, the Bank of Italy – in conclusion of the regular supervisory review process (SREP) – revised the bank's capital ratios, requesting additional capital with respect to the minimum regulatory requirements. In particular, starting from 31 March 2018, the bank is required to constantly meet the following capital requirements:

- CET1 ratio of 6.755%, including capital conservation buffer of 1.875%. This ratio is binding at 4.88% (minimum of 4.50% and 0.38% of additional SREP requirements);
- Tier 1 ratio of 8.385%, including capital conservation buffer of 1.875%. This ratio is binding at 6.51% (minimum of 6.00% and 0.51% of additional SREP requirements);
- Total Capital ratio of 10.565%, including capital conservation buffer of 1.875%. This ratio is binding at 8.69% (minimum of 8.00% and 0.69% of additional SREP requirements).

From 1 January 2019, the minimum requirements will increase by 0.625% as a result of the end of the transitory period for the gradual introduction of the Capital Conservation Buffer measure envisaged by CRD IV: the above minimum ratios will be 7.38% for CET1, 9.01% for T1 and 11.19% for TCR, respectively.

(in thousands Euro)

Category/amounts	Non-weighted amounts		Weighted amounts	
	2018	2017	2018	2017
A. RISK-WEIGHTED ASSETS				
A.1 Credit risk and counterparty risk				
1. Standardised approach	1,504,325	1,584,061	866,987	940,870
2. Internal ratings-based approach				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			69,359	75,270
B.2 Credit valuation adjustment risk				
B.3 Settlement risk				
B.4 Market risk				
1. Standardised approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			3,006	2,671
2. Standard approach				
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total prudential requirements			**72,654**	**77,941**
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			904,556	974,256
C.2 CET1/Risk-weighted assets (CET1 capital ratio)			18.56	18.50
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			18.56	18.50
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			18.56	18.51

Own funds amounted to €167.9m; net of the minimum regulatory requirements, their residual value was as follows:

- €123.8m with respect to the 4.88% threshold set for CET1, reduced to €106.8m to take into account the additional conservation buffer;
- €92.1m with respect to the 8.39% threshold set for total tier 1 capital and
- €72.4m with respect to the 10.57% threshold set for own funds

which are considered adequate to ensure the development of the business activity and future compliance of the minimum equity requirements established by Basel III.

Trend in own funds

	2018	2017
Opening tier 1 capital	**180,198**	**179,511**
Share capital increase (+)	-	-
Share capital reduction (-)	-	-
Non-distributed income (-)	+1,435	+247
Change in Bank's creditworthiness (-)	-	-
Change in comprehensive income:	-4,773	+466
Assets available for sale/assets through other comprehensive income	-4,796	+466
of which IFRS 9 First-time Adoption Effect	*-1,338*	
Defined benefit plans	+23	+0
Other	-	-
Changes in goodwill and other intangible assets	+16	+34
Changes in deferred tax assets that depend on future profitability and do not derive from temporary differences	+893	+318
Changes in the impact of the transitional regime	-36	-350
Losses in the current year		
Unrealised losses measured at fair value	+212	-90
Unrealised gains measured at fair value	-	+115
Deduction of deferred tax assets that depend on future profitability and do not derive from temporary differences	-248	-375
Deferred tax assets that depend on future profitability and derive from temporary differences existing as at 1 January 2014	-	-
Variation in surplus elements to be deducted from additional tier 1 capital with respect to additional tier 1 capital	-	-
Other changes	-9,809	-28
of which IFRS 9 First-time Adoption Reserve	*-9,746*	
Changes in additional tier 1 capital (AT1)	-	-
Losses in the current year	-	-
Variation in surplus elements to be deducted from additional tier 1 capital with respect to additional tier 1 capital	-	-
Closing tier 1 capital	**167,924**	**180,198**

Opening tier 2 capital	**106**	**74**
Share capital increases that cannot be included in tier 1 capital (+)	-	-
Share capital decreases that cannot be included in tier 1 capital (-)	-	-
Changes in the impact of transitional regime:	-106	+32
Filters and deductions provided for by national regulations in accordance with Basel II (known as Prudential filters)	-106	+32
Depreciation changes	-	-
Other changes	-	-
Closing tier 2 capital	**-**	**106**
Own funds	**167,924**	**180,304**

Rating

Following the evaluation activity carried out by the rating agency in May 2018, the rating was confirmed as indicated below:

Moody's Investor Service

Outlook	Stable
Bank Deposits	Baa3 / P-3
Bank Financial Strength	D-
Senior Unsecured – Dom Curr (Issuer Rating)	Ba1

THE SYSTEM OF INTERNAL CONTROLS, COMPLIANCE WITH LAWS AND REGULATIONS AND RISK MANAGEMENT

Given its size and business model, the Bank operates in a moderate risk context that remained substantially stable also during 2018. In spite of this, it attaches great importance to risk management and control to ensure reliable and sustainable value creation in a context of controlled risk, protecting its financial soundness and reputation.

The departments involved in Risk Management and internal controls i.e. Internal Auditing, Compliance and Risk Management, regularly discuss the issues with the General Management and with the Manager responsible for preparing the company´s financial reports directly and through several committee meetings, which have been entrusted with the task of monitoring the different risk profiles and the correct functioning of the control system. These committees include the ALCO Committee, for financial risks, the Credit Risk Management Committee, the Investment Committee for the management and evaluation of venture capital investments as well as the Control Committee that is entrusted with the supervision of the overall system of control and risk management.

For more in-depth information relating to tasks, missions and characteristics of the departments and committees involved, please see the relevant sections in Part E - Notes to Accounts.

AUDITING ACTIVITY

Internal Auditing responsibility is entrusted to the Auditing function that constantly monitors company processes and activities to ensure that they comply with regulations and assess the effectiveness of the overall system of internal controls.

The Internal Control System has been monitored by the Internal Auditing Office that, in the reports prepared at the end of the various checks carried out in the course of the year, has always given a focus to such an important aspect. During 2018, Internal Auditing activities were also focused on controlling the correct functioning of I and II controls within the Bank. Shortcomings, where encountered and in particular when considered significant, have been promptly referred to the relevant Operational Unit indicating possible solutions to be adopted, aimed at improving the complex system of internal controls. The Internal Auditing Service monitors that requested changes are implemented in the course of its follow-up activity and highlights the results in special reports.

A Service Agreement is in effect between the internal auditing function and the compliance function of the Bank in order to avoid duplication in their monitoring responsibilities and obtain better efficiency in the control process. To this end, an IT tool (CSD/SIC platform) is in place, which includes specific functionalities dedicated to the control system and, also in 2018, work continued on the review and continuous updating of 1st level controls and their simultaneous replication on the mentioned platform.

Moreover, the Internal Auditing Service reports on a regular basis to the Board of Directors, the Board of Statutory Auditors, the Control Committee and the General Management on the annual and multiannual work programme in advance and with regard to the final results of all the activities carried out, highlighting structural critical points, the most suitable improvements and providing an overall assessment of the internal control system.

COMPLIANCE ACTIVITY

The management of non-compliance risk is assigned to the Compliance and Risk Management Department whose activities consist of identifying and assessing non-compliance risks, proposing organisational changes to mitigate them, providing support and advice to senior management and business units on all matters on which non-compliance risk is significant, monitoring (also together with the other company control functions) to ensure that compliance continues and promoting a business culture characterised by an observance for integrity and law.

The work method adopted was based on a "risk-based" approach – giving priority and structuring compliance activities in relation to the level of exposure to risk – and involved the use of documentary sources and extensive interaction with internal and external stakeholders who, in various capacities, contribute to the management of non-compliance risk.

In 2018, the traditional activities of controlling the risk of non-compliance and verification and updating of the internal control system concerned the following aspects:

- internal capital adequacy assessment process (ICAAP);

- anti-money laundering, with a special reference to the procedures for carrying out customer due diligence;
- transparency of operations and banking and financial services and regularity of the relationships between intermediaries and customers;
- remuneration and incentive policies;
- liquidity management process;
- organisational procedures for the provision of investment services and activities to the public;
- risk assets and conflicts of interest;
- provisions on Usury – Law 108/1996;
- internal provisions on credit policies (regulatory aspects);
- privacy (Code on the protection of personal data) and activity of system administrators;
- health and safety at work – Legislative Decree 81/2008

Moreover, the compliance function focused on the following specific issues:

- analysis and close examination of European Directive no. 2015/849/EU (known as "IV Anti-Money Laundering Directive");
- definition of the measures to comply with European Directive no. 2014/65 (known as "MiFID Directive") and European Regulation no. 600/2014 (known as "MiFIR Regulation");
- definition of the measures to comply with the "Guidance on the management of non performing loans for Italy’s Less significant institutions" (NPL);
- definition of the measures to comply with European Directive no. 2016/680 and European Regulation no. 2016/679 on the protection of natural persons with regard to the processing of personal data by competent authorities for the purposes of prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties, and on the free movement of such data (privacy).

RISK MANAGEMENT ACTIVITY

The management and monitoring of the overall risks for the Bank is entrusted to the “Risk Management” function that, in the organisational chart, reports directly to the Board of Directors - responsible for the overall monitoring of the risk management and control system – with a reporting line into the General Management. The “Risk Management” function attends the board committees in charge of assessing and managing risks and, in particular, is part of the Credit Risk Management Committee and the ALCO Committee for financial risks, and the Control Committee, of which it is the secretary.

The Bank’s system of internal controls is based on a model that ensures the organisational separation of the control functions from the business, guaranteeing its independence.

The “Risk Management” function aims to identify, assess and monitor the overall risk of the Bank through the integrated coordination of the various risk profiles (credit, financial, etc.), by offering support to the General Management and the Board of Directors in defining the decisions regarding sustainability and risk tolerance, the policies for the assumption, governance and significant risks for the Bank, in application of the regulatory framework set forth by the Supervisory Authorities.

In 2018, the main areas of intervention of the “Risk Management” function concerned:

- activities in terms of contribution to the definition and implementation of the Risk Appetite Framework (RAF) and Statement (RAS), and the associated risk governance policies and monitoring and control of these risks and subsequent management reporting;
- risk measurement, assessment and control system correlated to the obligations and compliance with the Internal Capital Adequacy Assessment Process (ICAAP), and the quarterly monitoring of the Bank’s significant risks;
- for credit risk, the activities relating to performance monitoring of credit exposures, risk concentrations, assessment of the consistency of asset classifications and the adequacy of provisions for impaired and performing exposures, with a special reference to the first-time adoption of the new international accounting standard IFRS 9;
- preventive analysis of new regulations/policies and related organisational procedures, as well as their updates in accordance with internal regulations;
- monitoring the risks on public investment services;
- analysis of the update of the Recovery Plan of Mediocredito Trentino Alto Adige Spa.

COMPLIANCE WITH REGULATIONS

International accounting standard IFRS 9

During 2018, the bank, through a special working group, supervised the release of software suppliers' IT procedures (CSD, SIBT) - in synergy with the working group set up specifically at the premises of the parent company of the new cooperative banking group Cassa Centrale Banca - and developed the methods and internal procedures for regulating the processes of classification and measurement of financial assets and liabilities based on the new international accounting standard IFRS 9, which came into force on 1 January 2018 to replace IAS 39.
For further information, refer to the chapter "Transition to IFRS 9".

IV Anti-Money Laundering Directive (Legislative Decree 90/2017)

With Legislative Decree no. 90 of 25 May 2017, the "IV Anti-Money Laundering Directive" (Directive 2015/849/EU) on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing was implemented in Italy.
The Decree in question fully amended Legislative Decree no. 231/2007 also with regard to those standards not directly affected by the decree transposing the European regulations.
In view of the changed regulatory environment, the Bank put in place a series of adjustments to fully implement the new provisions, taking into account the different timing required by the same legislative decree.
In connection with this composite regulatory environment, Mediocredito launched an adaptation project aimed at introducing new regulations within its system for managing and monitoring the risk of money laundering, by strengthening - where necessary - the specific envisaged controls. The interventions already carried out concern the following areas:

- management of occasional relations/transactions with "Politically Exposed Persons - PEPs", on the basis of the new and more extensive wording of the new introduction;
- use of the new definitions and the resulting personal data necessary for the purposes of customer due diligence ("residence", "domicile", etc.);
- use of the new principles to identify the beneficial owner;
- introduction of new restrictions on the use of cash and bearer securities;
- management of occasional relations/transactions with subjects residing in "high risk third countries", as part of the enhanced due diligence.

At the date of preparation of this report, the adaptation process was still open pending the issue of second level regulatory provisions by the competent authorities, the provisional documentation of which was preliminarily analysed for the purpose of an initial impact assessment.

MiFID 2 (Directive 2014/65/EU) and MiFIR (Regulation 600/2014/EU)

On 3 January 2018, the MiFID 2 Directive for European financial services came into force. From that date, the amendments to the Consolidated Finance Act (TUF) introduced by Legislative Decree no. 129 of 3 August 2017, which transposed the MiFID 2 Directive and the related MiFIR Regulation into Italian law, became effective. Specifically, MiFID 2 aims, with particular reference to retail customers, to provide new specifications concerning investment and advisory services, improving the communication and dissemination of information.
The main advantages of the MiFID 2 Directive - laying down rules on potential conflicts of interest between the parties and requiring adequate profiling of the saver - concern above all a greater personalisation of the service, the introduction of new prospectuses and a series of guarantees for the saver as regards the remuneration fees for the intermediary, more difficult to apply in the absence of an adequate return for the investor, as well as greater transparency.
However, in a framework of substantial continuity with the previous regulations, MiFID 2 strengthens the protection units for investors, in particular, through the provision of measures of product governance and product intervention powers, as well as through the introduction of independent advice and the reduction of the scope of execution only as well as the revision of the rules on the eligibility of "inducements" and new obligations of transaction reporting.

To this end, the Bank, through a suitable inter-functional working group, adapted its internal regulations with:

- the adoption of new policies aimed at regulating the processes and controls adopted to comply with the regulatory requirements introduced ex-novo by the Directive and not reflected in the previous regulations:
  - Policy on transaction reporting and post-trade transparency;
  - Product Governance Policy;
- the updating of existing policies governing regulatory areas not introduced ex-novo by the Directive, but updated with the introduction of additional controls and rules with respect to those provided for by the previous regulations:
  - Policy for assessing adequacy and appropriateness;
  - Policy for the identification and management of incentives and investment research;
  - Policy for the management of customer orders;
  - Policy for identifying, preventing and managing conflicts of interest;
  - Complaint handling policy;
- updating or introducing pre-contractual and contractual documents necessary to regulate the provision of investment services to customers.

Basel III (Bank of Italy Circular no. 285/2013)

Regulation (EU) No. 575/2013 ("CRR"), which introduces the rules defined by the Basil Committee on banking supervision regarding capital adequacy (First Pillar) and public disclosure (Third Pillar) (known as Basel III) applies since 1 January 2014. The CRR is integrated by Directive 2013/36/EU ("CRD IV"), the Regulatory Technical Standards (RTS) and the Implementing Technical Standards (ITS).
With regard to liquidity risk, in compliance with the EBA guidelines, the internal liquidity adequacy assessment process (ILAAP) was carried out and the related report produced. Further details are provided in the relevant section of Part E of the Notes to the Financial Statements.

First Pillar

Regarding the first pillar, the Bank continued to adopt a simplified version of the Standardised Approach. Such methodology foresees sub-divisions in "portfolios" regarding the exposure of the bank and the application of a specific weighting factor to each portfolio.
As part of its basic guidelines, the Bank continued to perfect measures of Credit Risk Mitigation (CRM) in relation to the "exposures secured by property" portfolio. The related monitoring activity carried out in particular on non-performing positions was systematically implemented.
The structure comprises organisational controls - activities aimed at identifying and implementing the process stages, and procedural/operational controls. These consist of ways to activate an automated system for appraising the value of real estate (a service offered by an external provider), which is used in conjunction with real estate estimates carried out by the internal experts (belonging to an organisational unit that is autonomous and independent from the main businesses).

Second Pillar

The Risk Management supervised the capital adequacy assessment process (ICAAP) by reiterating the process at quarterly intervals to check and possibly improve the overall assessment structure, test the methodologies used to quantify measurable risks and to assess the results of the process both in terms of overall capital absorption and in terms of individual risk. This was done to verify that capital resources are able to cover the unexpected losses deriving from risks for which minimum capital requirements needs have not been established. The basic purpose of ICAAP is to determine Total Capital and check its capacity (in current terms - also introducing stress hypotheses - as well as prospective terms) to cover all relevant risks to which the Bank is exposed.
Out of these activities, the following conclusions have been made for 2018:

- confirmation of the procedure for the ICAAP Process and relative regulations both in terms of sphere of competence assigned to bodies and corporate functions, and of operational stages and information flow in relation to the size and nature of Bank activities;
- the consistency between ICAAP, RAF and Recovery Plan;
- confirmation of current and future capital adequacy.

Third Pillar

During 2018, the Public Disclosure as at 31 December 2017 was prepared and published.

The choices made by the Bank to comply with the disclosure requirements were approved by its supervisory body, which also performs the task - with the participation of the General Management - of adopting the necessary measures to comply with the requirements. Finally, the Board of Statutory Auditors – as body with control function - verifies the adequacy of the procedures adopted.
In particular, the disclosure presents, among other things, the composition of Own Funds with an indication of the capital requirements (including additional capital with respect to the minimum regulatory requirements) that the Bank is required to apply following the conclusion of the regular supervisory review process (SREP) by the Supervisory Authority;
Also note that the other mandatory relevant information required by art. 432 of the CRR, namely:
- information pursuant to letter c), paragraph 2 of art. 435 of the CRR in relation to the corporate governance provisions contained in the "Report on corporate governance and ownership structures";
- information pursuant to art. 450 of the CRR regarding the implementation of the "General remuneration and incentive policies";

is published on the Bank's website.

European "BRRD" Directive on Recovery plans ("Bank Recovery and Resolution Directive" 2014/59/EU)

With reference to the implementation of Directive 2014/59/EU (Legislative Decrees no. 180 and no. 181), during 2018, the Bank revised its recovery plan for the first time with the aim of improving the predictive content of certain indicators and making more effective certain measures that, as a whole, must deal with a significant deterioration in the bank's financial position in order to avoid the most drastic crisis resolution tools. In this context, the Internal Control Functions assessed the regulatory compliance and the consistency with the strategies and framework of reference for risk, deeming it compliant and adequate with the expected characteristics envisaged by the regulations.

Guidance on the management of non performing loans for Italy's Less significant institutions (NPL)

On 30 January 2018, the Bank of Italy published the final version of the *"Guidance on the management of non performing loans for Italy's Less significant institutions"* (hereinafter the "Guidelines"), together with the related consultation report. This document, which is consistent with the "Guidance to banks on non performing loans" addressed to "Significant" banks, confirms the aim to promote more active management of non-performing loans by banks and represents the Bank of Italy expectations on the management of NPLs.
In its presentation, the Bank of Italy also specified that:
- the Supervisory Function will start a discussion with intermediaries on the application of the Guidelines;
- the banks concerned (LSI) must assess the substantial compliance of their structure with the recommendations and, where necessary, adopt appropriate measures to implement them, pointing out that any deviations must be justified at the request of the Bank of Italy.

The adaptation project defined by the Bank envisaged:
- preparation of a self-assessment on how the NPLs are managed;
- definition of specific policies for the management of NPLs;
- definition of specific policies for the valuation of properties used as collateral for exposures (including those relating to doubtful positions);
- revision of the "Regulation of Information Flows";
- revision of the "Regulation for the incentive system" for the structures involved in the management of NPLs;
- preparation of short-term (1 year) and medium/long-term (3/5 years) operating plans.

In 2018, the Bank took the following steps:
- in March 2018, the Board of Directors adopted the project to bring it into line with the Guidelines and approved the adoption of the Guidelines prepared by ABI for the valuation of properties used as collateral for credit exposures and properties used as collateral for bad debts;
- in June 2018, the Board of Directors approved the document containing the results of the self-assessment process of the procedures in use for the management of non-performing loans - NPLs (gap analysis) and the measures to be implemented for full regulatory compliance identified within the same gap analysis (dividing them into two separate phases): Phase 1 - Regulatory framework: definition of internal policies for the management of NPLs; Phase 2 - Operating plans: preparation of short-term (1 year) and medium/long-term (3/5 years) operating plans;

- In September 2018, the Board of Directors approved: i) the "Policy for the management of non-performing loans - NPLs"; ii) the "Policy for the identification and management of external experts" as well as the 2018-2021 multiannual operating plan for managing NPLs, regularly sent to the Supervisory Body;
- In December 2018, the Board of Directors carried out its first quarterly assessment of the progress made with respect to the objectives contained in the operating plan for managing NPLs and approved a partial revision of the plan in the light of the preliminary results and forecasts for 2019.

European Directive on data protection and movement (Directive 2016/680/EU)

In May 2018, the new regulation on Privacy came into force, aimed at adapting the regulation to the changed social and economic framework, characterised by a strong technological development and dissemination of "on-line" services, leading to greater attention by the European legislator to the issue of management and circulation, including cross-border, of personal data of citizens.
For these purposes and with the aim of increasing the security standards for European citizens regarding the processing and circulation of personal data, the "Data Protection Package" was issued, consisting of two separate regulatory deeds:

- Regulation 2016/679/EU on the protection of personal data, approved by the European Parliament on 16 April 2016, published in the OJEU of 4 May 2016. The Regulation, which came into force on 24 May 2016, will be fully applied from 25 May 2018;
- Directive 2016/680/EU on the processing of personal data for the purposes of the prevention, investigation, detection or prosecution of criminal offences, approved by the European Parliament and the Council on 27 April 2016.

In addition to these documents, the new regulatory framework also refers to the Guidelines issued by the European Group of Guarantors for the application of the "Data Protection Package". Specifically, the Guidelines cover the following areas:

- Data Protection Officer – DPO;
- right to data portability;
- criteria for the identification of the lead supervisory authority to act as a national one-stop shop*.*

Already in 2017, the Bank envisaged a specific regulatory adjustment project to define the gap analysis between the Bank's current self-regulatory and operational system and the standards required by the new regulations and to adopt - as part of the company's productivity tools - the new operating methods that comply with the "Data Protection Package".
Therefore, during 2018, the Bank carried out the following interventions:

- definition of organisational and IT interventions;
- formalisation of the appointment of the Data Protection Officer ("DPO") with outsourcing of the service to Cassa Centrale Banca;
- appointment of the internal "Privacy Referee" (identified as the Head of the General Affairs and Organisation Office);
- adoption of the Personal Data Protection Policy in accordance with the GDPR;
- identification, on the basis of what is established by the new provisions, of Data Processors;
- approval of the "Appointment management procedure" prepared by the DPO appointed by Mediocredito and shared with the Bank's "Privacy Referee", which shows and specifically regulates the way in which the following processes are implemented: *i)* appointment of a Data Protection Officer; *ii)* management of the data processors;
- identification of the System administrators;
- adoption of the following procedures: *i)* Procedure for managing data subjects' rights; *ii)* Procedure for managing Privacy by design and Privacy by default processes; *iii)* Procedure for the identification and management of a personal data breach *(Data Breach)*;
- introduction of a special register for the recording of violations in accordance with the requirements of the GDPR in this regard.

The Bank also constantly monitors the application of the following regulations previously in force:

- Circular no. 285 of 17 December 2013 - 1st Update – First Part, Title IV, Chapter 1 "Corporate governance": the updated version of the Corporate Governance Project is published on the Bank's website (www.mediocredito.it),

- Public system for preventing, from an administrative point of view, fraud in the consumer credit sector, with specific reference to identity theft (Legislative Decree no. 141 of 13 August 2010) – A specific agreement is in place with the managing body (CONSAP) for membership of the system in question;
- Database of Relations (Presidential Decree 605/1973): the submission to the Inland Revenue of the reports as at 31 December 2017 was carried out on 15 February 2018, as prescribed in the regulations in force;
- *Foreign Account Tax Compliance Act* (FATCA);
- Tax identification of holders of financial accounts (CRS – Law 95/2015 – Directive 2014/107/EU)
- Legality rating (Ministerial Decree no. 57 of 20 February 2014);
- Internal regulations on the Companies' administrative responsibility under Legislative Decree no. 231/2001 supervised by the Supervisory Body assigned to the Board of Statutory Auditors;
- Measure dated 15 July 2015 of the Bank of Italy: Provisions on "Transparency of operations and banking and financial services; regularity of the relationships between intermediaries and customers";
- Usury regulations (Law no. 108 of 7 March 1996);
- Measure containing implementing provisions with respect to customer due diligence (art. 7, paragraph 2, of Legislative Decree no. 231 of 21 November 2007);
- Regulations on the Mortgage Credit Directive (2014/17/EU and Legislative Decree 72/2016) on consumer credit agreements relating to residential real estate;
- Compound interests (Legislative Decree 385/93 - Consolidated Banking Act", art. 120 par. 2) on the procedures and criteria for the production of interests in transactions put in place in the course of banking activities;
- Investment services and EMIR Regulation (Regulation (EU) no. 648/2012);
- Regulation governing transparency of financial information (Legislative Decree no. 195/2007 and articles 154-bis and 154-ter of the Consolidated Finance Act) - the Bank, issue of securities listed on regulated European markets, maintained Italy as a member State of origin.
- Risk assets and conflicts of interest in respect of related parties (Bank of Italy Circular no. 263/2006, 9th update): the OPC Committee, appropriately established to express the relevant preventive opinions, expressed 3 non-negative opinions.
- Bank of Italy Circular 285/2013 – Title IV Chapter 4 "The information system": the bank's policy is to define an annual operating plan of the IT initiatives, which sets out the contents of the strategic plan in clear and practical actions; the Plan is approved by the Board of Directors on an annual basis as part of the RAF;
- Bank of Italy Circular 285/2013 – Title IV Chapter 5 "The operational continuity": the Board of Directors examines on an annual basis the management of operational continuity in the event of an emergency, the adequacy tests of the continuity procedures and updates the related plan;
- Safety regulation (Legislative Decree no. 81/2008) – the Bank conferred an assignment relating to the PPSM and the "employer" function was outsourced in accordance with Article 16 of Legislative Decree no. 81/2008;
- Internal system for reporting violations - Whistle-blowing (Legislative Decree 385/93 - Consolidated Banking Act, articles 52-bis and 52-ter) set up on an independent and autonomous digital platform and such as to guarantee the confidentiality of the whistle-blower and of the alleged person responsible for the violation.

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES

(Legislative Decree 58/1998, Article 123-bis and "Supervisory Provisions Concerning Banks' Organisation and Corporate Governance" issued by the Bank of Italy on 4 March 2008)

Article 123-bis of the Consolidated Finance Act specifies that the report on operations of companies issuing securities, admitted to trading on a regulated market, contains a specific section on corporate governance and ownership structures. Paragraph 5 of the same article allows companies not issuing shares that are admitted to trading on a regulated market or in multilateral trading systems, to omit the publication of information regarding paragraphs 1 and 2, excepting those of paragraph 2, letter b). Mediocredito Trentino – Alto Adige S.p.A. falls within the bounds of paragraph 5 and, therefore, provides, in line with the Bank's size and operational and organisational characteristics, the information required as per paragraph 2, letter b), regarding the main characteristics of the risk management and internal control systems in relation to the financial disclosure process. We want to stress that the Bank has a specific process in place for corporate governance whose review has implemented the new regulations introduced by the Bank of Italy Circular no. 285/2013 and, as far as the Bank is concerned, mainly refers to the criteria for the composition and self-assessment of the Administrative Board.
In more details, the project for corporate governance is based on the necessary statutory provisions and regulations and the drawing up of a "Corporate Governance Project" document, which is inspired by the traditional model of governance in function of reduced complexity and costs and organisational impacts related to it. The rights of the shareholders, the proprietary structure, the statutory and internal regulations pertaining to the Board of Directors and the Board of Statutory Auditors, the System of Internal Controls and Risk Management, remuneration and compliance policies, the role of the manager responsible for preparing the company's financial reports and the organisational model as for Legislative Decree 231/2001 are established in this "project".
The Bank has also enforced a prudent delegation system in order to encourage maximum involvement of the Board of Directors (Institution of strategic supervision) in the operational management of the Bank.

a) "Corporate Governance Plan": information on the ownership structures.

INFORMATION ON OWNERSHIP STRUCTURES Pursuant to Article 123 bis of the Consolidated Finance Act		
1.	Share capital structure	Ordinary shares
2.	Restrictions on the transfer of securities	No
3.	Major shareholdings	Yes
4.	Securities giving special rights	No
5.	Employee equity participation: mechanism for exercising voting rights	No
6.	Restrictions on voting rights	No
7.	Shareholder agreements	Yes
8.	Appointment and replacement of the Directors and statutory amendments	Yes
9.	Delegations of powers to increase share capital and authorisations of share buyback	No
10.	Change-of-control clauses	No
11.	Indemnities for Directors in the case of resignation, dismissal or cessation of relations	No

b) Update and review of the internal regulations and the internal control and risk management system also with respect to the financial reporting process (paragraph 2, letter b of Article 123-bis of Legislative Decree 58/1998)

With respect to the provisions of paragraph 2, letter b) of Article 123-bis of Legislative Decree 58/1998 (Consolidated Finance Act), in which the Bank is required to document information regarding the main characteristics of existing risk management and internal control systems used in relation to the financial reporting process, the following is detailed.
The risk management and internal control system used in relation to the financial reporting process refers to administrative and accounting procedures (and to relative controls), which feed into/relate to the financial statements and fall under the competence of the manager in charge. The role of the manager in charge, jointly with the definition of the respective tasks, powers and means, is governed by the internal regulations of the Bank that has inserted this body in the wider system of internal controls in which other units of

control and management operate in synergy, such as the Board of Statutory Auditors, the Internal Audit department, the Control Committee, the Credit Risk Management Committee, the ALCO Committee, the Investment Committee as well as the Compliance and Risk Management Functions.
In keeping with its own size and operational features, the Bank prepares and applies traditional administrative and accounting procedures that are deemed adequate for allowing the monitoring and mitigation of accounting risks, i.e. risks linked to specific events and transactions that could generate a mistake in accounting data from which accounting reports and financial statements originate. The integrated system of control functions (within which a significant portion of qualified and professionally trained personnel operates) and the presence of regulations and operating procedures provide an adequate safeguard for reaching the objectives of reliability and compliance of the financial disclosures.
In particular, the system in question is affected by a simple organisational Bank structure characterised by limited size and by territorial and economic sector concentration of the business: the organisational structure, in fact, makes provision for a substantial concentration of middle and back-office activity in the administrative area in which the monitoring and accounting control function operates, under the direction of the appointed manager. For key and non-key processes, this means a series of accounting and quality checks (adequately documented), arranging a sequence of functions (mostly automated) for the survey of accounting anomalies that are monitored on a daily basis and corrected in close partnership with the Planning and Control function, which operates with the respective systems for checking and viewing information. The monitoring function therefore prepares the appropriate documentation in support of the accounts and accounting entries at the time of preparation of the financial statements and report on operations, verifying that the information deriving from the other areas of the bank (business and legal) are appropriately validated by authorised managers. The same functions routinely carry out control and validation activities on an ongoing basis, mostly on the key processes of disbursement, re-payment and credit valuation within the finance department (liquidity, funding and derivatives). The activities of monitoring and control are shared by the manager in charge with the departments of Internal Auditing and Compliance, Risk Management along with the Board of Statutory Auditors. Finally, the General Management carries out the function of organisational intervention, arranging new control points or operational/functional strengthening where shortcomings are highlighted as part of the risk monitoring process. The formalisation and circulation of information relating to the controls carried out and to any shortcomings noticed is mostly concentrated (for reasons of operative efficiency in a small sized bank) in the Internal Auditing function.
Following the organisational and statutory adjustments linked to the appointment of the Manager in charge, in application of the Savings Law (Law no. 262/05), the Bank refers to the models generally recognised and accepted at international level (CoSO Framework and CObiT) for the design and ongoing review of the procedural and control structure.
With regards to assessing the adequacy of the IT System, the Bank has outsourced the IT Audit service to Federazione Trentina delle Cooperative that has adequate resources specialised in the area and ensures compliance of its analysis and assessment methods with the CObiT standard issued by the international Information Systems Audit and Control Association (ISACA).

EXPECTED BUSINESS TREND AND R&D ACTIVITIES

The bank's operations and operating performance in 2019 will be affected by the general economic environment, which is once again characterised by a new, substantially recessive phase of the cycle.
The financial system will become increasingly progressive, subject to the difficult process of disintermediation as well as being engaged in a work of organisational and technological rationalisation in the presence of incisive and demanding regulations regarding the processes of risk management.
Since the second half of 2018, a new phase of pressure on yields of domestic government securities has been triggered and, therefore, together with the average level of rating of the Italian banking system, the difficulty of accessing the international funding market as well as the bond market will continue.
In this context, increasing funding costs are expected for the Bank, despite the constant support of the Casse Rurali system, which in the meantime has become a fully-fledged part of the national cooperative banking group of Cassa Centrale Banca, and of the South Tyrolean Raiffeisen system.
The squeezing of market rates and the consequent downward pressure on the margins of the banking industry will be prolonged, for the whole of 2019, for the monetary policies of the ECB, as well as the injection of liquidity to the announced new refinancing operations (TLTRO 3).
In this context, the Bank will continue to follow the trend of the previous year, while maintaining its traditional and necessary selectivity and an adequate segmentation in the granting of credit, without, however, lacking its support to the investment programmes of customers, also with innovative instruments of extraordinary finance.
The objective is to consolidate the volumes of performing loans and to implement the multi-year plan for the management of NPLs, which envisages the reduction of impaired loans below the threshold of 6% net (10.3% gross) at the end of 2019 and below the threshold of 4% net (6.9% gross) at the end of the three-year period, in the presence of an expected maintenance of impairment rates at low levels despite the recessionary trend of the economic fundamentals.
The outlook for the 2019 income statement will see, in the light of the considerations and scenarios outlined above, a possible pressure on net interest income, good stability of sources from commissions and dividends from equity investments, while the revenues from changes in the securities portfolio cannot be planned but are predictably insignificant.
Therefore, with a further reduction in the cost of risk compared to the recent past, an income statement that will show a performance in terms of profits similar to those of the year just ended is expected.
Liquidity risk, given the profile of the prospective financial requirement and the structure of the assets/liabilities portfolio in terms of maturity, will require particular attention in terms of planning and correct sizing - by volumes and durations - of credit lines by bank shareholders.
The guidelines adopted by the bank also indicate the need to continue along the path of expanding and diversifying funding channels by taking on deposits carried out by leading local institutional investors, as well as the activation and development, in the first half of 2019, of the platform for online deposits mainly aimed at the world and the relationships of its corporate customers.
In terms of organisation and logistics, the Bank will acquire the portion of real estate - now rented - that houses the Brescia branch, will initiate research on the real estate market for the acquisition of a new office in Bolzano and will carry out some renovation work on the premises located in Via Grazioli, near the main office in Trento, for the recovery of spaces suitable for training and temporary work on a mobile basis.
The process - started in the second half of 2018 - of architectural innovation of internal IT and communication technology systems, combined with extensive training interventions, will be completed, with a view to a general modernisation of processes that are also functional to achieving greater efficiency and competitiveness.
With regard to strategic aspects, once the 2016-2018 business plan has been completed, it is expected - also in view of the preparation of the new multi-year plan - that the dialogue that has long been initiated between public members and members of cooperative credit, particularly with the new banking group Cassa Centrale Banca SpA, for the reorganisation of the Bank's governance, will find a definitive and desirable acceleration in the course of 2019.

With respect to the regulatory adjustments of the Legislator and the Supervisory Authority, the Bank will be committed to the following issues with the greatest impact.

- calibration and optimisation of IT models and procedures for the continuous management of credit assessment processes in pursuance of the international accounting standard IFRS 9, which came into force on 1 January 2018 to replace IAS 39: these models were implemented on the CSD platform on the basis of an engine developed with the support of Crif and Cerved within the scope and under the supervision of the newly formed cooperative banking group of Cassa Centrale Banca.

- the completion of strategic and management processes of non-performing loans in the light of the guidelines issued by the Bank of Italy for less significant institutions. The guidelines are consistent with the "Guidance to banks on non performing loans" issued at European level by the Single Supervisory Mechanism for Significant Banks and represent the Supervisory Authority's expectations with regard to the management of NPLs.

PROPOSAL FOR THE ALLOCATION OF THE NET PROFIT

Dear Shareholders,

The net profit for 2018 amounts to €3,171,755.11, entirely distributable.
That said, and given the level of capitalisation and the Bank's risk profiles, it is believed that the capital base of the Bank may be regarded as adequate both in terms of quantity and quality, and therefore there is no need to adopt particularly restrictive policies regarding the distribution of profits.

Profit for the year	€	**3,171,755.11**
- non-distributable reserves under article 6, paragraph 2 Legislative Decree no. 38/2005 freed during the year	€	-
- allocation to non-distributable reserves under article 6, paragraph 2 of Legislative Decree no. 38/2005	€	-
- capital gains (losses) on equity securities under the OCI Option	€	(84,888.20)
Amount to be distributed	**€**	**3,086,866.91**
- 5% to the legal reserve	€	154,000.00
- at the disposal of the Board of Directors for undertakings as per Article 21 of the By-laws	€	150,000.00
- dividend to distribute to shareholders (€0.014 for the 112,470,400 shares, which correspond to 2.692% of their nominal value)	€	1,574,585.60
- further allocation to the extraordinary reserve	€	1,208,281.31

We propose to begin paying dividends starting from 6 May 2019.

Following the aforementioned distribution, the equity as at 31 December 2018 is as follows:

- share capital	€	58,484,608.00
- additional paid-in capital	€	29,841,458.06
- legal reserve	€	19,405,007.66
- statutory reserve	€	50,047,035.10
- valuation reserve	€	271,869.96
- reserve from the reclassification of risk provision	€	18,936,305.62
- reserve from the FTA as per Legislative Decree 38/2005	€	2,273,855.22
- reserve from the IFRS 9 FTA		(9,746,345.90)
- reserve as for ex IAS 8	€	380,695.00
- non-distributable under article 6, paragraph 2 Legislative Decree 38/2005	€	-
Total	**€**	**169,894,488.72**

The Board of Directors

CERTIFICATION PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION ON ISSUERS

Certification of the Financial Statements pursuant to Article 81-ter of CONSOB Regulation No. 11971 of 14 May 1999 and its subsequent amendments and additions.

1. The undersigned Franco Senesi, chairman of the Board of Directors and Leo Nicolussi Paolaz, manager responsible for preparing the Mediocredito Trentino – Alto Adige S.p.A.'s financial reports, in consideration of the requirements of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998 herewith attest to:
   - the adequacy in relation to the characteristics of the business and
   - the actual application

   of the administrative and accounting procedures for the preparation of financial statements during 2018.

2. No significant matters arose in this respect. It should be pointed out that the bank is now subject to the obligation pursuant to Article 154-bis of Legislative Decree 58/98 to establish the role of "Manager responsible for preparing the company's financial reports", given that the Bank, in the context of the issues of bonds on the Euromarket (EMTN programme - European Medium Term Notes Programme) has issued bonds that are listed on the Luxembourg stock exchange by choosing Italy as member State of origin.
   The assessment of the administrative and accounting procedure for preparing the financial statements for the year ended 31 December 2018 has been based on procedures consistent with the reference standards adopted by the Bank for the internal control system.

3. It also hereby certified that:
   3.1. the financial statements:
      a) have been prepared in accordance with the applicable international accounting standards as endorsed by the European Union under EC Regulation No. 1606/2002 of the European Parliament and Council of 19 July 2002;
      b) correspond to the results of the books and accounting records;
      c) are suitable to provide a true and fair view of the statement of financial position, income statement and financial position of the Issuer;

   3.2. the report on operations includes a reliable analysis of the performance and the operating result as well as the position of the issuer together with a description of the main risks and uncertainties it is exposed to.

Trento, 14 March 2019

The Chairman of the Board of Directors	Manager responsible for preparing the company's financial reports
Franco Senesi	Leo Nicolussi Paolaz

INDEPENDENT AUDITORS' REPORT

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Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Mediocredito Trentino – Alto Adige SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mediocredito Trentino – Alto Adige SpA (the Company), which comprise the bs statement of financial position as of 31 December 2018, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
***First-time application of International Financial Reporting Standard* IFRS 9**	
Notes to the financial statements: *Part A. – Accounting policies* *Part E – Risks and related hedging policies* Starting from 1 January 2018, Mediocredito Trentino – Alto Adige SpA has adopted IFRS 9 – Financial instruments which governs the classification and measurement of financial instruments, and the measurement of related impairment losses. IFRS 9 is a complex financial reporting standard that requires a high degree of judgement in its application due to the introduction of new requirements for the classification and measurement of financial assets that are based on an entity's business model for managing the financial assets (Business Model) and on the characteristics of the related contractual cash flows (Solely Payments of Principal and Interest – "SPPI"); at the same time, for financial assets other than those measured at fair value through profit or loss and for off-balance sheet exposures (guarantees and commitments), the new standard replaced the impairment model of IAS 39 based on the Incurred Loss with a measurement criterion based on the Expected Credit Loss ("ECL"). As a consequence, in addition to introducing significant changes in classification and measurement, IFRS 9 has caused significant operating impacts, requiring the use of new models, parameters, information and assumptions, thus determining a higher degree a subjectivity and uncertainty. The Company has presented the impacts on the opening equity values arising from the adoption of the new standard through appropriate reconciliation schedules, included in the notes to the financial statements.	In performing our audit we paid special attention to understanding and evaluating the activities planned and performed by the Company to implement the new International Financial Reporting Standard (including changes to IT systems), as well as to the relevant governance and to all of the control activities put in place by management and by internal audit functions. In consideration of the fact that IFRS 9 was adopted starting from 1 January 2018, our audit procedures were performed on the opening balances at that date, in order to verify the transition from IAS 39. Our procedures involved, among other things, assessing the compliance with the new standard of the accounting policies adopted and verifying the adjustments made and related disclosures. With specific reference to classification and measurement aspects, our audit procedures included among other things the following: • Understanding and critical analysis of the policies, procedures and solutions adopted by the Group with reference to relevant aspects (definition of the business model, analysis of contractual cash flows and measurement methods) to assess their compliance with the new standard; • Verification of the completeness and accuracy of the new accounting categories based on the business model defined and the results of the analysis of contractual cash flows (the "SPPI test"); • Independent verification of the SPPI test for a sample of financial assets selected having regard to the various products in the Company's portfolio. With reference to the new impairment requirements, our audit procedures, carried out

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
For the reasons set out above, we considered the first-time application of IFRS 9 a key matter in our audit of the financial statements of Mediocredito Trentino – Alto Adige SpA as of 31 December 2018.	also with the support of experts belonging to the PwC network, included among other things the following: • Understanding and critical analysis of the relevant new policies, methodologies and assumptions, as well as the models implemented, in order to verify their reasonableness, appropriateness and compliance with the standard. This activity involved both the methods ad models adopted to measure the Significant Increase in Credit Risk ("SICR") and to allocate portfolios to the various degrees of risk ("Staging"), and those adopted to determine the ECL; • Tests of the new SICR and ECL models defined and of the method used to determine the key estimation parameters used in those models, in order to verify their appropriate implementation and determination; • Verification of the correct implementation in the IT systems of the estimation parameters determined, together with verification of the completeness and accuracy of the data bases used for the ECL calculation; • Critical analysis of the outcome of the verification and validation activities carried out by the competent internal functions and any remediation measures taken. Finally, we verified the completeness and appropriateness of disclosures in the financial statements.

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Measurement of loans to customers carried at amortised cost *Notes to the financial statements:* *Part A – Accounting policies* *Part B – Balance sheet, section 4* *Part C – Income statement, section 8* *Part E – Risks and related hedging policies* As of 31 December 2018, loans to customers were the preponderant part of line item 40 b) *"Financial assets at amortised cost - Loans and advances to customers"* with a balance of Euro 1,261 million corresponding to approximately 86% per cent of total assets. Net value adjustments to loans and advances to customers posted in the year amounted to Euro 7 million and are the directors' best estimate to reflect the expected losses on the loan portfolio at the reporting date based on the applicable financial reporting standards. We paid special attention to the measurement of those assets in the course of our audit in consideration of the materiality of the balance and the changes introduced during the year in the estimation criteria following the application of IFRS 9 – Financial instruments: the measurement process is a key audit matter since it involves one of the most significant and complex estimates made in the preparation of the financial statements. The valuation models adopted by the Company following the implementation of IFRS 9 to determine estimated value adjustments are characterised by a high degree of judgement and require complex estimations of a number of variables. The use of significant assumptions is important in particular for the verification of the SICR, for developing and determining risk parameters that incorporate the use of macroeconomic scenarios and prospective information, as well as for identifying objective evidence of impairment.	To address this key matter our audit strategy involved the use of a combination of tests of details and substantive audit procedures, carried out also with the support of experts belonging to the PwC network. In detail, our procedures included the following main activities: • Analysis of the adequacy of the IT environment and tests of the operating effectiveness of controls over the IT systems and software applications used; • Understanding and evaluation of business procedures and processes in place for monitoring and measuring credit and tests of the operating effectiveness of relevant controls; • Understanding and verification of the appropriateness of policies, procedures and models used in measuring the SICR, and of the method of determination and estimation of the parameters used in those models, also having regard to the changes introduced during the year following the adoption of IFRS 9; • Assessment the reasonableness of the conclusions reached by the directors on the measurement of the loans, also taking into account the classification in the financial statements in accordance with the categories established by the applicable financial reporting framework; • For positions measured collectively, verification, on a test basis, of the reasonableness of classification based on the available information on the debtor's status and other available evidence, including from external sources, and of the correct application of the risk parameters determined as set out above; • For positions measured individually, verification, on a test basis, of measurement and the classification in the financial statements in accordance with

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
	the categories established by the applicable financial reporting framework.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

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- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 26 April 2010 the shareholders of Mediocredito Trentino – Alto Adige in general meeting engaged us to perform the statutory audit of the Company's financial statements for the years ending 31 December 2010 to 31 December 2018.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

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Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Mediocredito Trentino – Alto Adige SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Mediocredito Trentino – Alto Adige as of 31 December 2018, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Mediocredito Trentino – Alto Adige as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Mediocredito Trentino – Alto Adige SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 26 March 2019

PricewaterhouseCoopers SpA

Signed by

Marco Palumbo
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

BOARD OF STATUTORY AUDITORS' REPORT

(pursuant to the second paragraph of Article 2429 of the Civil Code)

Dear Shareholders,

Mediocredito Trentino – Alto Adige S.p.A. prepared the annual report for the financial year 2018 in accordance with Legislative Decree No. 38 of 28 February 2005, adopting the international accounting standards outlined for drafting the individual annual report of listed companies and banks.
The 2018 annual report for your Bank is composed of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the financial statements. It is also accompanied by the report on operations of the Board of Directors.
Finally, the tables and the notes to financial statements were prepared according to instructions issued by the Bank of Italy, as established under Circular No. 262 of 22 December 2005 and subsequent clarifications and updates. The Board of Directors forwarded the annual report to the Board of Statutory Auditors in a timely manner.
The Board of Statutory Auditors states that the Bank, as an entity of public interest, is subject to external auditing according to Decree No. 39, 27 January 2010, implementing directive 2006/43/EC, by PricewaterhouseCoopers S.p.A. pursuant to art. 2409 bis *et seq*. of the Italian Civil Code. This company has been entrusted with the task of auditing the annual report of the Bank for the nine year period 2010-2018, under a resolution of the Shareholders' Meeting of 26 April 2010.

1. We have conducted our audit of the annual report in accordance with the code of conduct of the Board of Statutory Auditors as laid down by the National Institute of Certified Public Accountants and Bookkeepers and under said principles we referred to all the laws currently in force in Italy that regulate the annual report that now includes the new international accounting standards.
2. In the preparation of the annual report, the Board of Directors made no allowances for exceptions to the application of the new IAS/IFRS principles and therefore a "statement of conformity" is included in the general part of the notes to the financial statements. In particular, the directors adequately illustrated in the financial statements document the process of transition to IFRS 9, which came into force on 1 January 2018, in terms of classification and measurement of financial instruments, determination of value adjustments, impact on assets, liabilities and shareholders' equity and representation of the comparative balances of the previous year.
3. For comparative purposes, the financial statements present the corresponding figures for 2017 - taking into account that the Bank made use of the exemption from the obligation to restate comparative values on a like-for-like basis when applying the new IFRS 9 standard - and are summarised as follows:

Statement of financial position				
Total assets			Euro	1,462,600,852.95
Payables and provisions	Euro	1,290,981,778.63		
Share capital and reserves	Euro	168,447,319.21	Euro	1,459,429,097.84
Profit for the year			Euro	3,171,755.11

Income statement		
Net interest and other banking income	Euro	23,596,785.67
Value adjustments	Euro	(7,114,486.83)
Operating costs	Euro	(11,265,883.87)
Revenues from equity investments, property, plant and equipment and intangible assets	Euro	(541,969.97)
Income taxes on current operations	Euro	(1,502,689.89)
Profit for the year	Euro	3,171,755.11

4. During the course of 2018, there were changes to the Bank's equity, changes owing to:
   - the recognition of €1,435,080.11 to reserves of part of the 2017 profit (undistributable portion);
   - the recognition of a negative €9,746,345.90 against reserves due to the introduction of IFRS 9;
   - the recognition using the valuation reserves of a negative €3,315,304.90 due to the adjustment of the value of financial assets measured at fair value through other comprehensive income and defined benefit plans (actuarial gains/losses) and of a negative €1,338,201.38 due to the introduction of IFRS 9:
   - the allocation to the fund as per Article 21 of the By-laws of €158,000.00;
   - the distribution of profit for a total €1,574,585.60;
   - a net profit of €3,171,775.11 was also recorded for the year 2018.

   The equity of the Bank as at 31 December 2018 amounted to €171,619,074.31, composed of:

- Share capital – item 160:	Euro	58,484,608.00
- Additional paid-in capital – item 150:	Euro	29,841,458.06
- Reserves – item 140:	Euro	79,934,271.39
- Valuation Reserves – item 110:	Euro	186,981.76
- Profit for the year – item 180	Euro	3,171,755.11

5. Own Funds entered into the financial statements as at 31 December 2018 were calculated applying the regulations introduced by Directive no. 2013/36/EU related to the prudential supervision of banks (CRD IV - known as Basel III).

   The result achieved shows how, on the whole, own funds decreased by €12,380,250.72 as at 31 December 2018 compared to 31 December 2017, therefore standing at €167,923,955.62: the Total capital ratio stood at 18.56% as at 31 December 2018 compared to 18.51% in 2017. The Board of Statutory Auditors considers this equity adequate in terms of amount and quality, with respect to total risks assumed and suitable for allowing future growth of the Bank.
6. The Board of Statutory Auditors acknowledges the disclosures provided by the Board of Directors in relation to the adoption of the going concern assumption in preparing the financial statements, the illustration of risk measurement and management systems and the level of risk exposure, the testing of assets for impairment and uncertainties in the use of estimations of the values booked to the financial statements. More specifically, it verified that the method used for measuring the financial assets is consistent in indicating the credit risk of the Bank and that the consequent recognition of write-downs is consistent with the current risk in the light of the innovations related to the first adoption of IFRS 9. The Board of Statutory Auditors considers this disclosure and related processes adequate to the transparency needs, also in relation to the indications included in the documents issued by the Italian Supervisory Authorities.

   In particular, the valuation process of financial assets, guarantees issued and commitments to disburse funds produced the following results in relation to the income statement:

	Adjust.	Write-backs	Net effect
Loans (analytical adjustments)	(11,904,239.59)	3,314,442.66	(8,589,796.93)
Loans (net collective adjustments)	-	2,111,332.32	2,111,332.32
HTC debt securities	(538,971.73)	7,152.73	(531,819.00)
HTCS debt securities	(181,018.00)	76,814.78	(104,203.22)
Total item 130.	**(12,624,229.32)**	**5,509,742.49**	**(7,114,486.83)**
"Time reversal" write-backs item 10.	-	1,966,981.07	1,966,981.07
Provisions for commitments and guarantees issued item 170.a	(4,023.92)	278,963.18	274,939.26
Value adjustments on equity investments item 220.	(550,000.00)	-	(550,000.00)
Total	**(13,178,253.24)**	**7,755,686.74**	**(5,422,566.50)**

7. The Board of Statutory Auditors approved the criteria adopted for determining the amounts of IRES (Corporate income tax) and IRAP (Regional business tax) relating to the year in application of the current tax regulations. The Board of Statutory Auditors acknowledges that in compliance with the new rules, the financial statements show current and deferred taxes in relation to the temporary differences between the book value of an asset or liability and its value for tax purpose, as better explained in the

explanatory notes. In particular, deferred tax assets were recognised on the loss for the 2015 year for a residual €346,724.82 for which the Board of Directors repeated the recoverability plan that the Board of Statutory Auditors still considers adequate.

8. In application of the reference regulations and provisions, the Bank has adopted regulations aimed at governing the investments held by banks, the risk assets and the conflicts of interest in respect of related parties (Bank of Italy Circular no. 263/06, Title V, Chapter 5) as well as personal cross investments (interlocking prohibition to protect competition, pursuant to Article 36 of Law Decree 201/2011). The Board of Statutory Auditors considers the organisational and risk safeguards identified by the Bank to be appropriate.
9. In compliance with the Bank of Italy's provisions on business continuity and disaster recovery, in 2018 the Bank tested the functionality of disaster recovery with the outsourcer of the IT system managed by IBT/SIBT, which did not reveal any significant problems.
10. Information pursuant to Article 10 of Law 72/83 on the subject of monetary revaluation of property, plant and equipment is provided in the notes to financial statements relative to revalued assets.
11. During the year, the Board of Statutory Auditors, in fulfilment of its duties, controlled the Bank's administration in the year under review. In 2018, the Board of Auditors held six meetings and oversaw the observance of the laws and by-laws governing all Shareholders' and Board of Directors meetings, which met seventeen times. The meetings were held in compliance with the statutory requirements, laws and regulations governing their operation. The Board of Statutory Auditors also verified that no imprudent or hazardous transactions were carried out, or transactions involving a potential conflict of interests, contrary to the resolutions passed by the Shareholders' Meeting, or which may compromise the integrity of the company's assets and minority rights.

    It also verified the correct application of the Bank of Italy Circular no. 285/2013 regarding corporate governance, with reference to the adequacy of the quali-quantitative composition of the company bodies, the self-assessment of the latter and public disclosure.
12. The Board of Statutory Auditors oversaw the adequacy of the organisational structure, limited to those aspects within its competence, of the internal control system and of the administrative-accounting system and the reliability of the latter in giving a true and fair view of the operations of the Bank. In this regard, the Board of Statutory Auditors acknowledges the report written by the Manager responsible for preparing the company's financial reports of 14 March 2018, which was submitted to the Board of Directors prior to the issuing of the Certification pursuant to Article 81-ter of the Consob Regulation on Issuers.

    The Board of Statutory Auditors oversaw the observance of the Bank's sound management principles, also carrying out an assessment of the organisational system during the year under review, which was used by the offices in charge of monitoring credit, market, interest rate, liquidity, legal and compliance risks that are specific to banking activities. The Board of Statutory Auditors followed the ICAAP process in relation to risk control and management, which shows that the Company's capital is adequate even in a stress scenario – the ILAAP process – which points out the dependence in funding from shareholders and, in general, from the significant concentration of employers and sources of funding - as well as the process of defining the Recovery Plan, assessing its regulatory compliance and consistency with the strategies and reference framework for risk, considering it compliant and adequate with the expected characteristics set out in the regulations.

    As Supervisory Body, it monitored the observance of the regulation pursuant to Legislative Decree no. 231/2001 regarding the administrative liability of legal entities and the regulation pursuant to Legislative Decree no. 231/2007.

    Lastly, it monitored compliance with the regulations governing professional services and investment activities with the public, and the overall adequacy of the controls of the risk of money laundering, for which no acts or events were highlighted, which came to light during the performance of their duties, which may represent a breach of the regulatory provisions.

13. In 2018, no complaints (reprehensible acts) were submitted to the Board of Statutory Auditors pursuant to Article 2408 of the Civil Code.
14. The Board of Statutory Auditors has constantly kept in touch with the person in charge of external auditing, during which no relevant data or information came to light.
15. During the year, the Bank underwent an inspection by the Bank of Italy, during which the Board of Statutory Auditors had the opportunity to discuss the strategic position of the company as well as its economic and financial situation and risks: no significant aspects were highlighted except the need to speed up the process of defining the ownership structure. In this regard, the Board of Statutory Auditors shares the need to complete the project for the reorganisation of the Bank's governance, which may have, among other things, beneficial effects on the management of funding.
16. The report on operations that accompanies the financial statements is drafted in compliance with the current regulations. In the opinion of the Board of Statutory Auditors, the annual report provides as a whole a correct representation of the statement of financial position, the financial situation and the economic result of the Bank for the year ended 31 December 2018 in compliance with the regulations governing the financial statements. This was illustrated in detail by the Board of Directors in the report on operations and in the notes to the financial statements, providing Shareholders and third parties with adequate information in relation to the Bank's transactions, including transactions with related parties. The Board of Statutory Auditors can also confirm that the annual report includes a description of the main risks and uncertainties to which the company is exposed. The report on operations by the Board of Directors includes all the main events that characterised the year and it focuses on expected business trends.
17. The Board of Statutory Auditors acknowledged the report of the independent auditors PricewaterhouseCoopers S.p.A. of 26 March 2019 for the financial statements as at 31 December 2018, which contains no significant observations. Based on the work done as independent auditors of the financial statements as at 31 December 2018, no elements have come to the attention of the auditors to date that suggests that there are significant deficiencies in the internal control system in relation to the financial reporting process as at said date.

Dear Shareholders,

As a result of the above and considering the information provided by the independent auditors PricewaterhouseCoopers S.p.A., the Board of Statutory Auditors states that there were no occurrences of infringements or non-compliance to the law and expresses its positive opinion to the approval of both the financial statements and the proposal for the allocation of the profit for the year expressed by the Board of Directors. It also informs the shareholders' meeting, despite the costs relating to intangible assets recorded under assets in the accounts still not having been fully amortised, there are still ample reserves to cover the amount of these costs.

Trento, 26 March 2019

Astrid Marinelli	Renato Beltrami	Patrick Bergmeister
Chairman	Standing auditor	Standing auditor

THE EFFECTS OF THE FIRST-TIME ADOPTION OF IFRS 9

The following tables show the effects of the first-time adoption of IFRS 9 as at 1 January 2018.
In addition to the reclassifications due to the application of IFRS 9 (i.e. for Business Models and SPPI Tests), it is considered advisable to point out here also those attributable to the introduction of new official statements by updating Bank of Italy Circular no. 262 of December 2017. In particular, note that financial assets are shown in a different way and instead of the former items "Loans and advances to customers", "Loans and advances to banks", "Financial assets held to maturity", "Financial assets available for sale", "Financial assets at fair value" and "Financial assets held for trading", they are now classified under the new items "Financial assets at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost".

RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS PUBLISHED IN THE 2017 FINANCIAL STATEMENTS AND THE IFRS 9 FINANCIAL STATEMENTS AS AT 1 JANUARY 2018 (FTA)

STATEMENT OF FINANCIAL POSITION – ASSETS

IAS 39	IFRS 9	Assets	31.12.2017	Reclassifications	SPPI test	31.12.2017 Reclassification	Value changes	01.01.2018
10.	10.	Cash and cash equivalents	1,860	-	-	1,860	-	1,860
20.	20.a	Financial assets held for trading	452,441	-	-	452,441	-	452,441
40.		Financial assets available for sale	243,771,038	-243,771,038	-	-	-	-
	20.c	Other financial assets mandatorily measured at fair value	-	+12,587,146	+11,439,610	24,026,756	-551.71	24,026,205
	30.	Financial assets at fair value through other comprehensive income	-	+231,183,892	-	231,183,892	-	231,183,892
60.	40.a	Loans and advances to banks	124,326,249	-	-	124,326,249	-73,955	124,252,294
70.	40.b	Loans and advances to customers	1,126,703,694	-	-11,439,610	1,115,264,083	-15,920,805	1,099,343,278
100.	70.	Equity investments	25,700	-	-	25,700	-	25,700
110.	80.	Property, plant and equipment	8,602,295	-	-	8,602,295	-	8,602,295
120.	90.	Intangible assets	63,983	-	-	63,983	-	63,983
130.	100.	Tax assets	14,551,191	-	-	14,551,191	+5,191,117	19,742,308
		(a) current	1,776,780	-	-	1,776,780	-	1,776,780
		(b) deferred	12,774,411	-	-	12,774,411	+5,191,117	17,965,528
		pursuant to Law 214/2011	10,518,580	-	-	10,518,580	-	10,518,580
150.	120.	Other assets	12,302,730	-	-	12,302,730	-	12,302,729
		TOTAL ASSETS	**1,530,801,181**	**-**	**-**	**1,530,801,181**	**-10,804,196**	**1,519,996,985**

Reclassifications

Reclassifications included €214.1m in debt securities in the banking portfolio, allocated to the available-for-sale portfolio, for which the Bank adopted the Held to collect and sell business model, measured at fair value, and allocated to item 30. "Financial assets at fair value through other comprehensive income".
The Bank also reclassified equity securities, previously allocated to the available-for-sale portfolio of €17.1m, to item 30. "Financial assets at fair value through other comprehensive income" with the adoption of the OCI Option, which provides for their measurement at fair value with effects on equity reserves without reversal to the income statement of gains and losses on disposal.

Finally, investments in UCITS, amounting to €12.6m, were reclassified from item 40. "Assets available for sale" to item 20.c "Financial assets at fair value through profit or loss - other financial assets mandatorily measured at fair value".

Failure to pass SPPI test

The Bank carried out the Solely Payment of Principal and Interest Test (SPPI test) for all the financial assets managed under the Held to Collect business model (HTC) and the Held to Collect and Sell business model (HTCS), also carrying out the Benchmark test on financial assets for which it was required. The results of the tests were negative only for two limited-recourse loans, for a total of €11.4m, related to existing securitisations, which were reclassified from item 40. "Assets available for sale" to item 20.c "Financial assets at fair value through profit or loss - other financial assets mandatorily measured at fair value".

Value changes

The changes in loans refer to the different method of impairment (collective for stages 1 and 2, individual for stage 3), detailed below:

Loans and advances to banks

	Greater impairment Stage 1	Greater impairment Stage 2	Greater impairment Stage 3	IFRS 9 FTA effect
Current accounts	-46,379	-1,232	-	**-47,611**
Deposits	-26,344	-	-	**-26,344**
Total	**-72,723**	**-1,232**	**-**	**-73,955**

Loans and advances to customers

	Greater impairment Stage 1	Greater impairment Stage 2	Greater impairment Stage 3	IFRS 9 FTA effect
Current accounts	-15,269	-3	-12	**-15,284**
Loans	+4,578,170	-4,272,969	-16,295,704	**-15,990,503**
Leasing	+335,997	-279,641	-	**+56,356**
Bills receivable	+51,570	-	-	**+51,570**
Building leasing turnkey	+8,130	-	-	**+8,130**
Debt securities (minibonds)	-31,073	-	-	**-31,073**
Total	**+4,926,973**	**-4,552,613**	**-16,295,716**	**-15,920,805**

The value changes made to item 100.b "Deferred tax assets" concern the effects of the recalculation of taxes on the value changes of assets and liabilities, as detailed below:

	Increase in deferred tax assets	Decrease in deferred tax assets	IFRS 9 FTA effect
Impairment of receivables	+5,152,584	-	**+5,152,584**
Impairment of HTC debt securities	+10,076	-	**+10,076**
Impairment of HTCS debt securities	+11,925	-	**+11,925**
Reclassification of equity securities under OCI options with impairment	+16,532	-	**+16,532**
Total	**+5,191,117**	**-**	**+5,191,117**

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

IAS 39	IFRS 9	Equity and liabilities	31.12.2017	Reclassifica-tions	31.12.2017 Reclassification	Value changes	01.01.2018
10.	10.a	DUE TO BANKS	873,637,108	-	873,637,108	-	873,637,108
20.	10.b	DUE TO CUSTOMERS	169,597,148	-	169,597,148	-	169,597,148
30.	10.c	DEBT SECURITIES IN ISSUE	289,978,680	-	289,978,680	-	289,978,680
40.	20.	FINANCIAL LIABILITIES HELD FOR TRADING	312,421	-	312,421	-	312,421
80.	60.	TAX LIABILITIES	6,182,799	-	6,182,799	+14,265	6,197,064
		(a) current	226,243	-	226,243	-	226,243
		(b) deferred	5,956,556	-	5,956,556	+14,265	5,970,821
100.	80.	OTHER LIABILITIES	2,986,258	-25,980	2,960,278	-	2,960,278
110.	90.	PROVISION FOR SEVERANCE INDEMNITIES	1,397,820	-	1,397,820	-	1,397,820
120.	100.	PROVISIONS FOR RISKS AND CHARGES	2,129,190	+25,980	2,155,170	+266,085	2,421,255
	a)	commitments and guarantees issued		+25,980	25,980	+266,085	292,065
a)	b)	pension fund and similar provisions	-	-	-	-	-
b)	c)	other provisions	2,129,190	-	2,129,765	-	2,129,190
130.	110.	VALUATION RESERVES	4,840,488	-415,132	4,425,356	-923,069	3,502,287
160.	140.	RESERVES	88,245,537	+415,132	88,660,669	-10,161,478	78,499,191
170.	150.	ADDITIONAL PAID-IN CAPITAL	29,841,458	-	29,841,458	-	29,841,458
180.	160.	SHARE CAPITAL	58,484,608	-	58,484,608	-	58,484,608
200.	180.	NET INCOME (LOSS) FOR THE PERIOD (+/-)	3,167,666	-	3,167,666	-	3,167,666
		TOTAL ASSETS	**1,530,801,181**	**-**	**1,530,801,181**	**-10,804,196**	**1,519,996,985**

Reclassifications

Reclassifications included valuation reserves of portfolio investments in UCITS of €415 thousand as at 31 December 2017 which were reclassified from item 40. "Assets available for sale" to item 20.c "Financial assets at fair value through profit or loss - other financial assets mandatorily measured at fair value".
Moreover, the amount relating to the collective impairment of endorsement loans (€26 thousand) was reclassified from item 80. "Other liabilities" to item 100.a "Provisions for risks and charges - commitments and guarantees issued", in compliance with the provisions of Bank of Italy Circular 262/2005.

Value changes

The value changes made to item 60. "Deferred tax assets" concern the effects of the recalculation of taxes on value changes of assets and liabilities, as detailed below:

	Increase in deferred tax liabilities	Decrease in deferred tax liabilities	IFRS 9 FTA effect
Impairment of HTCS debt securities	+14,265	-	**+14,265**
Total	**+14,265**	**-**	**+14,265**

The changes in item 100.a "Provisions for risks and charges - commitments and guarantees issued" refer to the different method of impairment (collective for stages 1 and 2, individual for stage 3), detailed below:

	Greater impairment Stage 1	Greater impairment Stage 2	Greater impairment Stage 3	IFRS 9 FTA effect
Guarantees issued	-17,114	+14	+3,815	**-13,286**
Margins available on loans	+78,630	-	+200,742	**+279,371**
Total	**+61,516**	**+14**	**+204,557**	**+266,085**

The value changes made to item 110. "Valuation reserves" concern the effects of reclassifications and the different calculation of impairment on securities portfolio - the gross effects of which have already been described - as detailed below:

		Positive reserve	Negative reserve	IFRS 9 FTA effect
Impairment of HTCS debt securities	Gross	+33,448	+93,869	**+127,317**
	Taxes	*-14,265*	*-30,179*	***-44,444***
Reclassification of equity securities under OCI options with impairment	Gross	-	-1,054,998	**-1,054,998**
	Taxes	*-*	*+49,057*	***+49,057***
Total		**+19,183**	**-942,251**	**-923,069**

The value changes made to item 140. "Reserves" concern the effects of reclassifications and the different calculation of impairment - the gross effects of which have already been described - as detailed below:

	Gross	Taxes	IFRS 9 FTA effect
Impairment:			
- HTCS debt securities	-127,317	+42,104	-85,213
- HTC debt securities	-31,073	+10,076	-20,997
- customer a/c	-15,836	+5,135	-10,701
- Loans	-15,990,503	+5,185,081	-10,805,422
- Leasing	+56,356	-18,274	38,082
- Bills receivable	+51,570	-16,722	34,848
- Building leasing turnkey	+8,130	-2,636	5,494
- banks a/c	-47,611	-	-47,611
- Bank deposits	-26,344	-	-26,344
- Endorsement loans	+13,286	-	13,286
- Margins available on loans	-279,371	-	-279,371
Reclassification of equity securities under OCI options with impairment	+1,054,998	-32,525	1,022,473
Total	**-15,333,715**	**+5,172,238**	**-10,161,478**

OWN FUNDS AND PRUDENTIAL RATIOS

The effects described above led to adjustments to regulatory capital and prudential ratios; in particular:
- The increase in impairment (net of the tax effect) reduces CET1, AT1 and Total Capital through the reduction of own funds;
- RWA decreased due to the increase in value adjustments, especially for the "default exposures" portfolio, and increased due to higher deferred tax assets.

Therefore, the First Time Adoption had a negative impact on the prudential ratios of 86 b.p., as shown in the table below:

Items	31.12.2017	Impairment impact	Business model impact	Tax impact	01.01.2018
Common Equity Tier 1	180,198,331	-16,261,396	-	+5,176,851	169,113,786
Additional Tier 1	-	-	-	-	-
Total Tier 1 capital	**180,198,331**	**-16,261,396**	**-**	**+5,176,851**	**169,113,786**
Tier 2 Capital	105,875	-	-	-	-
Own funds	**180,304,206**	**-16,261,396**	**-**	**+5,176,851**	**169,219,661**
RWA	**974,256,316**	**-28,128,741**	**-**	**+12,977,793**	**959,105,367**
CET1 ratio	18.50				17.63
T1 ratio	18.50				17.63
Total capital ratio	18.51				17.64

CREDIT QUALITY

The following is an analysis of the credit quality of exposures to customers at amortised cost, before and after adoption of IFRS 9.

	31.12.2017			FTA	01.01.2018		
	Gross	**Impairment**	**Net**	**Adjust.**	**Gross**	**Impairment**	**Net**
Impaired loans	**167,802**	**68,784**	**99,018**	**+16,296**	**167,802**	**85,080**	**82,722**
- doubtful	120,994	56,922	64,071	+11,977	120,994	68,899	52,094
of which transferable				*+11,977*	*63,500*	*37,372*	*26,128*
- unlikely to pay	44,285	11,602	32,683	+4,319	44,285	15,921	28,364
of which transferable				*+4,319*	*30,172*	*13,693*	*16,479*
- past due	2,524	260	2,264		2,524	260	2,264
Performing loans	**1,036,006**	**8,320**	**1,027,686**	**-375**	**1,036,006**	**7,946**	**1,028,060**
- stage 1				-4,928	938,083	2,245	935,838
- stage 2				+4,553	86,483	5,701	80,783
- mandatorily measured at fair value					11,440	-	11,440
Total loans	**1,203,809**	**77,105**	**1,126,704**	**+15,921**	**1,203,809**	**93,026**	**1,110,783**

The effect of the above impacts on the incidence of impaired assets and on coverage levels is set out below:

in %	31.12.2017	01.01.2018
gross impaired loans / gross loans to customers	13.9	13.9
gross impaired loans / own funds	93.1	99.2
net impaired loans / net loans to customers	8.8	7.4
net impaired loans / own funds	54.9	48.9
gross doubtful loans / gross loans to customers	10.1	10.1
gross doubtful loans / own funds	67.1	71.5
net doubtful loans / net loans to customers	5.7	4.7
net doubtful loans / own funds	35.5	30.8
gross unlikely to pay / gross loans to customers	3.7	3.7
net unlikely to pay / net loans to customers	2.9	2.6
coverage of doubtful loans	47.0	56.9
coverage of unlikely to pay	26.2	36.0

COMPANY FINANCIAL STATEMENTS[25]

STATEMENT OF FINANCIAL POSITION – ASSETS

	Assets	31.12.2018	31.12.2017
10.	CASH AND CASH EQUIVALENTS	4,458	1,860
20.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	23,569,245	24,479,197
	a) FINANCIAL ASSETS HELD FOR TRADING	273,608	452,441
	b) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	-	-
	c) OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE	23,295,637	24,026,756
30.	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	105,000,851	231,183,892
40.	FINANCIAL ASSETS AT AMORTISED COST	1,302,028,244	1,239,590,332
	a) LOANS AND ADVANCES TO BANKS	40,959,508	124,326,249
	b) LOANS AND ADVANCES TO CUSTOMERS	1,261,068,736	1,115,264,083
70.	EQUITY INVESTMENTS	175,700	25,700
80.	PROPERTY, PLANT AND EQUIPMENT	8,218,713	8,602,295
90.	INTANGIBLE ASSETS	47,867	63,983
	of which:		
	- goodwill	-	-
100.	TAX ASSETS	18,221,487	14,551,191
	(a) current	1,123,583	1,776,780
	(b) deferred	17,097,904	12,774,411
	pursuant to Law 214/2011	10,518,580	10,518,580
110.	NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE	-	-
120.	OTHER ASSETS	5,334,288	12,302,730
	TOTAL ASSETS	**1,462,600,853**	**1,530,801,181**

The Financial Statements were drawn up in Euro units with no decimal numbers as figures were previously rounded.

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

	Equity and liabilities	31.12.2018	31.12.2017
10.	FINANCIAL LIABILITIES AT AMORTISED COST	1,278,261,880	1,333,212,936
	a) DUE TO BANKS	901,097,039	873,637,108
	b) DUE TO CUSTOMERS	184,996,467	169,597,148
	c) DEBT SECURITIES IN ISSUE	192,168,374	289,978,680
20.	FINANCIAL LIABILITIES HELD FOR TRADING	202,013	312,421
60.	TAX LIABILITIES	5,425,143	6,182,799
	(a) current	96,961	226,243
	(b) deferred	5,328,182	5,956,556
80.	OTHER LIABILITIES	3,286,077	2,960,278
90.	PROVISION FOR SEVERANCE INDEMNITIES	1,360,831	1,397,820
100.	PROVISIONS FOR RISKS AND CHARGES	2,445,835	2,155,170
	(a) commitments and guarantees issued	13,102	25,980
	(b) pension fund and similar provisions	-	-
	(c) other provisions	2,432,733	2,129,190
110.	VALUATION RESERVES	186,982	4,425,356
120.	RESERVES	79,934,271	88,660,669
130.	ADDITIONAL PAID-IN CAPITAL	29,841,458	29,841,458
140.	SHARE CAPITAL	58,484,608	58,484,608
180.	NET INCOME (LOSS) FOR THE PERIOD (+/-)	3,171,755	3,167,666
	TOTAL EQUITY AND LIABILITIES	**1,462,600,853**	**1,530,801,181**

The Financial Statements were drawn up in Euro units with no decimal numbers as figures were previously rounded. The algebraic sum of discrepancies due to rounding off is equal to -€1 and is booked to "other liabilities".

25 As indicated in the introductory chapter "Transition to IFRS 9", the Bank used the exemption from the obligation to restate the comparative values envisaged in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", based on which the mandatory restatement on a like-for-like basis of the comparative data in the financial statements of first-time adoption of the new standard is not envisaged. As a result, the statement of financial position and income statement balances for the previous year, in that they were prepared in accordance with the former accounting standard IAS 39, are not fully comparable with the new accounting categories and the related measurement criteria introduced by the new standard IFRS 9.

INCOME STATEMENT

	Items	31.12.2018	31.12.2017
10	INTEREST INCOME AND SIMILAR REVENUES	29,101,413	32,118,388
	of which interest income calculated with the effective interest method	28,189,028	31,073,344
20	INTEREST EXPENSE AND SIMILAR CHARGES	(7,818,212)	(10,198,076)
30	**NET INTEREST INCOME**	**21,283,201**	**21,920,312**
40	FEE AND COMMISSION INCOME	1,918,428	1,849,510
50	FEE AND COMMISSION EXPENSE	(448,382)	(335,734)
60	**NET FEE AND COMMISSION INCOME (EXPENSE)**	**1,470,046**	**1,513,776**
70	DIVIDENDS AND SIMILAR INCOME	584,061	243,793
80	NET TRADING INCOME	(68,268)	139,232
100	GAINS (LOSSES) ON DISPOSAL OR REPURCHASE OF:	1,301,252	3,297,121
	a) financial assets at amortised cost	40,444	30,345
	b) financial assets at fair value through other comprehensive income	1,260,750	3,266,776
	c) financial liabilities	58	-
110	NET CHANGE IN OTHER FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	(973,509)	-
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	(973,509)	-
120	**NET INTEREST AND OTHER BANKING INCOME**	**23,596,783**	**27,114,234**
130	NET ADJUSTMENTS DUE TO CREDIT RISK TO:	(7,114,487)	(13,930,567)
	a) financial assets at amortised cost	(7,010,284)	(14,178,465)
	b) financial assets at fair value through other comprehensive income	(104,203)	247,898
150	**NET INCOME FROM FINANCIAL ACTIVITIES**	**16,482,296**	**13,183,667**
160	ADMINISTRATIVE COSTS:	(10,749,908)	(10,185,222)
	a) payroll	(6,930,097)	(6,903,124)
	b) other administrative costs	(3,819,811)	(3,282,098)
170	NET PROVISIONS FOR RISKS AND CHARGES	(713,334)	(880,342)
	a) commitments and guarantees issued	274,939	(24,277)
	b) other net accruals	(988,273)	(856,065)
180	NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT	(522,019)	(548,328)
190	NET ADJUSTMENTS TO INTANGIBLE ASSETS	(43,029)	(58,387)
200	OTHER OPERATING CHARGES/INCOME	762,409	489,001
210	**OPERATING COSTS**	**(11,265,881)**	**(11,183,278)**
220	PROFIT (LOSS) FROM EQUITY INVESTMENTS	(550,000)	233,325
250	GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS	8,030	5,841
260	**PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES**	**4,674,445**	**2,239,555**
270	INCOME TAXES ON CURRENT OPERATIONS	(1,502,690)	(313,916)
280	**PROFIT (LOSS) FROM CURRENT OPERATIONS AFTER TAX**	**3,171,755**	**1,925,639**
290	PROFIT (LOSS) FROM DISCONTINUED OPERATIONS AFTER TAX	-	1,242,027
300	**INCOME (LOSS) FOR THE YEAR**	**3,171,755**	**3,167,666**

The Financial Statements were drawn up in Euro units with no decimal numbers as figures were previously rounded. The algebraic sum of discrepancies due to rounding off of liabilities is equal to +€2 and is booked to "other operating charges/income".

STATEMENT OF COMPREHENSIVE INCOME

	Items	31.12.2018	31.12.2017
10.	NET INCOME (LOSS) FOR THE PERIOD	**3,171,755**	**3,167,666**
	Other income components net of taxes without reversal to income statement		
20.	EQUITY SECURITIES DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(1,745,965)	+139,297
70.	DEFINED BENEFIT PLANS	+22,675	-18
	Other income components net of taxes with reversal to income statement		
120.	CASH FLOW HEDGES	-	-
140	FINANCIAL ASSETS (OTHER THAN EQUITY SECURITIES) AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(1,592,015)	+336,793
170.	**TOTAL OTHER INCOME COMPONENTS NET OF TAXES**	**(3,315,305)**	**+476,072**
180.	**COMPREHENSIVE INCOME (Item 10+170)**	**(143,550)**	**3,643,738**

RECONCILIATION OF "COMPREHENSIVE INCOME" 31.12.2017 IN PURSUANCE OF IAS 39

FAIR VALUE CHANGES OF INVESTMENTS IN UCITS ALREADY CLASSIFIED AS AFS	(120,476)
RECONCILED COMPREHENSIVE INCOME	**3,523,262**

STATEMENT OF CHANGES IN EQUITY 31/12/2017 – 31/12/2018

	Balance as at 31.12.2017	Changes in opening balance	Balance as at 1.1.2018	Allocation of the previous year's result		Change for the year								Equity as at 31.12.2018
							Transaction booked to equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	2018 Comprehensive income	
Share capital:	58,484,608	-	58,484,608	-	-	-	-	-	-	-	-	-	-	**58,484,608**
a) ordinary shares	58,484,608	-	58,484,608	-	-	-	-	-	-	-	-	-	-	**58,484,608**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Additional paid-in capital	29,841,458	-	29,841,458	-	-	-	-	-	-	-	-	-	-	**29,841,458**
Reserves:	88,245,538	-9,746,347	78,499,191	+1,435,080	-	-	-	-	-	-	-	-	-	**79,934,271**
a) from profit	88,245,538	-9,746,347	78,499,191	+1,435,080	-	-	-	-	-	-	-	-	-	**79,934,271**
- legal reserve	19,093,008	-	19,093,008	+158,000	-	-	-	-	-	-	-	-	-	**19,251,008**
- statutory reserves[26]	47,561,674	-	47,561,674	+1,277,080	-	-	-	-	-	-	-	-	-	**48,838,754**
- other profit reserves[27]	21,590,856	-9,746,347	11,844,509	-	-	-	-	-	-	-	-	-	-	**11,844,509**
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Valuation reserves:	4,840,489	-1,338,202	3,502,287	-	-	-	-	-	-	-	-	-	-3,315,305	**186,982**
a) assets available for sale	*938,887*	*-938,887*	-	-	-	-	-	-	-	-	-	-	-	**-**
a) at FV through OCI	-	-399,314	-399,314	-	-	-	-	-	-	-	-	-	-3,337,980	**-3,737,294**
b) cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
c) others	3,901,600	-	3,901,617	-	-	-	-	-	-	-	-	-	+22,675	**3,924,275**
- Severance indemnities	-416,732	-	-416,715	-	-	-	-	-	-	-	-	-	+22,675	**-394,057**
- property reval. Law 413/91	745,631	-	745,631	-	-	-	-	-	-	-	-	-	-	**745,631**
- property reval. Law 342/2000	3,572,701	-	3,572,701	-	-	-	-	-	-	-	-	-	-	**3,572,701**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Net income (loss) for the period	3,167,666	-	3,167,666	-1,435,080	-1,732,586	-	-	-	-	-	-	-	3,171,755	**3,171,755**
Equity	**184,579,756**	**-11,084,549**	**173,495,210**	**-**	**-1,732,586**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-143,550**	**171,619,074**

STATEMENT OF CHANGES IN EQUITY 31/12/2016 – 31/12/2017

	Balance as at 31.12.2016	Changes in opening balance	Balance as at 1.1.2017	Allocation of the previous year's result		Change for the year								Equity as at 31.12.2017
							Transaction booked to equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	2017 Comprehensive income	
Share capital:	58,484,608	-	58,484,608	-	-	-	-	-	-	-	-	-	-	**58,484,608**
a) ordinary shares	58,484,608	-	58,484,608	-	-	-	-	-	-	-	-	-	-	**58,484,608**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Additional paid-in capital	29,841,458	-	29,841,458	-	-	-	-	-	-	-	-	-	-	**29,841,458**
Reserves:	87,998,799	-	87,998,799	+246,739	-	-	-	-	-	-	-	-	-	**88,245,538**
a) from profit	87,998,799	-	87,998,799	+246,739	-	-	-	-	-	-	-	-	-	**88,245,538**
- legal reserve	19,093,008	-	19,093,008	-	-	-	-	-	-	-	-	-	-	**19,093,008**
- statutory reserves[28]	47,314,935	-	47,314,935	+246,739	-	-	-	-	-	-	-	-	-	**47,561,674**
- other profit reserves[29]	21,590,856	-	21,590,856	-	-	-	-	-	-	-	-	-	-	**21,590,856**
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Valuation reserves:	4,484,892	-	4,484,892	-	-	-	-	-	-	-	-	-	+355,596	**4,840,489**
a) assets available for sale	583,273	-	583,273	-	-	-	-	-	-	-	-	-	+355,614	**938,887**
b) cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
c) others	3,901,617	-	3,901,617	-	-	-	-	-	-	-	-	-	-18	**3,901,600**
- Severance indemnities	-416,715	-	-416,715	-	-	-	-	-	-	-	-	-	-18	**-416,732**
- property reval. Law 413/91	745,631	-	745,631	-	-	-	-	-	-	-	-	-	-	**745,631**
- property reval. Law 342/2000	3,572,701	-	3,572,701	-	-	-	-	-	-	-	-	-	-	**3,572,701**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Net income (loss) for the period	259,239	-	259,239	-246,739	-12,500	-	-	-	-	-	-	-	3,167,666	**3,167,666**
Equity	**181,068,995**	**-**	**181,068,995**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,523,262**	**184,579,756**

26 The item also includes the undistributable reserve pursuant to Article 6 paragraph 2 of Legislative Decree 38/2005.

27 "Other profit reserves" include the reserve from the first-time adoption of IAS/IFRS (including therein provisions for general bank risks and loan risks) and the reserve from the first-time adoption of IFRS 9.

28 The item also includes the undistributable reserve pursuant to Article 6 paragraph 2 of Legislative Decree 38/2005.

29 "Other profit reserves" include the reserve from the first-time application of IAS/IFRS (including therein provisions for general bank risks and credit risks).

CASH FLOW STATEMENT (INDIRECT METHOD)

A.	OPERATING ACTIVITIES	2018
1.	**Operations**	**+13,214,942**
-	profit (loss) for the year	+3,171,756
-	capital gains/losses on financial assets held for trading and on assets/liabilities at fair value through profit or loss	+1,041,933
-	capital gains/losses on hedging activities	-
-	net adjustments to credit risk	+5,408,895
-	net adjustments/write-backs to property, plant and equipment and intangible assets	+557,018
-	net provision for risks and charges and other costs/revenues	+1,011,273
-	unpaid duties, taxes and tax credits	+1,502,690
-	other adjustments	+521,377
2.	**Cash flow generated/absorbed by financial assets**	**+42,499,871**
-	financial assets held for trading	-
-	financial assets designated at fair value	-
-	other financial assets mandatorily measured at fair value	-242,390
-	financial assets at fair value through other comprehensive income	+121,892,755
-	financial assets at amortised cost	-86,330,693
-	other assets	+7,180,145
3.	**Cash flow generated/absorbed by financial liabilities**	**-53,122,252**
-	financial liabilities at amortised cost	-52,608,619
-	financial liabilities held for trading	-
-	financial liabilities designated at fair value	-
-	other liabilities	-513,633
	Net cash flow generated/absorbed by operating activities	**+2,592,507**

B.	INVESTING ACTIVITY	
1.	**Cash flow generated by**	**+8,263**
-	sale of equity investments	-
-	dividends from equity investments	-
-	sale of property, plant and equipment	+8,263
-	sale of intangible assets	-
-	sale of company divisions	-
2.	**Cash flow absorbed by**	**-865,583**
-	purchase of equity investments	-700,000
-	purchase of property, plant and equipment	-138,670
-	purchase of intangible assets	-26,913
-	purchase of company divisions	-
	Net cash flow generated/absorbed by operating activities	**-857,320**

C.	FINANCING ACTIVITY	2018
-	issue/purchase of treasury shares	-
-	issue/purchase of equity instruments	-
-	distribution of dividends and other objectives	-1,732,586
	Net liquidity generated/absorbed by financing activities	**-1,732,586**
	NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD	**+2,598**

RECONCILIATION

Statement of financial position items	2018
Cash and cash equivalent at the beginning of the period	**1,860**
Net liquidity generated/absorbed during the period	+2,598
Cash and cash equivalents: effect of changes in exchange rates	-
Cash and cash equivalents at the end of the year	**4,458**

NOTES TO THE FINANCIAL STATEMENTS

PART A - ACCOUNTING POLICIES

A.1 GENERAL PART

SECTION 1 – STATEMENT OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The separate financial statements of Mediocredito Trentino - Alto Adige S.p.A. have been prepared in compliance with the applicable *International Accounting Standards (IAS/IFRS) issued by the International Accounting Standards Board®* and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission under EU regulation 1606/2002.
They were prepared according to instructions issued by the Bank of Italy in the exercise of its power, as these were established with Article 9 of Legislative Decree no. 38/2005, with Circular no. 262 of 22 December 2005 and subsequent amendments.

SECTION 2 – GENERAL PRINCIPLES OF PREPARATION

General aspects

The financial statements comprise the Statement of financial position, the Income statement, the Statement of comprehensive income, the Statement of changes in equity, the Cash flow statement and [30]Notes to the financial statements. They are also accompanied by a Board of Directors' report on operations, the economic results and the Bank's financial position.
The financial statements are drawn up in Euros, while data in the Notes to the financial statements are expressed in thousands of Euros, based on the application of the general principles set forth by IAS 1: to this end, we refer to the prospective of the company as a going concern (par. 23), the accrual basis of accounting (par. 25 and 26), consistency in the presentation and classification of items (par. 27), the relevance and aggregation of items, the prohibition regarding offsetting, comparative information as well as the specific accounting principles illustrated in Part A.2 in the Notes to the financial statements.
There were no departures from the application of the IAS/IFRS. The new accounting standards IFRS 9 and IFRS 15 were applied effective as from 1 January 2018: with regard to IFRS 9, refer to the relevant chapters in the report on operations; however, with reference to IFRS 15, there were no significant effects on the current financial statements.
For completeness, with regard to the formats defined by the Bank of Italy, the Notes to the financial statements sometimes contain the titles for the sections that relate to the items that are not accompanied by an amount, either for the year the financial statements cover or for the previous year, whichever is deemed important for providing better information.

Going concern assumption

The international accounting standards - recalled by the coordination table with The Bank of Italy, Consob and Isvap coordination forum on applying IAS/IFRS with document no. 2 of 6 February 2009 "Disclosure in financial reports on the going concern assumption, financial risks, tests of assets for impairment and uncertainties on the use of estimations", and also with document no. 4 of 3 March 2010 "Disclosure in financial reports on impairment of assets, clauses in debt contracts, debt restructuring and on the «Fair value hierarchy» require directors to make an especially accurate assessment of whether the going concern assumption is appropriate.
To this end, paragraphs 23-24 of IAS 1 state that: "When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements must be prepared on a going concern basis unless management either intend to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In making its assessment, when management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties must be disclosed. When financial statements are not prepared on a going concern basis, that fact must be disclosed together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern".
The still uncertain economic growth forecast and the performance of financial markets, and the continuation of monetary policy measures to support the real economy that is not yet self-sufficient still require a very accurate assessment of the existence of the going concern basis.
Relating to this, the directors of Mediocredito Trentino – Alto Adige S.p.A., after examining the risks and uncertainties that are correlated to the current macroeconomic context, confirm that they are reasonably certain that the Company will continue its operational existence in the near future. Consequently, they have prepared the financial statements as at 31 December 2018 based on the going concern assumption.
They also confirm that they have not observed any symptom that might cast doubts on the ongoing concern assumption and the actual income generating capacity, either in the economic and financial structure or in the business trend.

SECTION 3 – EVENTS AFTER THE REPORTING DATE

In the period between 31 December 2018 and the date of approval of these financial statements, there were no material events that have occurred such as to appreciably impinge on the Bank's activities, economic results and portfolio risk.
Note also that on 1 March, the Bank of Italy submitted its inspection report to the Board of Directors, which shows that the organisational and management structure of Mediocredito and its controls were mainly positive.

30 The cash flow statement is drawn up by applying the "indirect" method on the basis of which the cash flows from operating activities are represented by the result for the year adjusted for the effects of non-monetary transactions. The cash flows are subdivided into those deriving from operating, investing and financing activities.

SECTION 4 – OTHER ASPECTS

Parent company

Exemption from the obligation to prepare consolidated financial statements: the Bank does not prepare consolidated financial statements as the consolidation of the subsidiary Paradisidue S.r.l. (financial statements assets as at 31 December 2018 of €8.3m) is not deemed significant to the improvement of the disclosures provided *(IAS 8 and paragraphs 26, 29, 30 and 44 of the "Systematic framework for the Preparation and Presentation of Financial Statements" or Framework)*. The subsidiary owns a building whose value, appropriately estimated, corresponds to market values and the equity investment is booked in the financial statements of the Bank at equity.

Auditing

The Bank as an Entity of Public Interest is subject to statutory auditing according to Legislative Decree No. 39 of 27 January 2010, in implementation of directive 2006/43/EC, and the appointed auditing company is PricewaterhouseCoopers S.p.A. Said company had been entrusted with the task of auditing the financial statements of the Bank for the nine-year period 2010-2018, by means of resolution of the Shareholders' Meeting of 26 April 2010.
Pursuant to art. 2427, paragraph 1, 16-*bis*, the agreed fees for 2018 are indicated below:

- External audit of annual accounts: €48,892 plus VAT, expenses and Consob contribution;
- National guarantee fund: €3,000 plus VAT and expenses;
- Revision of TLTRO-II reports: €18,000 plus VAT and expenses.

Risk and uncertainties due to the use of estimates

The Bank has completed the estimation processes that support the book value of the most significant valuation-related items booked to the financial statements as at 31 December 2018, as set out in the current accounting standards and reference regulations. These processes are largely based on the estimated future possible recovery concerning the values recorded in the financial statements in accordance with the rules laid down by the current regulations and are carried out based on the going concern assumption, i.e. leaving aside hypotheses regarding forced liquidation of the items being measured. For this information we refer you to the report on operations and the Notes to the financial statements, part E.
The checks carried out by the operational and internal control functions, the control body and the Supervisory Body support the book values of the items mentioned as at 31 December 2018.

Disclosure pursuant to paragraphs 125, 126 *et seq.* of Law 124/2017.

With reference to the disclosure pursuant to paragraphs 125, 126 *et seq*. of Law 124/2017, we inform you that in 2018 the Bank did not receive any subsidies, contributions, paid assignments and, in any case, economic advantages of any kind from public administrations, companies controlled in law or in fact by public administrations or companies in which public administrations have an interest.
The guarantees granted in our interest and in favour of the EIB by the Autonomous Provinces of Trento, Bolzano and the Region of Trentino - Alto Adige (shareholders of the bank) are remunerated at market price and do not constitute State aid.

A.2 ILLUSTRATION OF THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

SECTION 1 – FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

1.1 Classification criteria

This category includes financial assets other than those recognised as Financial assets designated at fair value through other comprehensive income and Financial assets designated at amortised cost. In particular, the item includes:

- financial assets held for trading, mainly represented by debt and equity securities and by the positive value of derivative contracts held for trading as well as derivative instruments with a positive fair value that are related to assets or liabilities measured at fair value;
- other financial assets mandatorily measured at fair value, represented by financial assets that do not meet the requirements for measurement at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not exclusively envisage capital repayments and interest payments on the amount of capital to be repaid (known as "SPPI test" not passed) or that are not held within the framework of a business model whose objective is the possession of assets aimed at collecting contractual financial flows ("Hold to Collect" Business model) or whose objective is achieved both through the collection of contractual financial flows and through the sale of financial assets ("Hold to Collect and Sell" Business model);
- financial assets designated at fair value, i.e. financial assets thus defined at the time of initial recognition and where the requirements are met. In relation to this case, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss at the time of recognition if, and only if, by doing so, it eliminates or significantly reduces a valuation inconsistency.

Therefore, this item includes:

- debt securities and loans that are included in an Other/Trading business model (therefore not attributable to the "Hold to Collect" or "Hold to Collect and Sell" business models) or that do not pass the SPPI test, including the portions of syndicated loans subscribed that, from the outset, are intended for sale and are not attributable to a Hold to Collect and Sell business model;
- equity instruments that do not qualify as establishing control or joint control over or association with companies and held for trading or for which the option to be designated at fair value through other comprehensive income was not exercised;
- investments in UCITS.

The item also includes derivative contracts, recorded under financial assets held for trading, which are represented as assets if the fair value is positive and as liabilities if the fair value is negative. Positive and negative current values deriving from transactions in place with the same counterparty can be offset only if there is a current legal right to offset the recognised amounts and the intention is to settle the positions to be offset on a net basis.

Derivative contracts also include those embedded in combined financial contracts - in which the host contract is a financial liability - which have been recognised separately because:

- their economic characteristics and risks are not closely related to the characteristics of the underlying contract;
- embedded derivatives, even if separate, meet the definition of a derivative;
- the hybrid instruments to which they belong are not measured at fair value with the related changes recognised in the Income Statement.

According to the general rules envisaged by IFRS 9 on the reclassification of financial assets (with the exception of equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity modifies its business model for the management of financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through profit or loss into one of the other two categories envisaged by IFRS 9 (Financial assets designated at amortised cost or Financial assets designated at fair value through other comprehensive income). The transfer value is the fair value at the time of reclassification and the effects of reclassification operate prospectively from the date of reclassification. In this case, the effective interest rate of the reclassified financial asset is determined on the basis of its fair value on the date of reclassification, and that date is considered as the date of initial recognition for the allocation to the various stages of credit risk (stage assignment) for the purposes of determining impairment.

For further information on the classification criteria of financial instruments, refer to the following chapter "Classification criteria of financial assets".

1.2 Recognition criteria

Financial assets are initially recognised on the settlement date for debt securities and equity securities, on the disbursement date for loans and on the subscription date for derivative contracts.

Upon initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or income directly attributable to the instrument itself.

1.3 Measurement criteria

Subsequent to initial recognition, financial assets measured at fair value through profit or loss are measured at fair value. The effects of the application of this measurement criteria are charged to the Income Statement.

Market prices are used to determine the fair value of financial instruments listed on an active market. In the absence of an active market, commonly adopted estimation methods and valuation models are employed that take into account all risk factors correlated with the instruments and that are based on market data, such as: valuation of listed instruments with similar characteristics, discounted cash flow calculations, option price calculation models, values posted in recent comparable transactions, etc. For equity securities and derivative instruments involving equity securities not listed on an active market, the cost method is used as a fair value estimate only in a residual way and limited to a few circumstances, i.e. in the case of non-applicability of all the measurement methods mentioned above, or in the presence of a wide range of possible fair value assessments, in which the cost represents the most significant estimate.

For further information on the criteria for determining fair value, please refer to the "A.4 Fair value disclosure" section in Part A of the Notes to the Financial Statements.

1.4 Derecognition criteria

Financial assets are derecognised only when the transfer resulted in the substantial transfer of all risks and benefits related to the assets. On the other hand, if a significant portion of risks and benefits related to the financial assets sold has been maintained, these assets will continue to be recognised, even if the legal ownership of the assets has actually been transferred.
If it is not possible to determine the substantial transfer of risks and benefits, financial assets are derecognised when the control thereof is transferred. Otherwise, the fact that even partial control has been retained means that the assets must be carried for an amount proportional to the remaining involvement, which is measured by the exposure to changes in the value of the assets sold and the changes in their cash flows.
Finally, the financial assets sold are derecognised if the contractual rights to receive the relative cash flows are retained, but an obligation is concurrently assumed to pay out to other third parties the above mentioned flows.

1.5 Income component recognition criteria

Interest income on securities and differentials and spreads on derivative contracts classified to this category, but which are linked to other assets measured at fair value for management purposes, are recognised on an accrual basis to the income statement items for interest, accounting for any commissions (up-front fees) paid or collected early in a lump-sum.
Profits and losses realised on the disposal or redemption and unrealised profits and losses on changes in the fair value of the trading portfolio are classified to item "80 Net trading income", except for the share relative to derivative contracts that are linked to assets or liabilities measured at fair value for management purposes, which are entered to item "110 Net income/loss from financial assets and liabilities at fair value through profit or loss".

SECTION 2. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

2.1 Classification criteria

This category includes financial assets that meet both of the following conditions:
- the financial asset is held according to a business model whose objective is achieved both through the collection of contractual cash flows and through sale ("Held to Collect and Sell" Business model), and
- the contractual terms of the financial asset envisage, at certain dates, cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (known as “SPPI test” passed).

The item also includes capital instruments, not held for trading, for which the option to be designated at fair value through other comprehensive income was exercised at the time of initial recognition.
In particular, this item includes:
- debt securities that are part of a Held to Collect and Sell business model and passed the SPPI test;
- equity investments that do not qualify as establishing control or joint control over or association with companies and are not held for trading, for which the option to be designated at fair value through other comprehensive income was exercised;
- loans that are attributable to a Hold to Collect and Sell business model and passed the SPPI test, including the portions of syndicated loans subscribed that, from the outset, are intended for sale and are attributable to a Hold to Collect and Sell business model.

According to the general rules envisaged by IFRS 9 on the reclassification of financial assets (with the exception of equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity modifies its business model for the management of financial assets.
In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through other comprehensive income into one of the other two categories envisaged by IFRS 9 (Financial assets designated at amortised cost or Financial assets designated at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification operate prospectively from the date of reclassification. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is recognised as an adjustment to the fair value of the financial asset at the date of reclassification. Whereas in the event of reclassification in the category of fair value through profit or loss, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from equity to profit (loss) for the year.
For further information on the classification criteria of financial instruments, refer to the following chapter "Classification criteria of financial assets".

2.2 Recognition criteria

Upon initial recognition, assets in this category are entered at cost, which is defined as the fair value of the instrument, including transaction costs and income directly attributable to the instrument. If recognition occurs subsequent to reclassification from Assets at amortised cost, the value of initial recognition is equal to the fair value at the time of transfer.

2.3 Measurement criteria

Subsequent to initial recognition, Assets classified at fair value through other comprehensive income are measured at fair value determined on the basis of the criteria already illustrated for Financial assets at fair value through profit or loss.
For equity securities included in this category not listed on an active market, the cost method is used as a fair value estimate only in a residual way and limited to a few circumstances, i.e. in the case of non-applicability of all the measurement methods mentioned above, or in the presence of a wide range of possible fair value assessments, in which the cost represents the most significant estimate.
For further information on the criteria for determining fair value, please refer to the "A.4 Fair value disclosure" section in Part A of the Notes to the Financial Statements.
Financial assets designated at fair value through other comprehensive income - both in the form of debt securities and loans - are subject to checking the significant increase in credit risk (impairment) required by IFRS 9, as are Assets at amortised cost, with the consequent recognition in the income statement of an adjustment to cover expected losses. More specifically, on instruments classified in stage 1 (i.e. on financial assets at the time of origination, where performing, and on instruments for which there has been no

significant increase in credit risk compared to the initial recognition date), a 12-month expected loss is recorded at the initial recognition date and at each subsequent reporting date. On the other hand, for instruments classified as stage 2 (performing positions for which there has been a significant increase in credit risk compared to the date of initial recognition) and stage 3 (non-performing exposures), an expected loss is recognised over the life of the financial instrument.
Vice versa, equity securities are not subject to impairment.
For further details, refer to the next chapter "Impairment of financial assets".

2.4 Derecognition criteria
Financial assets are derecognised only when the transfer resulted in the substantial transfer of all risks and benefits related to the assets. On the other hand, if a significant portion of risks and benefits related to the financial assets sold has been maintained, these assets will continue to be recognised, even if the legal ownership of the assets has actually been transferred.
If it is not possible to determine the substantial transfer of risks and benefits, financial assets are derecognised when the control thereof is transferred. Otherwise, the fact that even partial control has been retained means that the assets must be carried for an amount proportional to the remaining involvement, which is measured by the exposure to changes in the value of the assets sold and the changes in their cash flows.
Finally, the financial assets sold are derecognised if the contractual rights to receive the relative cash flows are retained, but an obligation is concurrently assumed to pay out to other third parties the above mentioned flows.

2.5 Income component recognition criteria

Debt securities

Interest income, calculated according to the effective interest rate method, is entered to item 10. "interest income and similar revenues" whereas valuation profit and loss, with the exception of impairment profit and loss, are recognised, net of any tax effect, in item 110. of shareholders' equity "Valuation reserves".
If the financial asset is derecognised (transferred), the cumulative gain or loss previously recognised in the reserve is reclassified to the income statement (item 100.b "Gains (losses) on disposal or repurchase of financial assets at fair value through other comprehensive income").
Impairment profit and losses are recognised in item 130.b "Net adjustments due to credit risk to financial assets at fair value through other comprehensive income"; however, the provision to cover losses must be recognised in other comprehensive income (item 110. of shareholders' equity "Valuation reserves") and must not reduce the book value of the financial asset in the asset side of the Statement of Financial Position.

Equity securities

Dividends are entered to item 70. "dividends and similar income" whereas valuation profit and loss, including impairment profit and loss, are recognised, net of any tax effect, in item 110. of shareholders' equity "Valuation reserves".
If the financial asset is derecognised (transferred), the cumulative profit or loss previously recognised in the reserve must not be reclassified to the income statement, although the Bank may transfer these amounts to shareholders' equity (item 140. "Reserves").

SECTION 3. FINANCIAL ASSETS AT AMORTISED COST

3.1 Classification criteria
This category includes financial assets (in particular, loans and debt securities) that meet both of the following conditions:
- the financial asset is held according to a business model whose objective is achieved both through the collection of contractual cash flows ("Held to Collect" Business model), and
- the contractual terms of the financial asset envisage, at certain dates, cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (known as "SPPI test" passed).

More specifically, this item includes:
- loans with banks in different technical forms meeting the requirements set out in the previous paragraph;
- loans with customers in different technical forms meeting the requirements set out in the previous paragraph;
- debt securities meeting the requirements set out in the previous paragraph.

This category also includes operating loans related to the provision of financial activities and services as established by the Consolidated Banking Act and the Consolidated Finance Act (for example for the distribution of financial products and servicing activities).
According to the general rules envisaged by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted unless the entity modifies its business model for the management of financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at amortised cost into one of the other two categories envisaged by IFRS 9 (Financial assets at fair value through other comprehensive or Financial assets at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification operate prospectively from the date of reclassification. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised in the income statement in the event of reclassification as a financial asset at fair value through profit or loss and equity, in the specific valuation reserve, in the event of reclassification as a financial asset at fair value through other comprehensive income.
For further information on the classification criteria of financial instruments, refer to the following paragraph "Classification criteria of financial assets".
Loans generated by finance lease transactions are included.

3.2 Recognition criteria
If the asset is entered to this category upon reclassification from "financial assets at fair value through other comprehensive income", the amount of the previously accumulated valuation reserve is eliminated from shareholders' equity, reducing the fair value of the asset

at the reclassification date; consequently, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. Moreover, with the same adjustment for credit risk, it is necessary to recognise a provision to cover losses as an adjustment to the gross book value of the financial asset from the reclassification date.

Financial assets are initially recognised on the settlement date for debt securities and on the disbursement date for loans. Upon initial recognition, assets are recorded at fair value, including transaction costs or income directly attributable to the instrument itself.
In particular, with regard to loans, the date of disbursement normally coincides with the date of signing of the agreement. If such a coincidence does not occur, a commitment to disburse funds is recorded at the time of signing the agreement, which ends on the date of disbursement of the loan. The loan is recognised on the basis of its fair value, equal to the amount disbursed, or subscription price, including costs/income directly attributable to the individual loan and determinable from the start of the transaction, even if settled at a later date.
Costs that, despite having the above characteristics, are reimbursed by the debtor counterparty or classified as ordinary internal administrative costs are excluded.

3.3 Measurement criteria

Subsequent to initial recognition, financial assets in question are measured at amortised cost using the effective interest rate method, adjusted by any provision to cover losses. The effective interest rate is the rate that exactly discounts estimated future cash flows of the asset (principal and interest) to the amount disbursed including costs/income related to the financial asset itself. This accounting method, which is based on a financial approach, allows the economic impact of costs/income directly attributable to a financial asset to be distributed throughout its expected residual life.
The amortised cost method is not used for assets - measured at historical cost - whose short duration makes the effect of the application of the discounting logic negligible, for those without a defined maturity or revocable loans.
The measurement criteria, as better described in the chapter on "Impairment of financial assets", are strictly related to the inclusion of the instruments in question in one or the three stages (stages of credit risk) envisaged by IFRS 9, the last of which (stage 3) includes impaired financial assets and the remaining (stages 1 and 2) performing financial assets.
With reference to the accounting representation of the above valuation effects, impairment losses relating to this type of asset are recognised in the Income Statement:
- upon initial recognition, for an amount equal to the 12-month expected credit loss;
- upon subsequent measurement of the asset, where the credit risk has not significantly increased compared to initial recognition, in relation to changes in the amount of impairment for losses expected in the following twelve months;
- upon subsequent measurement of the asset, where the credit risk significantly increased compared to initial recognition, in relation to the recognition of impairment for expected losses over the life of the asset as provided for in the contract;
- upon subsequent measurement of the asset, where – after a significant increase in credit risk since initial recognition – the "significance" of this increase has since disappeared, in relation to the adjustment of cumulative impairment losses to take account of the change from a full lifetime expected credit loss of the instrument to a 12-month expected credit loss.

If the financial assets in question are performing, they are measured in order to determine the impairment losses to be recorded in the financial statements at the level of the individual credit relation (or security "tranche"), depending on the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD), derived from AIRB models and properly adjusted to take account of the provisions of IFRS 9.
If, in addition to a significant increase in credit risk, there is evidence of impairment, the amount of the loss is measured as the difference between the book value of the asset - classified as "impaired", like all other transactions with the same counterparty - and the present value of the expected future cash flows, discounted at the original effective interest rate. The amount of the loss to be recognised in the income statement is defined on the basis of an analytical valuation process or determined by homogeneous categories and, therefore, analytically applied to each position and considers, as described in detail in the chapter "Impairment losses of financial assets", forward looking information and possible alternative recovery scenarios.
Impaired assets include financial instruments that have been granted the status of doubtful, unlikely to pay or past due by more than ninety days according to the rules of the Bank of Italy, consistent with IAS/IFRS and European Supervisory regulations.
The expected cash flows take into account the expected recovery time and the estimated realisable value of any guarantee.
The original effective interest rate of each asset remains unchanged over time even though the relationship has been restructured resulting in a change in the contractual interest rate and even if the relationship ceases to bear the contractual interest for practical purposes.
If the reasons for the loss of value no longer apply as a result of an event that occurs after impairment has been recorded, write-backs are carried out and entered to the income statement. The amount of write-backs may not exceed the amortised cost that the instrument would have had in the absence of previous adjustments.
Value readjustments related to the passage of time are recognised in net interest income.
In some cases, during the life of the financial assets in question and, in particular, of loans, the original contractual terms can be amended by the parties to the contract. When, over the life of an instrument, the contractual clauses are amended, it is necessary to check whether the original asset must continue to be recognised in the financial statements or, on the contrary, whether the original instrument must be derecognised from the financial statements (derecognition) and a new financial instrument must be recognised.
In general, changes in a financial asset lead to its derecognition and to the recognition of a new asset when they are "substantial". The assessment of whether the change is "substantial" must be subject to qualitative and quantitative considerations. In fact, in some cases it may be clear, without resorting to complex analyses, that the changes introduced substantially modify the characteristics and/or contractual flows of a given asset while, in other cases, further analyses (including quantitative analyses) will have to be carried out in order to appreciate their effects and check the need to derecognise or not the asset and the recognition of a new financial instrument.
Therefore, qualitative and quantitative analyses aimed at defining the "substantiality" of the contractual changes made to a financial asset, will have to consider:
- the purposes for which the changes were made: for example, renegotiations for commercial reasons and forbearance due to financial difficulties of the counterparty:
  - the first, aimed at "retaining" the customer, involve a debtor who is not in financial difficulty. This case study includes all the renegotiation operations that are aimed at adjusting the cost of the debt to market conditions. These transactions involve a change in the original terms of the contract, usually requested by the debtor, which concerns aspects related to the cost of the debt, with a consequent economic benefit for the debtor. In general, it is considered that whenever a bank renegotiates in

order to avoid losing its customer, such renegotiation should be considered as substantial in that, if it is not renegotiated, the customer could finance itself from another intermediary and the bank would suffer a decrease in expected future revenues;
  - or the latter, carried out for "credit risk reasons" (forbearance measures), are attributable to the bank's attempt to maximise the recovery of the cash flows of the original loan. As a rule, the underlying risks and benefits are not substantially transferred after the changes and, consequently, the accounting representation that provides the most relevant information for the reader of the financial statements (except for what will be said below on the subject of objective elements), is that made through "modification accounting" - that implies the recognition in the income statement of the difference between the book value and the present value of the modified cash flows discounted at the original interest rate - and not through "derecognition";
- the presence of specific objective elements ("triggers") that affect the characteristics and/or contractual flows of the financial instrument (such as, for example, a change in the currency or a change in the type of risk to which one is exposed, when correlated with equity and commodity parameters), which are deemed to entail derecognition in view of their impact (expected to be significant) on the original contractual flows.

3.4 Derecognition criteria

Financial assets are derecognised only when the transfer resulted in the substantial transfer of all risks and benefits related to the assets. On the other hand, if a significant portion of risks and benefits related to the financial assets sold has been maintained, these assets will continue to be recognised, even if the legal ownership of the assets has actually been transferred.
If it is not possible to determine the substantial transfer of risks and benefits, financial assets are derecognised when the control thereof is transferred. Otherwise, the fact that even partial control has been retained means that the assets must be carried for an amount proportional to the remaining involvement, which is measured by the exposure to changes in the value of the assets sold and the changes in their cash flows.
Finally, the financial assets sold are derecognised if the contractual rights to receive the relative cash flows are retained, but an obligation is concurrently assumed to pay out to other third parties the above mentioned flows.

3.5 Income component recognition criteria

Interest income on loans and securities is entered to item 10. "interest income and similar revenues".
Gains and losses on the disposal of loans and securities are entered to item 100. "gains (losses) on disposal or repurchase of financial assets at amortised cost". Impairment losses and value readjustments to loans and securities are entered to item 130. "net adjustments due to credit risk to financial assets at amortised cost".

SECTION 4. HEDGING TRANSACTIONS

The Bank avails itself of the possibility, at the time of introduction of IFRS 9, of continuing to apply in full the provisions of the former IAS 39 on hedge accounting (in the carved out version approved by the European Commission) for each type of hedge (both for specific hedges and for macro hedges).

4.1 Classification criteria

The purpose of hedging operations is to neutralise potential losses that may be incurred on a certain element or group of elements and is attributable to a certain risk by means of profits earned on a different element or group of elements in the event that the risk in question should actually materialise.
A derivative financial instrument is classified as a hedge if the relationship between the hedging instrument and the hedged element is formally documented, if it is effective when hedging begins, and, prospectively, over the entire life of the hedge.
Consequently, it becomes necessary to verify that the hedge of the derivative instrument is highly effective in offsetting changes in the fair value or expected cash flows of the hedged element both at the beginning of the operation and throughout its duration.
The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged instrument and the relative expected cash flows are offset by the respective values of the hedging instrument. Effectiveness may therefore be evaluated by comparing the above-mentioned changes, while taking into account the aim pursued by the company when the hedge was created. A hedge is considered effective (within the limits set by the interval 80-125%) if the changes in the fair value of the hedging instrument almost completely neutralise the changes in the hedged instrument for each risk element hedged against.
Given the Group's decision to continue to apply IAS 39 in full to hedging transactions, it is not possible to designate equity instruments classified as Financial assets at fair value through other comprehensive income (FVOCI) as hedged items for price or foreign exchange risk, since these instruments do not impact the income statement, even in the event of a sale (except for dividends that are recognised in the income statement).

4.2 Recognition criteria

There are two types of hedges:
- fair value hedges, which aim to cover the exposure to changes in the fair value of hedged assets or liabilities attributable to a specific risk. This type of hedge may be used to hedge against market risks inherent in fixed-rate bond issues;
- cash flow hedges, which aim to cover the exposure to the risk of changes in the expected future cash flows attributable to specific risks associated with items on the financial statements. This type of hedge is specifically used to stabilise floating-rate interest flows on deposits.

The items, "Hedging derivatives" under assets (Item 80.) and liabilities (Item 60.) of the statement of financial position correspond to the positive and negative values, respectively, of derivatives that are part of effective hedges.

4.3 Measurement criteria

Hedging derivatives are measured at fair value, specifically:
- in fair value hedges, the change in the fair value of the hedged element is offset by the change in the fair value of the hedging instrument. This offset is recognised by entering the changes in value in both the hedged element (as regards changes produced by the underlying risk factor) and the hedging instrument to the income statement. Any difference, which represents the partial ineffectiveness of the hedge, is consequently considered the net economic effect;

- in cash flow hedges, the hedged item continues to be measured according to the original method, whereas changes in the fair value of the derivative are entered to equity for the effective portion of the hedge, and to the income statement, for the ineffective portion of the hedge.

The effectiveness of hedges is verified at the outset and when the financial statements for the period are prepared. If a hedge ceases to be effective, the related derivative contracts are classified as instruments held for trading and entered to Item 20. "Financial assets held for trading" or Item 40. "Financial liabilities held for trading", whereas changes in fair value are entered to Item 80. of the income statement "Net trading income". The hedged financial instrument is measured according to the method used for the category in which it is classified.

4.4 Derecognition criteria

Hedged financial assets and liabilities are derecognised when the contractual rights to cash flows deriving from the assets expire, or when the financial assets/liabilities are disposed of with a substantial transfer of the relative risks and rewards. Furthermore, operations cease to be regarded as hedges and be accounted for accordingly if the hedge carried out through the derivative ceases or is no longer highly effective, or if the derivative expires, is sold, rescinded or exercised, or the hedged element is sold, expires or redeemed.

4.5 Income component recognition criteria

Income components are allocated to the relative items on the income statement according to the following indications:

- Accrued differentials on derivative instruments hedging against the interest rate risk (as well as interest on the hedged positions) are allocated to item 10. "Interest income and similar revenues" or 20. "Interest expense and similar charges";
- Capital gains and losses on the valuation of hedging derivatives and the positions covered by fair value hedges (which may be attributed to the risk covered) are allocated to item 90. "Net hedging gains (losses)";
- Capital gains and losses deriving from the valuation of derivative instruments used in cash flow hedges (for the effective portion) are allocated to a specific valuation reserve (item 130. "Valuation reserve") in equity, net of the deferred tax effect. The ineffective portion of said capital gains and losses is entered to item 90. "Net hedging gains (losses)" of the income statement.

SECTION 5. EQUITY INVESTMENTS

5.1 Classification criteria

According to IAS, the item "Equity investments" includes equity investments in subsidiaries, affiliates and jointly-controlled companies.
Subsidiaries are defined as companies for which more than half the voting rights are held either directly or indirectly, unless it may be shown that the possession thereof does not constitute control; control is defined as wielding the power to determine financial and management policies.
Jointly-controlled companies are defined as those for which control is shared with other parties according to a contract. Affiliates are defined as companies, for which at least 20% of voting rights are held either directly or indirectly, or over which significant influence is possessed despite holding a lesser share of voting rights; significant influence is defined as the power to participate in determining financial and management policies, without having control or joint control.
Certain equity stakes of more than 20%, in which the Bank only holds rights over a portion of the returns on investment, do not have access to management policies and can exercise limited governance rights to safeguard its economic interests, are not considered to be subject to significant influence. The remaining equity investments, i.e. not in subsidiaries and affiliates, are classified as financial assets (*fvtpl* or *fvtoci*) and treated accordingly.

5.2 Recognition criteria

Equity investments are entered at cost, including accessory charges, when acquired.

5.3 Measurement criteria

Subsidiaries and affiliates are measured according to the equity method and the impact thereof is entered to the income statement: according to this method, equity investments are initially entered at cost and the book value is increased or decreased to account for the Bank's share in the investee company's profits or losses realised after the date of acquisition. The Bank's share of the investee's profits for the year is entered to the income statement. Dividends received from an investee are entered against the book value of the equity investment. It may become necessary to make adjustments to the book value of equity investments when the share of the Bank's interest in an affiliate is modified.
If there is evidence that the value of an equity investment may have decreased, an estimate of the recovery value of the equity investment is made. If the recovery value is less than the book value, the relative difference is entered to item 220. "Profit (loss) from equity investments". This item also includes any future value re-adjustments where the reasons for the previous write-downs no longer apply.

5.4 Derecognition criteria

Equity investments are derecognised when the contractual rights to cash flows deriving from the assets expire, or when the financial assets are disposed of with a substantial transfer of the relative risks and rewards.

5.5 Income component recognition criteria

Profits and losses realised by investor companies, impairment losses and the effects of measurement according to the equity method are allocated to item 220. "Profit (loss) from equity investments" in the income statement, whereas dividends collected are entered against the book value of the equity investments.

SECTION 6. PROPERTY, PLANT AND EQUIPMENT

6.1 Classification criteria
Property, plant and equipment include land, instrument real estate, real estate investments, plant, fixtures and furnishings, and all types of equipment.
This category consists of property, plant and equipment held for use in the production or provision of goods and services, to be leased to third parties, or for administrative purposes, and which are believed likely to be used for more than one accounting period.

6.2 Recognition criteria
Property, plant and equipment are initially entered at cost, which includes the price of purchase and any accessory charges that may be directly attributed to the acquisition and commissioning of the assets.
Extraordinary maintenance expenses that entail increase in the future economic benefits of the asset are added to the book value of the asset, whereas other ordinary maintenance costs are entered to the income statement.

6.3 Measurement criteria
Property, plant and equipment, including non-instrumental real estate, are measured at cost, once any depreciation and impairment have been deducted.
Upon first application, real estate is entered at cost, which is defined as past book value adjusted accordingly to specific monetary revaluation laws.
Property, plant and equipment are systematically depreciated on a straight-line basis over their useful life. The buildings are depreciated for a portion considered adequate to represent the depreciation of the assets over time following their use, taking into account the extraordinary maintenance expenses, which are added to the value of the assets.
Land is not depreciated and is entered separately even when acquired with annexed buildings.
IAS 16 does not provide for depreciation:
- of land since land is an asset with an indefinite useful life; for fully owned properties (from the ground up), this has led to the need to separate the value of land from the annexed buildings by commissioning an expert appraisal;
- the valuable artistic heritage, the other historical, artistic and decorative assets in that their useful life cannot be estimated and their value is normally destined to increase over time;
- investment properties that, as required by IAS 40, are measured at fair value through profit or loss and therefore must not be depreciated.

If there is any evidence that shows that a property, plant and equipment measured at cost has undergone impairment, its book value is compared with its recovery value. Any adjustments are entered to the income statement. If the reasons that led to the recording of the loss cease to exist, a value re-adjustment is made, the amount of which may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment. Property, plant and equipment recognised in accordance with IAS 2 are measured at the lower of cost and net realisable value, it being understood that a comparison is made between the book value of the asset and its recovery value where there is any indication that the asset may have suffered a loss in value. Any adjustments are entered to the income statement.

6.4 Derecognition criteria
Property, plant and equipment are derecognised when they have been disposed of, or when the assets have been permanently taken out of use and no future economic benefits are expected from disposal.

6.5 Income component recognition criteria
Income components are entered to the relative items on the income statement according to the following indications:
- periodic depreciation, accumulated impairment losses, and value re-adjustments are allocated to item 180. "net adjustments to property, plant and equipment".
- profits and losses on the disposal of assets are allocated to item 250. "gains (losses) on disposal of investments".

SECTION 7. INTANGIBLE ASSETS

7.1 Classification criteria
The portfolio of intangible assets includes intangible factors of production with a useful life of several years, mainly represented by application and system software.

7.2 Recognition criteria
Said assets are entered at the price of purchase including accessory charges and increased by expenses incurred at a later date to raise their value or initial production capacity.

7.3 Measurement criteria
Intangible assets are amortised according to the straight-line method based on the estimated residual useful life of the assets. If evidence is found indicating the existence of accumulated losses, intangible assets are tested for impairment and any losses in value are recorded; later write-backs may not exceed the amount of the previously recorded impairment losses.

7.4 Derecognition criteria
Intangible assets are derecognised when their economic function has been fully exhausted.

7.5 Income component recognition criteria

Periodic amortisation, accumulated impairment losses, and write-backs are allocated to item 190. "Net adjustments to intangible assets".

SECTION 8. OTHER ASSETS

Other assets essentially include items awaiting settlement and items not attributable to other statement of financial position items, including receivables arising from the supply of non-financial goods and services, tax items other than those recognised under a specific item (for example, related to withholding tax), gold, silver and precious metals and accrued income other than those that should be capitalised on the related financial assets, including those arising from contracts with customers pursuant to IFRS 15, paragraphs 116 *et seq*.

SECTION 9. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets or groups of assets/liabilities for which a disposal process has been initiated and their sale is considered highly probable are classified as assets under "Non-current assets and groups of assets held for sale" and are classified as liabilities under "Liabilities associated with assets held for sale". These assets/liabilities are measured at the lower of its book value and its fair value less costs to sell, with the exception of certain types of assets (e.g. financial assets within the scope of IFRS 9) for which IFRS 5 specifically requires that the measurement criteria of the relevant accounting standard be applied.
The balance of income and charges (dividends, interest, etc.), whether positive or negative, and the measurements of said assets/liabilities according to the above methods, net of the relative current and deferred taxes, is entered to item "290. Profit (loss) from discontinued operations after tax" of the income statement.

SECTION 10. CURRENT AND DEFERRED TAXATION

Income taxes, calculated in compliance with national tax regulations, are recognised as a cost on an accrual basis, consistent with the recognition of the costs and revenues that generated them in the financial statements. Therefore, they represent the balance of current and deferred taxes related to the income for the year. Current tax assets and Liabilities include the net balance of the company's tax positions with the Italian and foreign Tax Authorities. In particular, these items include the net balance between current tax liabilities for the year, calculated on the basis of a prudent forecast of the tax burden due for the year, determined on the basis of current tax regulations, and current tax assets represented by advances and other tax credits for withholding taxes incurred or other tax credits from previous years for which the bank requested offsetting with taxes from subsequent years.
Current tax assets also include tax credits for which the bank has requested a refund from the competent tax authorities, while current tax liabilities also cover the risk of charges due to tax disputes.
Deferred tax entries are calculated according to temporary differences, without time limits, between the value attributed to an asset or liability according to statutory standards and the corresponding tax values resulting in future taxable amounts or tax deductions. For this purpose, "temporary taxable differences" means those that, in the future, will determine taxable amounts, while "temporary deductible differences" those that, in the future, will determine deductible amounts.
Deferred taxation is calculated based on the applicable rates, with respect to, (i) the temporary taxable differences, with respect to which there is the likelihood of effectively incurring taxes, and (ii) the temporary deductible differences, with respect to which there is the reasonable certainty that there will be future taxable amounts at the time when the related tax deductibility becomes apparent (known as probability test).
Prepaid and deferred taxes are recognised at the level of equity with no offsetting entries.
If the deferred tax assets and liabilities refer to income statement items, the contra-entry is represented by income tax.
In cases where deferred tax assets and liabilities concern transactions that directly affected shareholders' equity without affecting the income statement (such as first-time adoption adjustments of IAS/IFRS, the measurements of financial instruments recognised at fair value through other comprehensive income or derivative contracts hedging cash flows, actuarial gains/losses on defined benefit plans (severance indemnities), they are recognised with contra-entry to equity, involving specific reserves when required (e.g. valuation reserves).
Deferred taxes on statement of financial position items in respect of which tax has been deferred "taxable in any case of use" are recognised in the financial statements as a reduction in equity.

SECTION 11. PROVISIONS FOR RISKS AND CHARGES

The provisions for risks and charges consist of sums allocated in relation to current obligations that originated in a past event for which is likely that economic resources will be disbursed to fulfil the obligation, provided that it is possible to estimate the amount to be disbursed in a reliable manner.

Provisions for risks and charges against commitments and guarantees issued

The sub-item of provisions for risks and charges under examination includes the provisions for credit risk recognised against commitments to disburse funds and guarantees issued that fall within the scope of application of the rules on impairment in accordance with IFRS 9. For these cases, in principle, the same methods of allocation between the three stages of credit risk and calculation of the expected loss shown with reference to financial assets at amortised cost or at fair value through other comprehensive income, are adopted.
The aggregate also includes provisions for risks and charges set up to cover other types of commitments and guarantees issued that, by virtue of their specific characteristics, do not fall within the aforementioned scope of application of the impairment in accordance with IFRS 9.

Other provisions

The other provisions for risks and charges include the allocations relating to legal obligations or connected with employment agreements or with disputes, including those of a tax-related nature, originated from a past event for which it is likely that economic resources will be expended to comply with said obligations, provided that a reliable estimate of the related amount can be obtained.
Consequently, a provision is recognised if and only if:

- an actual obligation exists (legal or implicit) being the result of a past event;
- it is likely that the employment of resources producing economic benefits will be required to fulfil the obligation; and
- a reliable estimate can be made of the amount resulting from the fulfilment of the obligation.

The amount recognised as provision represents the best estimate of the expense required for fulfilling the obligation existing at the end of the reporting period and shows the risks and uncertainties that inevitably characterise a variety of facts and circumstances. If the time factor is significant, provisions are discounted at current market rates. Provisions and increases due to the time factor are recognised in the Income Statement.
The provision is reversed when the use of resources producing economic benefits to fulfil the obligation becomes unlikely or when the obligation is extinguished.
In particular, the Bank uses the item other provisions for risks and charges for:

- personnel and third-parties for which it is likely that economic resources will be disbursed;
- risks of bankruptcy revocatory actions discounted with the Zero Coupon rate at the end of the reporting period, by estimating the average duration of legal proceedings of this kind, and other risks for ongoing disputes;
- charitable activities and donations allocated upon approval of the financial statements.

The item also includes any long-term employee benefits, the charges of which are determined using the same actuarial criteria as those described for the provision for post-retirement benefit obligations.

SECTION 12. FINANCIAL LIABILITIES AT AMORTISED COST

12.1 Classification criteria

Due to banks, Due to customers and Debt securities in issue include various forms of Interbank funding, customer deposits, repurchase agreements with the obligation of forward repurchase and sums collected through certificates of deposit and outstanding bonds and other funding instruments, net of any buybacks.
It also includes any debts recorded by the company as a lessee under finance leases.

12.2 Recognition and derecognition criteria

The initial recognition of these financial liabilities occurs on the date the contract is signed, which normally coincides with the date of receipt of the sums collected or the date of issue of the debt securities.
Initial recognition is carried out based on the fair value of the liabilities, generally equal to the amount received or the issue price, plus any additional costs/income directly attributable to the individual funding or issue transaction. Internal administrative costs are excluded.

12.3 Measurement criteria

Subsequent to initial recognition, financial liabilities in this category are measured at amortised cost using the effective interest rate method.
Exceptions are short-term liabilities, for which the time factor is negligible, which remain recorded at the value received.

12.4 Derecognition criteria

Financial liabilities are derecognised when they have expired or been extinguished. They are also derecognised if previously issued bonds are bought back. The difference between the book value of liabilities and the amount paid to purchase them is recognised in the income statement.
Any replacement on the market of treasury shares after they have been repurchased is considered tantamount to a new issue, with the entry of the new placement price.

SECTION 13. FINANCIAL LIABILITIES HELD FOR TRADING

13.1 Classification and recognition criteria

These financial instruments are recognised at the subscription or issue date at a value equal to the fair value of the instrument, without considering any transaction cost or income directly attributable to the instruments themselves.
In particular, this category of liabilities includes trading derivatives with a negative fair value as well as embedded derivatives with a negative fair value that are present in complex contracts - where the primary contract is a financial liability - but not strictly related to them. Any liabilities that originate from uncovered short positions generated by securities trading and certificates are also included.

13.2 Measurement criteria

All trading liabilities are measured at fair value with the result of the measurement recognised in the income statement.

13.3 Derecognition criteria

Financial liabilities held for trading are derecognised from the financial statements when the contractual rights to the corresponding cash flows expire or when the financial liability is sold substantially transferring all related risks and benefits.

13.4 Income component recognition criteria
The same criteria are applied, with the necessary adaptations, as are used for the recognition of income components of financial assets held for trading (see point 1 – Financial assets held for trading).

SECTION 14. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

14.1 Classification criteria
Financial liabilities designated at fair value are recognised in this item, with contra entry to the Income Statement, based on the option granted to companies (known as "fair value option") under IFRS 9 and in compliance with the provisions of the relevant regulations.
In particular, this category includes financial liabilities to be measured at fair value through profit or loss when:
- designation at fair value eliminates or reduces the inconsistency in measurement or recognition ("accounting asymmetry") that would otherwise result from the measurement of assets or liabilities or from the recognition of related gains and losses on different bases;
- the management and/or measurement of a group of financial instruments at fair value with an impact on the income statement is consistent with a documented risk management or investment strategy oriented along those lines by company management and/or Board of Directors;
- there is a hybrid instrument containing a host contract that is not an asset within the scope of IFRS 9 and an embedded derivative that is to be separated.

14.2 Recognition criteria
These liabilities are recognised at the issue date at their fair value, which normally coincides with the cost of the instrument, without considering transaction costs or income directly attributable to the instrument itself, which are instead recognised in the income statement and include the value of any embedded derivative, net of placement fees paid.
In particular, the Bank recognised as financial liabilities measured at fair value the fixed-rate funding instruments the market risk of which has been systematically hedged.

14.3 Measurement criteria
These liabilities are measured at fair value and the result is recognised in accordance with the following rules set out in IFRS 9:
- fair value changes that are attributable to changes in creditworthiness must be recognised in the Statement of comprehensive income (Equity);
- the remaining fair value changes must be recognised in the Income Statement.

The amounts recognised in the Statement of comprehensive income are not subsequently reclassified to the income statement. This accounting method must not be applied when the recognition of the effects of one's creditworthiness under equity leads to or accentuates an accounting mismatch in the income statement. In this case, the gains or losses related to the liability, including those determined as a result of the change in its creditworthiness, must be recognised in the income statement.
Market prices are used to determine the fair value of financial instruments listed on an active market. In the absence of an active market, estimation methods and valuation models are employed that take into account all risk factors correlated with the instruments and that are based on market data, such as: methods based on the valuation of listed instruments with similar characteristics, discounted cash flow calculations, option price calculation models, and values posted in recent comparable transactions.
For more details, please refer to the section on general criteria for measuring fair value (Part A.4).

14.4 Derecognition criteria
Financial liabilities measured at fair value are derecognised from the financial statements when the contractual rights to the corresponding cash flows expire or when the financial liability is sold substantially transferring all related risks and benefits.

14.5 Income component recognition criteria
Interest expense is entered on an accrual basis to the income statement items relating to interest, taking into account any up-front fees paid or received early in a lump-sum.
Realised and unrealised profits and losses deriving from the change in fair value of financial assets are entered to item 110.a "Net change in financial assets and liabilities at fair value through profit or loss - financial assets and liabilities designated at fair value".

SECTION 15. CURRENCY TRANSACTIONS

15.1 Classification and recognition criteria
Currency transactions consist of all assets and liabilities denominated in currencies other than the Euro and are entered at the exchange rate on the date of the transaction.

15.2 Measurement criteria
At the end of each reporting period or interim reporting date, items in foreign currencies are measured as follows:
- monetary items are converted at the exchange rate at the end of the reporting period;
- non-monetary items measured at historical cost are converted at the exchange rate on the date of the operation;
- monetary items measured at fair value are converted using the exchange rates at the end of the reporting period.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in previous financial statements are recognised in the income statement relating the period in which they arise.
When a gain or loss from a non-monetary item is carried at equity, the relevant exchange rate difference is also carried at equity. Conversely, when a gain or loss is recognised in the income statement, the associated exchange rate difference is also recognised in the income statement.

SECTION 16. OTHER INFORMATION

16.1 Provision for severance indemnities

Following the reform of supplementary pensions implemented by Legislative Decree No. 252/2005 those amounts of the severance indemnities that had accrued as at 31 December 2006 remain under the management of the Bank while amounts accruing starting from 1 January 2007 must either be paid into supplementary pension schemes or to the fund managed by INPS (according to the choice expressed by the employee).
The coming into force of the above mentioned reform made for a change in the way the fund was recorded both with regard to amounts accrued as at 31 December 2006 and to amounts accruing starting from 1 January 2007.
In particular:

- amounts accruing starting from 1 January 2007 go to a "defined-contribution plan" regardless of whether the employee opted for a supplementary pension scheme or for the treasury fund managed by INPS. The Bank therefore records amounts paid into these funds as payroll without employing actuarial criteria;
- amounts accrued as at 31 December 2006 go to a "defined-benefit plan" and are entered at the value calculated according to actuarial criteria in compliance with IAS 19. The liability in relation to the accrued severance indemnity is calculated on an actuarial basis with no pro-rata calculation of services rendered, as the service that must be measured has entirely accrued.

Classification, recognition, derecognition and measurement criteria

The provision for severance indemnities – for the amount accrued as at 31 December 2006 – is entered at the value calculated according to actuarial criteria provided in IAS 19 for defined-benefit programmes for employees and is certified by independent actuaries.
The Projected Unit Credit Method is used for discounting; this method involves predicting future disbursements according to historical and statistical analyses and the demographic curve and then discounting these flows according to a market interest rate. The discount rates are calculated according to the term structure of interest rates as obtained, by a bootstrap procedure, from the swap rate curve for the dates of measurement.
The amount that started accruing from 1 January 2007 is not added to the severance indemnities fund but rather it is paid into the pension funds and/or the treasury fund managed by INPS.

Income component recognition criteria

With regard to the recognition of the annual changes resulting from the actuarial calculations of the components of the "defined benefit plans", the IAS 19 previously in force consisted of two options:

1. the recognition in the income statement
2. the recognition in equity (statement of comprehensive income).

Until 31 December 2012, the Bank had adopted the first method, accounting in the income statement for all changes in employee severance indemnities accrued during the period.
With EC Regulation no. 475 of 5 June 2012, the new version of IAS 19 "Employee Benefits" was approved. Such regulation, applicable as per mandatory requirements, for accounting periods beginning on or after 1 January 2013, provides a single method for accounting of actuarial gains/losses, which have to be included immediately in the calculation of net liabilities to employees, as contra-entry for an equity item (OCI - Other Comprehensive Income) to be included in the statement of comprehensive income for the period.
Based on the above regulation, the Bank adopted the revised IAS 19 starting from the financial statements for 2013, implementing the recognition in the income statement of gains and losses attributable to the actuarial nature of these differences directly in equity, with data related to financial statements for 2012 reclassified in accordance with IAS 8.
For more detailed information concerning the composition and values of the items affected by the estimates, please refer to the specific sections in the notes to the financial statements.
Payments into the supplementary pension schemes are booked to the income statement under item 150.a) "Payroll" in relation to defined contribution programmes.

16.2 Leasehold improvements

The costs sustained for restructuring property belonging to third parties are capitalised in consideration of the fact that for the duration of the rental contract the using company has control of the assets and may receive their future economic benefits. Such costs, recorded in "Other assets" as provided for by the instructions of the Bank of Italy, are amortised over a period which must not exceed the duration of the rental contract, and amortisation quotas are recorded in "Other maintenance charges".

16.3 Treasury shares

Any treasury shares held are recorded as a reduction in equity. Similarly, their original cost and the gains or losses deriving from their subsequent sale are recognised as changes in equity.

16.4 Accruals and deferrals

Accruals and deferrals that include expenses and income for the period accrued on assets and liabilities are recognised in the financial statements to adjust the assets and liabilities to which they refer.

16.5 Recognition of revenues

Revenues are recognised when they are received, or when it is likely that future benefits will be received or said benefits may be reliably quantified. In particular:

- interest income is recognised on an accrual basis according to the contractual interest rate or the effective interest rate if the amortised cost method is applied;
- interest on arrears, when provided for by a contract, is recognised in the income statement only when it is actually collected;
- dividends are recognised to the income statement when it is resolved to distribute them, which coincides with when they are collected.

17.4 Provisions for guarantees and commitments

Provisions and write-downs due to the impairment of guarantees issued and commitments to disburse funds are calculated applying the same methods adopted for financial assets at amortised cost and for financial assets at fair value through other comprehensive income.

16.6 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the net carrying amount of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability – or for a shorter period when certain conditions are met (for example review of market interest rates).
After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of the instrument over its entire expected life via the amortisation process. The determination of amortised cost is different depending on whether financial assets/liabilities have fixed or variable rates and, in this last case, if the volatility of the rate is known or not beforehand. For instruments with fixed rate or fixed rate by time bands, future cash flows are quantified on the basis of the known interest rate (sole or variable) over the life of the financing. For financial assets/liabilities with a variable rate, for which the volatility is not known beforehand (for example because it is linked to an index), the determination of cash flows is carried out based on the last rate available. At every revision of the interest rate the amortisation plan and the effective interest rate for the entire life of the investment, until maturity, are recalculated. Any changes are recorded in the income statement as income or loss.
Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees.
Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument that are not debited to customer. Such commissions, which must be directly attributable to the single financial asset or liability, modify the original effective interest rate; thereby the effective interest rate associated to the transaction differs from contractual interest rate.
Transaction costs do not include costs/income relating to more than one transaction and the components related to events that may occur during the life of the financial instrument, but that are not certain at the time of the initial agreement, such as for example commissions for distribution, for non-use and for advance termination. Amortised cost does not include costs the Bank would sustain independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction are part of standard practice for the management of lending (e.g. activities related to the loan granting process, administrative management of syndicated loans) as well as commissions on services received following structured finance activities that would in any case have been received independently from the subsequent financing of the transaction.
With reference to loans, fees paid to distribution networks are considered costs directly attributable to the financial instrument.
Regarding securities issued, amortised cost considers placement commissions on bond issues paid to third parties, while it does not consider legal and advisory/review expenses for the annual update of prospectuses.

17.6 Fair value measurements

General qualitative and quantitative information on criteria for measuring fair value can be found in Part A.4.

A.3 Information on transfers of financial assets between portfolios

During 2018, the Bank did not make any transfers of financial assets between portfolios and therefore this section is not completed.

A.4 Fair Value disclosure

Qualitative information

This section deals with methods for determining fair value in relation to the types of assets and liabilities of the Bank.
The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. not a forced liquidation or below cost sale). The fair value is an evaluation criterion of the market, not specific to the entity. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
For financial instruments, fair value is determined through the use of prices obtained from financial markets in the case of instruments listed on active markets or via internal valuation techniques for other financial instruments.
A market is regarded as active if listed prices, representing actual and regularly occurring market transactions considering a normal reference period, are readily and regularly available from an exchange, dealer or brokered market, industry group, pricing service or regulatory agency.
When the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price of a hypothetical independent arm's length transaction, motivated by normal business considerations, as at the measurement date.
With regard to financial instruments, IFRS 13 establishes a hierarchy of criteria based on the origin, type and quality of information used in the calculation. The "fair value hierarchy" defines three levels for the measurement of the fair value:

- Level 1: the fair value of instruments classified in this level is determined based on quotation prices observed in active markets for identical assets or liabilities;
- Level 2: the fair value of instruments classified in this level is determined based on valuation models that use inputs that can be observed either directly or indirectly in the market (other than listed prices in level 1;
- Level 3: the fair value of instruments classified in this level is determined based on valuation models that use inputs that cannot be observed in the market.

The choice of these methodologies is not optional but must be applied according to a hierarchy since this classification has the objective to establish a hierarchy in terms of the reliability of the values depending on the degree of discretion applied by the companies, giving priority to the use of observable market inputs that reflect the assumptions that participants would use in the valuation (pricing) of the asset/liability. The objective of the hierarchy is also to increase consistency and comparability in fair value measurements.
The valuation method defined for a financial instrument is adopted over time and is changed only as a result of significant changes in market conditions or for the issuer of the financial instrument.
The Bank's activities considered listed on an active market (Level 1) are: equities, bonds and securities listed on a regulated market for which at least two executable prices with a difference between a bid-ask price of less than 15% can be determined on a daily basis over the last month.
The following instruments are valued on the basis of techniques that make use of market parameters (Level 2):

- bonds under the FVO for which it is not possible to use Level 1 fair value;
- bonds classified under the HTCS portfolio for which it is not possible to use Level 1 fair value;
- bonds classified under the Cash Flow hedge portfolio (only for the purposes of testing the hedge effectiveness);
- equity securities listed on a market that is not considered to be active;
- OTC interest rate derivative.

With regard to OTC derivatives, a methodological approach was adopted that allows to include credit risk in determining the fair value of financial instruments: in particular, to fulfil the requirements of the new IFRS 13, it enhances the effects of changes in the counterparty creditworthiness (Credit Value Adjustment - CVA) and the effects of changes in own creditworthiness (Debit Value Adjustment - DVA). The adjustment values are dependent on exposure, the probability of default (PD) and loss given default (LGD) of the counterparties.

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

Level 2 Fair value

The following instruments are valued on the basis of techniques that make use of market parameters (Level 2):

- bonds under the FVO for which it is not possible to use Level 1 fair value;
- bonds classified under the HTCS portfolio for which it is not possible to use Level 1 fair value;
- bonds classified under the Cash Flow hedge portfolio (only for the purposes of testing the hedge effectiveness);
- equity securities listed on a market that is not considered to be active;
- OTC interest rate derivative.

In detail, for each of the categories of instruments identified above we apply the valuation models mentioned below.

Bonds classified under HTCS or under the FVO
The methods used for the valuation of these bonds are:

- amortisation plan with future coupons estimated based on forward rates and yield curve including credit spread for variable rate securities;
- amortisation plan with estimated future coupons and yield rate including credit spread for fixed rate securities.

Equity securities listed on a market that is not considered to be active
Equity securities listed on a market that is not considered as "active" are characterised by difficult trading and high volatility in the presence of low volumes traded in accordance with this Regulation; for these securities, the fair value measurement is mainly carried out by applying statistical/financial models envisaged for Level 3 fair value.

Bonds and interest rate derivatives entered into a hedged portfolio using hedge accounting
The calculation of the fair value for hedging derivatives is done by adopting the "Notional Cash Flow After Last Known Coupon" model and the yield curve including issue spread for the valuation of the variable rate component: evaluation differences between this model and the more correct model based on amortisation plan with future coupons estimated based on forward rates are considered negligible.
For consistency the same model is also applied to the hedged bonds only for the purpose of verifying the effectiveness of the hedge[31].
For the measurement of the fair value of the fixed rate component, we use a model taking into account amounts specified in the amortisation plan and estimating future coupons based on the current coupon rate and the yield curve including issue spread.

Interest rate trading derivatives
For the evaluation of trading derivatives, the fair value provided from time to time by qualified counterparties whose methods are considered to be consistent with those outlined in this policy is adopted, applying to them the necessary correction to take account of counterparty risk (CDA/DVA).

Level 3 fair value

For certain types of financial instruments (equity investments not listed or, in some cases, listed on markets that are not considered to be active), the determination of fair value is based on valuation models that must assume the use of parameters that are not directly observable on the markets, therefore implying estimates and assumptions on the part of the evaluator (Level 3). In particular, the valuation of the financial instrument is based on a calculation model that is based on financial or similar methods. The cost of purchase is used if the valuation is objectively not possible or if the cost and effort to obtain it is too high (for the characteristics and extent of participation).

Assets and liabilities at amortised cost

To integrate the above information in relation to individual financial statement items, for assets and liabilities reported at amortised value, the fair value shown in the Notes to the financial statements is calculated as follows:
- For loans and advances to customers and banks, the fair value (Level 2) is calculated by discounting the future contractual flows on the basis of the market rates curve at the closing of the year according to an approach based on the discount rate adjustments, which provides that risk factors - represented by the PD and LGD parameters used in calculating impairment of the portfolios - are taken into account in the rate used to discount the future flows, also considering the general worsening of the risk differentials recorded under current market conditions;
- For bonds issued and in the portfolio, the fair value (Level 2) is calculated with the help of external providers, based on the discounting of future cash flows expected from the contractual plan of the security on the basis of the market rates curve at the closing of the year, adjusted as necessary to take into account the risk profile of the issuer;
- The fair value of loans and amounts due to customers and banks on demand is estimated from the book value (Level 3).

Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA)

The inclusion of the counterparty and own credit risk, for the purpose of determining the fair value of derivatives, as required by IFRS 13, implies that the value calculated on the basis of risk-free rates (MTM) is subject to an adjustment. Such adjustment is referred to as CVA for derivative asset and DVA for derivative liabilities in the Statement of Financial Position.
For the determination of the Credit Valuation Adjustment (CVA) for derivatives purchased from bank counterparties and Debit Valuation Adjustment (DVA) of derivatives sold to customers, we use the methodologies developed by the Cassa Centrale Banca in collaboration with IT companies in the sector (including the outsourcer for the Bank).
IFRS 13 requires the use of valuation techniques that maximize the use of observable market data and data which are attributable to factors taken into account in the valuation of financial instruments by all market participants. Given the characteristics of the transactions entered into and the type of banks as counterparties, it is reasonable to estimate the PD (Probability of Default), both for the Bank's own credit risk and the bank counterparties', using the historical approach. This represents a suitable alternative to the market approach, by referencing to the tables of default historical data reported by the rating agency Moody's using the default rates associated with rating classes (Table "European Corporate Default and Recovery Rates"). As regards LGD (Loss Given Default), in accordance to the methodology of the above-mentioned working group, a loss of 60% of the EAD is assumed in line with practices for unsecured derivatives.

Quantitative information on relevant non-observable inputs used in the evaluation of fair value

It is noted that Level 3 instruments, which have more discretion in determining the fair value, represent only a small percentage (less than 2%) of total assets. The quantitative impact of unobservable inputs used in measuring fair value is therefore deemed insignificant.

A.4.2 Processes and sensitivity of valuations

The methodologies for determining the fair value of financial instruments and the criteria for allocation of the instruments themselves within the Fair Value Hierarchy are governed by the policy of valuation of assets and liabilities adopted by the Bank.
The Policy Assessment identifies for each financial product/family of products the input parameters and their sources as well as the valuation methods.
The valuation models used must be consistent with the degree of complexity of the products offered/negotiated, reliable in estimating values, used and known by other market participants.
The evaluation process consists of the following phases:
1. The first phase identifies the types of product, the financial parameters and their sources to be used, which must be of proven reliability and be widely accepted among market participants.

31 The Cash Flow Hedge system envisages that the hedged instrument adheres to the rules of the IAS category in which it is classified.

2. The second phase of the evaluation process specifies the method for determining the fair value, for each type of product.
In phase 1, for securities classified under Level 2 of the fair value hierarchy, the process of determining the spread of the issuer creditworthiness is particularly relevant, as detailed below.

Issuer's creditworthiness

For assets/liabilities on the wholesale market, the credit spread applied is recorded for each issuer (including Mediocredito Trentino – Alto Adige SpA), according to one of the following methodologies, in order of priority:
1. spread applied to the most recent bond issue of significant amount, placed with no connected eligible counterparties;
2. spread determined taking into account the credit rating of each counterparty (including Mediocredito Trentino – Alto Adige S.p.A.) and contingent conditions of the funding market;
3. latest credit spread as reported by Reuters for Moody's rating level.

For liabilities in the retail market, the credit spread applied is the one recognised for the issuer Mediocredito Trentino – Alto Adige S.p.A. by considering the most recent bond issue placed with retail counterparties.
For the assessment of unsecured bonds by corporate counterparties, in the absence of significant issues on the basis of which it is possible to estimate the credit spread, the spread is set to the minimum provided for unsecured financing transactions of the same original duration.

A.4.3 Hierarchy of fair value

The choice of the level of fair value is not optional, but must be applied in a hierarchical order, as this classification has the objective to establish a hierarchy in terms of the reliability of the values depending on the degree of discretion applied, giving priority to the use of observable market inputs that reflect the assumptions that market participants would use in the evaluation (pricing) of assets/liabilities. The objective of the hierarchy is also to increase consistency and comparability in fair value measurements. The valuation method defined for a financial instrument is adopted over time and can only be changed as a result of significant changes in the market or the financial instrument issuer conditions.

A.4.4 Other Information

All non-financial assets, whether they are measured at fair value on a recurring or non-recurring basis, are used at their maximum potential and in the best way.

QUALITATIVE INFORMATION

As indicated in the chapter "Transition to IFRS 9", the Bank used the exemption from the obligation to restate the comparative values envisaged in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", based on which the mandatory restatement on a like-for-like basis of the comparative data in the financial statements of first-time adoption of the new standard is not envisaged. As a result, the statement of financial position and income statement balances for the previous year, in that they were prepared in accordance with the former accounting standard IAS 39, are not fully comparable with the new accounting categories and the related measurement criteria introduced by the new standard IFRS 9.
For this reason, in addition to the data as at 31 December 2018, the tables contained in this section will report comparative balances only for those items that have a confirmed balance in the financial statements for both the current and the previous period.

A.4.5 FAIR VALUE HIERARCHY

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

	2018			2017		
Financial assets/liabilities measured at fair value	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets measured at FV through profit or loss	63	211	23,296	128	325	24,026
a) financial assets held for trading	63	211		128	325	
b) financial assets designated at fair value						
c) other financial assets mandatorily measured at fair value [1]			23,296			24,026
2. Financial assets measured at FV through other comprehensive income	80,933	13,282	10,785	207,075	13,462	10,647
3. Hedging derivatives						
4. Property, plant and equipment						
5. Intangible assets						
Total	**80,996**	**13,493**	**34,081**	**207,203**	**13,787**	**34,673**
1. Financial liabilities held for trading		202			312	
2. Financial liabilities designated at fair value		-			-	
3. Hedging derivatives		-			-	
Total		**202**			**312**	

[1] In both financial years, the amount contains €11.4m of receivables for cash reserves related to the two securitisations that did not pass the SPPI test.

In 2018, the Bank did not carry out transfers of financial assets/liabilities between Level 1 and Level 2.
The fair value of derivative assets includes counterparty credit risk (CVA) of €4 thousand (€6 thousand in 2017) while the fair value of derivative liabilities includes Mediocredito credit risk (DVA) of €12 thousand (€18 thousand in 2017).

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

	Financial assets at fair value through profit or loss				Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	Of which: a) financial assets held for trading	Of which: b) financial assets designated at fair value	Of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**24,026**			**24,026**	**10,647**			
2. Increases	**986**			**986**	**200**			
2.1 Purchases[1]	986			986	200			
2.2 Profits in:								
2.2.1 Income statement								
- of which: Capital gains								
2.2.2 Equity								
2.3 Transfers from other levels								
2.4 Other increases	0			0				
3. Decreases	**1,717**			**1,717**	**62**			
3.1 Sales								
3.2 Redemptions [2]	743			743	57			
3.3 Losses in:	974			974	4			
3.3.1 Income statement [3]	974			974	4			
- of which: capital losses	15			15	4			
3.3.2 Equity[5]								
3.4 Transfer to other levels								
3.5 Other decreases								
4. Closing balance	**23,296**			**23,296**	**10,785**			

[1] With regard to financial assets at fair value through profit or loss, the amount refers for €347 thousand to the units of the closed-end fund Assietta Private Equity III, for €361 thousand to the units of the closed-end fund Assietta Private Equity IV and for €278 thousand to the units of the closed-end fund HAT Technology and Innovation. With regard to financial assets at fair value through other comprehensive income, the amount refers entirely to the increase in the equity investment in Green Hunter Group S.p.A.

[2] With regard to financial assets at fair value through profit or loss, the amount refers to the repayment following the closing of the MC2 Impresa Fund, which generated a capital loss of €15 thousand shown under item 3.3.1 "Losses in: Income statement - of which Capital losses". Whereas, with regard to financial assets at fair value through other comprehensive income, the amount refers to the repayment of the equity investment in Trevefin S.p.A. that generated a capital loss of €4 thousand shown under item 3.3.1 "Losses in: Income statement - of which Capital losses".

[3] With regard to financial assets at fair value through profit or loss, these include €125 thousand for the negative changes in fair value of the real estate investment fund Clesio, €319 thousand for the negative change in fair value of the closed-end fund Assietta Private Equity III, €38 thousand for the negative change in fair value of the closed-end fund Assietta Private Equity IV and €475 thousand for the negative change in fair value of the closed-end real estate fund Finint Fenice, in addition to the aforementioned capital loss on the MC2 fund.

A.4.5.3 Annual changes in financial liabilities measured at FV on a recurring basis (Level 3)

The Bank does not hold any financial liabilities measured at fair value on a recurring basis for Level 3 in the current year nor in the period of comparison.

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

Type of transaction/Amount	2018				2017			
	BV	FV			BV	FV		
		Lev 1	Lev 2	Lev 3		Lev 1	Lev 2	Lev 3
1. Financial assets at amortised cost	1,302,028	178,306	987,204	139,387	1,239,591	-	1,042,983	222,978
2. Property, plant and equipment held for investment purposes	116	-	-	116	116	-	-	116
3. Non-current assets and groups of assets held for sale	-	-	-	-	-	-	-	-
Total	**1,302,144**	**178,309**	**987,204**	**139,503**	**1,239,707**	**-**	**1,042,983**	**223,094**
1. Financial liabilities at amortised cost	1,278,262	-	1,028,685	242,375	1,333,213	-	1,177,047	143,894
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**1,278,262**	**-**	**1,028,685**	**242,375**	**1,333,213**	**-**	**1,177,047**	**143,894**

A.5 Information on day one profit/loss

There are no items for the table A.5 Information on day one profit/loss, set forth by the Bank of Italy.

PART B

INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

As indicated in the introductory chapter "Transition to IFRS 9", the Bank used the exemption from the obligation to restate the comparative values envisaged in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", based on which the mandatory restatement on a like-for-like basis of the comparative data in the financial statements of first-time adoption of the new standard is not envisaged. As a result, the statement of financial position and income statement balances for the previous year, in that they were prepared in accordance with the former accounting standard IAS 39, are not fully comparable with the new accounting categories and the related measurement criteria introduced by the new standard IFRS 9.
For this reason, in addition to the data as at 31 December 2018, the tables contained in this section will report comparative balances only for those items that have a confirmed balance in the financial statements for both the current and the previous period.

ASSETS

SECTION 1 – CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	2018	2017
a) Cash	4	2
b) Demand deposits with Central Banks	-	-
Total	**4**	**2**

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

2.1 Financial assets held for trading: breakdown by type

Items/amounts	2018			2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A Cash assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. Investments in UCITS						
4. Loans						
4.1 Repurchase agreements						
4.2 Others						
Total A						
B Derivative instruments						
1. Financial derivatives	63	211		128	324	
1.1 trading [1]	63	211		128	324	
1.2 related to fair value option						
1.3 others						
2. Credit derivatives						
2.1 trading						
2.2 related to fair value option						
2.3 others						
Total B	**63**	**211**		**128**	**324**	
Total (A+B)	**63**	**211**		**128**	**324**	

1 These consist, in Level 1, of warrants listed on the Italian Stock Exchange acquired on a free basis as part of the same number of equity investment purchases, and in Level 2, of cap options with banks as counterparties whose characteristics mirror those with ordinary customers as counterparties, shown in item 20 of liabilities, which should be consulted for a more in-depth description. The fair value takes into account the CVA for €4 thousand in 2018 and €6 thousand in 2017.

2.2 Financial assets held for trading: breakdown by debtor/issuer

Items/amounts	2018	2017
A. Cash assets		
1. Debt securities	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
2. Equity securities	-	-
a) Central Banks	-	-
b) Other financial corporations	-	-
of which: insurance companies	-	-
c) Non-financial corporations	-	-
d) Other issuers	-	-
3. Investments in UCITS	-	-
4. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations		
f) Families		
Total A	**-**	**-**
B. Derivative instruments	**274**	**452**
a) Clearing House	-	-
b) Other	274	452
Total B	**274**	**452**
Total (A+B)	**274**	**452**

Financial assets held for trading: annual changes

	Trading derivatives
A. Opening balance	**452**
B. Increases	**23**
B1. Purchases	-
B2. Positive changes in fair value	23
B3. Other changes	-
C. Decreases	**201**
C1. Sales	-
C2. Redemptions	-
C3. Negative changes in fair value	201
C4. Transfers to other portfolios	-
C5. Other changes	
D. Closing balance	**274**

2.5 Other financial assets mandatorily measured at fair value: breakdown by type

Items/amounts	2018			2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Investments in UCITS	-	-	11,856	-	-	12,587
4. Loans	-	-	11,440	-	-	11,440
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others [1]	-	-	11,440	-	-	11,440
Total	**-**	**-**	**23,296**	**-**	**-**	**24,027**

1 These are receivables for cash reserves relating to self-securitisations that did not pass the SPPI test.

Commitments relating to investments in UCITS

Fund	2018	2017
Assietta Private Equity III	481	828
Finint Classis Value	-	1,000
Assietta Private Equity IV	1,639	-
Finint PMI Italia II	1,000	-
HAT Technology & Innovation	722	-

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

Items/amounts	2018	2017
1. Equity securities	**-**	**-**
of which: banks	-	-
of which: other financial corporations	-	-
of which: other non-financial corporations	-	-
2. Debt securities	**-**	**-**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
3. Investments in UCITS [1]	**11,856**	**12,587**
4. Loans	**11,440**	**11,440**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial corporations	11,440	11,440
of which insurance companies	-	-
e) Non-financial corporations	-	-
f) Families	-	-
Total	**23,296**	**24,027**

1 This item is made up of €8.4m of units of the closed-end real estate investment fund Finint Fenice; it also includes the value of the units of the closed-end real estate investment fund Clesio of €0.2m, the closed-end fund Assietta Private Equity III of €2.6m, the closed-end fund Assietta Private Equity IV of €0.3m, the closed-end fund HAT Technology and Innovation of €0.3m and the real estate fund Leopardi of €0.1m.

Financial cash assets: annual changes in gross exposures

Annual changes in investments in UCITS are shown in the section "Other information" of part B.

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

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

Items/amounts	2018			2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities [1]	74,333	13,282	-	200,622	13,462	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	74,333	13,282	-	200,622	13,462	-
2. Equity securities [2]	6,601	-	10,785	6,453	-	10,647
3. Loans	-	-	-	-	-	-
Total	**80,934**	**13,282**	**10,785**	**207,075**	**13,462**	**10,647**

1 These consist of €40.0m of government securities and €33.6m of bonds issued by banks (Level 1) and €13.4m of bonds issued by banks (Level 2), of which €86.6m purchased by the Bank to create reserves of readily liquid assets eligible for refinancing with the ECB and €0.4m for other purposes.

2 In Level 3, the equity investments in Funivie Madonna di Campiglio S.p.A., Funivie Folgarida Marilleva S.p.A., Koelliker S.p.A., Lineapiù S.p.A., Restart SIIQ S.p.A, Aedes SIIQ S.p.A. and Fondo Immobiliare Leopardi (linked to Aedes SIIQ S.p.A.) derive from the restructuring of impaired loans.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/amounts	2018	2017
1. Debt securities	**87,615**	**214,084**
a) Central Banks	-	-
b) Public administrations	39,673	161,668
c) Banks	47,942	52,416
d) Other financial corporations	-	-
of which insurance companies	-	-
e) Non-financial corporations	-	-
2. Equity securities	**17,386**	**17,100**
a) Banks	50	50
b) Other issuers	17,336	17,050
- other financial corporations	4,244	7,578
of which insurance companies	-	-
- non-financial corporations	13,092	9,472
- others	-	-
3. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which insurance companies	-	-
e) Non-financial corporations	-	-
f) Families	-	-
Total	**105,001**	**231,184**

Equity instruments include the equity investment in Lineapiù S.p.A., classified as doubtful loans, and the equity investment in Koelliker S.p.A., classified as unlikely to pay, fully written down in previous years.

Financial cash assets: annual changes in gross exposures

Annual changes in equity and debt securities are shown in the "Other information" section of Part B.

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

	Gross value				Total value adjustments			Total partial write-offs
	Stage 1	of which instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	87,205	39,673	410	-	-	-	-	-
Loans	-	-	-	-	-	-	-	-
Total	**87,205**	**39,673**	**410**	**-**	**-**	**-**	**-**	**-**
Total (T-1)	**213,670**	**161,668**	**413**	**-**	**-**	**-**	**-**	**-**
of which: acquired or originated impaired financial assets			-	-		-	-	-

For performing loans (stages 1 and 2), the gross value coincides with the net value, while in the case of any impaired exposures, a proxy should be used for the total value adjustments represented by the cumulative capital losses due to credit risk that, added to the fair value recognised in the financial statements, provide the gross value of the exposure[32]. For information purposes, note that collective value adjustments to debt securities amounted to €209 thousand for stage 1 and €23 thousand for the stage 2.

32 Consulting document "CIRCULAR No. 262 "BANK'S FINANCIAL STATEMENTS: LAYOUTS AND PREPARATION" and MEASURE OF THE BANK OF ITALY "THE FINANCIAL STATEMENTS OF THE IFRS INTERMEDIARIES OTHER THAN BANK INTERMEDIARIES" – May 2017

SECTION 4 – FINANCIAL ASSETS AT AMORTISED COST – ITEM 40

4.1 Financial assets at amortised cost: breakdown by type of loans and advances to banks

Type of transaction/Amount	2018						2017					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	Lev 1	Lev 2	Lev 3	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	Lev 1	Lev 2	Lev 3
A. Deposits with central banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposits	-	-	-	-	-	-	-	-	-	-	-	-
2. Mandatory reserve	-	-	-	-	-	-	-	-	-	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans and advances to banks	**40,960**	**-**	**-**	**-**	**-**	**40,960**	**124,326**	**-**	**-**	**-**	**-**	**124,326**
1. Loans	40,960	-	-	-	-	40,960	124,326	-	-	-	-	124,326
1.1 Current accounts and demand deposits	40,137	-	-				123,774	-	-			
1.2 Time deposits	823	-	-				552	-	-			
1.3 Other loans:	-	-	-				-	-	-			
- Repurchase agreements	-	-	-				-	-	-			
- Finance lease	-	-	-				-	-	-			
- Other	-	-	-				-	-	-			
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-				-	-	-			
2.2 Other debt securities	-	-	-				-	-	-			
Total	**40,960**	**-**	**-**	**-**	**-**	**40,960**	**124,326**	**-**	**-**	**-**	**-**	**124,326**

Mediocredito has met its mandatory reserve obligations to the Bank of Italy indirectly through Cassa Centrale Banca S.p.A., with which it holds a deposit made for this purpose equal to €823 thousand as at 31 December 2018 and to €552 thousand as at 31 December 2017 indicated in item B.1.2.

4.2 Financial assets at amortised cost: breakdown by type of loans and advances to customers

Type of transaction/Amount	2018					
	Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	Lev 1	Lev 2	Lev 3
Loans	**993,713**	**70,330**	**-**	**-**	**978,785**	**97,980**
1.1. Current accounts	10,696	0	-			
1.2 Repurchase agreements	-	-	-			
1.3 Mortgages	804,381	55,011	-			
1.4 Credit cards, personal loans including "one-fifth of salary deducted loan"	-	-	-			
1.5 Finance Lease[1]	63,277	4,091	-			
1.6 Factoring	-	-	-			
1.7 Other loans[2]	115,359	11,229	-			
Debt securities	**196,579**	**447**	**-**	**178,306**	**8,419**	**447**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	196,579	447	-	178,306	8,419	447
Total	**1,190,291**	**70,777**	**-**	**178,306**	**987,204**	**98,428**

1 The amount is net of the portion disbursed in relation to third-party funds, which is included in the item "other loans" to the amount of €4.9m.

2 They also include building leasing turnkey operations for €11.4m.

Type of transaction/Amount	2017					
	Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	Lev 1	Lev 2	Lev 3
Loans	**1,010,467**	**99,018**	**-**	**-**	**1,037,008**	**110,091**
1.1. Current accounts	11,073	0	-			
1.2 Repurchase agreements	-	-	-			
1.3 Mortgages	821,131	83,679	-			
1.4 Credit cards, personal loans including "one-fifth of salary deducted loan"	-	-	-			
1.5 Finance Lease[1]	57,761	3,966	-			
1.6 Factoring	-	-	-			
1.7 Other loans[2]	120,503	11,373	-			
Debt securities	**5,779**	**-**	**-**	**-**	**5,975**	**-**
1.1 Structured securities	-	-	-			
1.2 Other debt securities	5,779	-	-			
Total (book value)	**1,016,246**	**99,018**	**-**	**-**	**1,042,983**	**110,091**

1 The amount is net of the portion disbursed in relation to third-party funds, which is included in the item "other loans" to the amount of €6.0m.
2 They also include building leasing turnkey operations for €2.7m.

Information on the nature of the management operations on funds made available by the State or other public entities ("third party fund administration").

Item "other loans" includes €39.3m of funding provided from funds made available by the Autonomous Province of Trento for €1.6m, the Autonomous Province of Bolzano for €32.9m and the Veneto Region, directly or through the instrumental company Veneto Sviluppo, for €4.8m.
All of the above funds, intended for particular funding operations as envisaged and governed by specific legislation[33], require Mediocredito to fully assume the risk.

Financial cash assets: annual changes

Annual changes in debt securities are shown in the "Other information" section of Part B.

4.3 Finance Lease

Items/amounts	31/12/2018			31/12/2017		
	Minimum future payments	Present value of minimum future payments	Deferred financial income	Minimum future payments	Present value of minimum future payments	Deferred financial income
Within 1 year	9,839	8,002	1,837	9,430	7,645	1,785
1 - 5 years	41,601	35,524	6,008	40,011	34,136	5,875
Over 5 years	31,388	28,554	2,834	25,242	22,517	3,026
Total	**82,828**	**72,080**	**10,679**	**74,683**	**69,998**	**10,685**

	Gross	Adjust.	Net	Gross	Adjust.	Net
Receivables in the statement of financial position	75,033	2,767	**72,266**	70,102	2,380	**67,722**

33 In particular:
- for the Autonomous Province of Trento: Regional Law 3/91, Provincial Law 6/99;
- for the Autonomous Province of Bolzano: Regional Laws 21/93 and 3/91, Provincial Law 9/91 and Law 817/71;
- for the Veneto Region: Regional Laws 18/94, 6/96, 5/2001, 33/2002, 40/2003 and POR 2007-2013.

4.4 Financial assets at amortised cost: breakdown by debtor/issuer of loans and advances to customers

Type of transaction/Amount	2018			2017		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	Stage 1 and 2	Stage 3	of which: acquired or originated impaired
1. Debt securities:	**196,579**	**447**		**5,779**		
a) Public administrations	188,234					
b) Other financial corporations	2,999					
of which: insurance companies	-					
c) Non-financial corporations	5,346	447		5,779		
2. Loans to:	**993,713**	**70,330**		**1,010,467**	**99,018**	
a) Public administrations	79,374			82,197		
b) Other financial corporations	45,654	10,842		54,320	3,092	
of which: insurance companies	-			-		
c) Non-financial corporations	821,550	54,161		855,174	93,955	
d) Families	47,135	5,328		18,777	1,971	
Total	**1,190,291**	**70,777**		**1,016,246**	**99,018**	

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

	Gross value				Total value adjustments			Total partial write-offs
	Stage 1							
		of which instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	196,870	188,499	-	719	291	-	272	-
Loans	967,901	32,440[1]	72,649	136,156	2,019	3,859	65,826	-
Total	**1,164,771**	**220,938**	**72,649**	**136,875**	**2,310**	**3,859**	**66,098**	**-**
Total (T-1)	**1,062,089**	**100,618**	**86,803**	**167,802**	**7,172**	**1,148**	**68,784**	**-**
of which: acquired or originated impaired financial assets			-	-		-	-	-

1 The amount shown is related to loans for which, for the purposes of staging assessment, the staging model adopted by the Bank applies the Low Credit Risk Exemption, envisaged by IFRS 9, which requires that on FTA or subsequent measurement, a transaction can be classified as stage 1 if it meets the following requirements:
- absence of lifetime PD at the disbursement date;
- rating class less than or equal to 4 and no "30 days past due" event in the 36 months prior to the measurement date.

The "Gross value" of financial assets shown in the table corresponds to the book value gross of total value adjustments (case-by-case and collective), which are instead shown in the "Total value adjustments" columns, and does not include accrued interests on arrears in that they are considered non-recoverable. In the case of stage 3 adjustments, the amount shown corresponds to the present value, at the end of the reporting period, of the difference between contractual flows and expected cash flows.

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 Equity investments: information on equity relations

Names	Registered office	Operating office	% stake	% of votes available
A. Subsidiaries				
1. Paradisidue S.r.l.	Trento	Trento	100.000	100.000
B. Joint ventures				
C. Companies under significant influence				

7.4 Insignificant equity investments: accounting information [1]

Names	Book value of equity investments	Total assets	Total equity and liabilities	Total revenues	Profit (Loss) from current operations after taxes	Net profit (loss) from groups of assets held for sale	Net income (loss) for the year (1)	Other income components net of taxes (2)	Total comprehensive income (loss) (3)=(1)+(2)
A. Subsidiaries	**176**	**8,335**	**8,841**	**468**	**(531)**	**-**	**(531)**	**-**	**(531)**
1. Paradisidue S.r.l.	176	8,335	8,841	468	(531)	-	(531)	-	(531)
B. Joint ventures									
C. Companies under significant influence									

1 Statement of Financial Position data as at 31 December 2018.

7.5 Equity investments: annual changes

	2018	2017
A. Opening balance	**26**	**180**
B. Increases	**700**	**332**
B.1 Purchases	700	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes [1]	-	332
C. Decreases	**550**	**486**
C.1 Sales	-	387
C.2 Value adjustments	550	99
C.3 Write-downs	-	-
C.4 Other changes	-	-
D. Closing balance	**176**	**26**
E. Total revaluations	-	-
F. Total adjustments	1,008	458

1 In 2017, this relates to the capital gain on the sale of the equity investment in Biorendena Srl (€325 thousand) and to the capital gain from the liquidation of the equity investment in Essedi Strategie d'Impresa Srl (€7 thousand).

Commitments relating to equity investments in subsidiaries

The Bank granted the subsidiary Paradisidue S.r.l. a loan account with a credit limit of €10.0m – for which the amount of €8.658m was drawn as at 31 December 2018 for the purpose of acquiring and renovating a building as part of bankruptcy proceedings.

SECTION 8 – PROPERTY, PLANT AND EQUIPMENT – ITEM 80

8.1 Property, plant and equipment for operational use: breakdown of assets valued at cost

Assets/Amount	2018	2017
1. Assets owned	**8,103**	**8,487**
a) land[1]	1,950	1,950
b) buildings[2]	5,328	5,559
c) furniture	266	371
d) IT equipment	79	73
e) others	480	533
2. Assets purchased under finance lease	**-**	**-**
a) land	-	-
b) building	-	-
c) furniture	-	-
d) IT equipment	-	-
e) others	-	-
Total	**8,103**	**8,487**
of which: obtained through the realisation of guarantees received	**-**	**-**

1 This is the historical cost of the land on which the registered office in Trento stands, owned from the ground up, accounted for separately under the fifty-eighth paragraph of IAS 16.
2 Subject to revaluation under special laws of which: €106.3 thousand under Law 576/75, €409.6 thousand under Law 72/83, €887.7 thousand under Law 413/91 and €4,410.7 thousand under Law 342/2000.

8.2 Property held for investment purposes: breakdown of assets valued at cost

Assets/Amount	2018				2017			
	Book value	Fair Value			Book value	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Assets owned	**116**	**-**	**-**	**116**	**116**	**-**	**-**	**116**
a) land[1]	116	-	-	116	116	-	-	116
b) building	-	-	-	-	-	-	-	-
2. Assets purchased under finance lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) building	-	-	-	-	-	-	-	-
Total	**116**	**-**	**-**	**116**	**116**	**-**	**-**	**116**
of which: obtained through the realisation of guarantees received								

1 This is a plot of land obtained as a result of debt recovery proceedings.

Depreciation of property, plant and equipment was calculated on the basis of the following annual depreciation charges that are deemed to adequately express the residual useful life of the assets.

Lands .... not depreciated (indefinite useful life)
Lands incorporated from buildings owned (from the ground up) .... not depreciated (indefinite useful life)
Buildings for operational use 3.00%
Furnishing 12.00%
Air conditioning and various equipment 15.00%
Plants and lifts 7.50%
Furnishings 15.00%
Electronic equipment 20.00%
Cars and motor vehicles 25.00%
Telephone systems 12.50%

8.6 Property, plant and equipment for operational use: annual changes

	Land	Buildings	Furnishing	IT equipment	Other	Total
A. Gross opening balance	**1,950**	**10,163**	**2,089**	**628**	**1,865**	**16,695**
A.1 Total net write-downs	-	4,604	1,717	555	1,332	8,209
A.2 Net opening balance	**1,950**	**5,559**	**371**	**73**	**533**	**8,487**
B. Increases:	-	**36**	**48**	**35**	**123**	**242**
B.1 Purchases		-	10	35	58	103
B.2 Capitalised expenditure on improvements		36				36
B.3 Write-backs						
B.4 Positive fair value changes booked to						
a) equity						
b) income statement						
B.5 Exchange differences						
B.6 Transfers from property held for investment purposes						
B.7 Other changes			38		65	103
C. Decreases:	**-**	**267**	**153**	**29**	**176**	**625**
C.1 Sales [1]			14		63	77
C.2 Depreciation		267	115	29	111	522
C.3 Adjustments due to impairment booked to						
a) equity						
b) income statement						
C.4 Negative fair value changes booked to						
a) equity						
b) income statement						
C.5 Exchange losses						
C.6 Transfers to:						
a) property held for investment purposes						
b) assets held for sale						
C.7 Other changes			24		2	26
D. Net closing balance	**1,950**	**5,328**	**266**	**79**	**480**	**8,103**
D.1 Total net write-downs	-	4,871	1,794	584	1,378	8,627
D.2 Gross closing balance	**1,950**	**10,199**	**2,060**	**663**	**1,858**	**16,730**
E. Measured at cost	-	-	-	-	-	-

1 Amounts in the item "sales" refer to the transfer of fully or partially depreciated assets whose cash flow, equalling €8.3 thousand, is included in the item "Cash flow generated by sale of property, plant and equipment" of the cash flow statement. For balancing purposes (for item "Total net write-downs") the change in accumulated depreciation relating to such assets was shown in item "Increases B.7 – other changes".

All assets for operational use are measured at cost inclusive of monetary revaluation under special laws.

8.7 Property held for investment purposes: annual changes

No changes were recorded during the period in relation to property held for investment purposes (measured at cost). Gross and net opening and closing balances, as well as the fair value measurement at the end of the reporting period, equal €116 thousand.

8.9 Commitments to purchase property, plant and equipment

At the end of these financial statements, the Bank had no contractual commitments for purchasing property, plant and equipment.

SECTION 9 – INTANGIBLE ASSETS – ITEM 90

9.1 Intangible assets: breakdown by type of asset

Assets/Amount	2018		2017	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill				
A.2 Other intangible assets	**48**	**-**	**64**	**-**
A.2.1 Assets measures at cost:	48	-	64	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	48	-	64	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**48**	**-**	**64**	**-**

Amortisation was calculated:
- on the basis of the expected useful life at a percentage of 33.33% with regard to application software;
- on the basis of the duration of the outsourcing contract (5 years) with regard to the cost of software for the company's new IT system;
- applying the rate of 20% for the software of the internal data and network infrastructure.

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: others		Total
		Limited duration	Unlimited duration	Limited duration	Unlimited duration	
A. Gross opening balance	**-**	**-**	**-**	**3,122**	**-**	**3,122**
A.1 Total net write-downs	-	-	-	3,058	-	3,058
A.2 Net opening balance	**-**	**-**	**-**	**64**	**-**	**64**
B. Increases	**-**	**-**	**-**	**27**	**-**	**27**
B.1 Purchases	-	-	-	27	-	27
B.2 Increases in intangible assets generated internally		-	-	-	-	-
B.3 Write-backs		-	-	-	-	-
B.4 Positive fair value changes:		-	-	-	-	-
- equity		-	-	-	-	-
- income statement		-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**43**	**-**	**43**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	43	-	43
- Amortisation		-	-	43	-	43
- Write-downs:	-	-	-	-	-	-
+ equity		-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value:	-	-	-	-	-	-
- equity		-	-	-	-	-
- income statement		-	-	-	-	-
C.4 Transfer to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**-**	**-**	**-**	**48**	**-**	**48**
D.1 Net total value adjustments	-	-	-	3,101	-	3,101
E. Gross closing balance	**-**	**-**	**-**	**3,149**	**-**	**3,149**
F. Measured at cost	-	-	-	-	-	-

Intangible assets are measured at cost.

9.3 Intangible assets: other information

The Bank does not have:
- Revaluated property, plant and equipment;
- Intangible assets acquired by way of government concessions;
- Intangible assets pledged as collateral for liabilities;
- Commitments to purchase intangible assets;
- Leased intangible assets.

SECTION 10 – TAX ASSETS AND TAX LIABILITIES - ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 Deferred tax assets: breakdown

	2018	2017
	17,098	**12,774**
A. With contra-entry to income statement	**16,208**	**12,408**
Adjustments to loans deductible in future years	15,155	10,519
Tax loss - 2015	347	1,240
Depreciation of buildings for operational use	21	18
Other	685	631
B. With contra-entry to equity	**890**	**366**
Financial assets measured at fair value through OCI	848	314
Other	42	52

Deferred tax assets are considered fully recoverable, taking into account the expected taxable income to be generated in subsequent periods.

10.2 Deferred tax liabilities: breakdown

	2018	2017
	5,328	**5,956**
A. With contra-entry to income statement	**5,259**	**5,421**
Provision for credit risks	5,128	5,290
Adjustments to loans exceeding the tax deductibility limit	-	-
Depreciation of buildings for operational use	108	108
Change in employee leaving indemnity	23	23
B. With contra-entry to equity	**69**	**535**
Financial assets measured at fair value through OCI	69	535

Percentages used in the calculation of deferred taxes:

for IRES: 27.50%;
for IRAP[34]: 5.57% for 2019 and 2020
4.65% for the years 2021 and onwards

34 Provincial Law no. 21 of 30 December 2015 established the temporary 0.92% increase in the rate applicable to banks for the tax period following the one in progress as at 31 December 2016 and for the next three.

10.3 Change in deferred tax assets (with contra-entry to income statement)

	2018	2017
1. Opening balance	**12,408**	**13,647**
2. Increases	**5,609**	**291**
2.1 Deferred tax assets recognised during the period	5,479	287
a) related to previous periods	-	-
b) due to change in accounting policies [1]	5,172	-
c) write-backs	-	-
d) other	307	287
2.2 New taxes or increases in tax rates	-	4
2.3 Other increases [2]	130	-
3. Decreases	**1,810**	**1,530**
3.1 Deferred tax assets derecognised during the period	1,810	1,396
a) reversals	1,810	1,396
b) written down as now considered unrecoverable	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	134
a) transformation of tax credits pursuant to Law no. 214/2011	-	134
b) other	-	-
4. Final balance	**16,208**	**12,408**

1 The amounts indicated in the item "deferred tax assets recognised in the period due to change in accounting policies" refer to the taxes recognised on FTA following the recalculation of the balances in the financial statements in compliance with the new accounting standard IFRS 9, the details of which are illustrated in the Report on Operations in the chapter "Transition to IFRS 9". (see footnote to Table 19.1 Part C).

2 The amount refers to deferred tax assets on financial assets that were reclassified on FTA from financial assets at fair value through other comprehensive income to financial assets at fair value through profit or loss (see footnote to Table 19.1 Part C).

The deferred tax assets deriving from tax losses that can be carried forward to subsequent years totalled the residual amount of €347 thousand, relating entirely to IRES on the 2015 tax loss.

10.3bis Change in deferred tax assets pursuant to Law 241/2011

	2018	2017
1. Opening balance	**10,519**	**11,614**
2. Increases	**-**	**23**
3. Decreases	**-**	**1,118**
3.1 Reversals	-	984
3.2 Transformation to tax credits	-	134
a) deriving from losses for the year	-	-
b) deriving from tax losses	-	134
3.3 Other decreases	-	-
4. Final balance	**10,519**	**10,519**

10.4 Change in deferred tax liabilities (with contra-entry to income statement)

	2018	2017
1. Opening balance	**5,421**	**6,268**
2. Increases	**278**	**-**
2.1 Deferred tax liabilities recognised during the period	-	-
a) related to previous periods	-	-
b) due to change in accounting policies	-	-
c) others	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	278[1]	-
3. Decreases	**440**	**847**
3.1 Deferred tax liabilities derecognised during the period	440	847
a) reversals	440	847
b) due to change in accounting policies	-	-
c) others	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Final balance	**5,259**	**5,421**

1 The amount refers to deferred tax liabilities on financial assets that were reclassified on FTA from financial assets at fair value through other comprehensive income to financial assets at fair value through profit or loss (see footnote to Table 19.1 Part C).

10.5 Change in deferred tax assets (with contra-entry to equity)

	2018	2017
1. Opening balance	**367**	**329**
2. Increases	**779**	**319**
2.1 Deferred tax assets recognised during the period	779	319
a) related to previous periods	-	-
b) due to change in accounting policies [1]	19	-
c) others	760	319
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**255**	**281**
3.1 Deferred tax assets derecognised during the period	121	281
a) reversals	121	281
b) written down as now considered unrecoverable	-	-
c) due to change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases [2]	134	-
4. Final balance	**890**	**367**

1 The amounts indicated in the item "deferred tax assets recognised in the period due to change in accounting policies" refer to the taxes recognised on FTA following the recalculation of the balances in the financial statements in compliance with the new accounting standard IFRS 9, the details of which are illustrated in the Report on Operations in the chapter "Transition to IFRS 9" (see footnote to Table 19.1 Part C).

2 The amount refers for €130 thousand to deferred tax assets on financial assets that were reclassified on FTA from financial assets at fair value through other comprehensive income to financial assets at fair value through profit or loss (see footnote to Table 19.1 Part C).

10.6 Change in deferred tax liabilities (with contra-entry to equity)

	2018	2017
1. Opening balance	**535**	**288**
2. Increases	**19**	**403**
2.1 Deferred tax liabilities recognised during the period	16	308
a) related to previous periods	-	-
b) due to change in accounting policies [1]	11	-
c) others	5	308
2.2 New taxes or increases in tax rates [1]	3	-
2.3 Other increases	-	95
3. Decreases	**486**	**156**
3.1 Deferred tax liabilities derecognised during the period	209	156
a) reversals	209	156
b) due to change in accounting policies	-	-
c) others	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases [2]	278	-
4. Final balance	**69**	**535**

1 The amounts indicated in the items "deferred tax assets recognised in the period due to change in accounting policies" and "New taxes or increases in tax rates" refer to the taxes recognised on FTA following the recalculation of the balances in the financial statements in compliance with the new accounting standard IFRS 9, the details of which are illustrated in the Report on Operations in the chapter "Transition to IFRS 9". (see footnote to Table 19.1 Part C).

2 The amount refers to deferred tax liabilities on financial assets that were reclassified on FTA from financial assets at fair value through other comprehensive income to financial assets at fair value through profit or loss (see footnote to Table 19.1 Part C).

10.7 Other information

The item "current tax assets" amounted to €1.124m and referred to receivables due from the Tax Authorities for IRES and IRAP; in 2017, this receivable totalled €1.777m. The item "current tax liabilities" amounted to €97 thousand and referred to the payable for the substitute tax on the remittance of the write-down of receivables (former EC box).
Deferred tax assets relating to the tax loss amounted to €347 thousand. These were recognised – referred to in IAS 12, art. 34, that envisages that "*a deferred tax asset for tax losses (…) must be recognised to the extent it is probable that a taxable profit will be available against which the tax losses can be used (…)*" - on the basis of a specific "probability test", which made it possible to verify the future tax income capacity of the Bank to permit the absorption of the above deferred tax assets in the years in which they will be reversed.
In relation to the deferred tax assets pursuant to Law no. 214/2014 of €10.5m, relating entirely to adjustments to receivables deductible in future years, by contrast it should be noted that, in compliance with the contents of the joint Bank of Italy/Ivass/Consob document of 15 May 2012, the "probability test" is considered automatically satisfied given there is substantial certainty as to their full recovery.

SECTION 12 – OTHER ASSETS – ITEMS 120

12.1 Other assets: breakdown

	2018	2017
Illiquid assets	411	7,089
Tax assets (indirect taxes and substitute tax)	2,598	2,743
Items in processing[1]	1,748	1,680
Amounts due in relation to invoices – issued or not	88	384
Various prepayments and advances	215	220
Accrued income and prepayments	251	166
Amounts due for unpaid commissions	9	7
Other liabilities	14	14
Total	**5,334**	**12,303**

1 The amount mainly refers to the payment of an amount subject to revocation, for which an appeal to the Supreme Court is pending.

LIABILITIES

SECTION 1 – FINANCIAL LIABILITIES AT AMORTISED COST – ITEM 10

1.1 Financial liabilities at amortised cost: breakdown by type of due to banks

Type of transaction/Amount	2018				2017			
	BV	FAIR VALUE			BV	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
1. Amounts due to central banks	**276,667**				**277,800**			
2. Due to banks	**624,430**				**595,837**			
2.1 Current accounts and demand deposits	7				8			
2.2 Time deposits	99,700				21,941			
2.3 Loans	524,723				573,886			
2.3.1 Repurchase agreements	-				-			
2.3.2 Others	524,723				573,886			
2.4 Liabilities in respect of commitments to repurchase treasury shares	-				-			
2.5 Other amounts due	-				-			
Total	**901,097**	**-**	**794,122**	**99,708**	**873,637**	**-**	**839,294**	**21,950**

1.2 Financial liabilities at amortised cost: breakdown by type of due to customers

Type of transaction/Amount	2018				2017			
	BV	FAIR VALUE			BV	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
1 Current accounts and demand deposits	65,819				59,693			
2 Time deposits	37,528				15,448			
3 Loans	42,328				47,653			
3.1 Repurchase agreements	-				-			
3.2 Others	42,328				47,653			
4 Liabilities in respect of commitments to repurchase treasury shares	-				-			
5 Other amounts due	39,321				46,803			
Total	**184,996**	**-**	**42,201**	**142,668**	**169,597**	**-**	**47,528**	**121,944**

1 Item "Other amounts due" includes funds managed on behalf of third parties to the amount of €39,321 thousand in 2018 and €46,803 thousand in 2017, according to supervisory regulations.

1.3 Financial liabilities at amortised cost: breakdown by type of debt securities in issue

Type of transaction/ Amounts	2018				2017			
	BV	FAIR VALUE			BV	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	192,138	-	192,332	-	289,948	-	290,195	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	192,138	-	192,332	-	289,948	-	290,195	-
2. Other securities	30	-	30	-	30	-	30	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	30	-	30	-	30	-	30	-
Total	**192,168**	**-**	**192,362**	**-**	**289,978**	**-**	**290,225**	**-**

The Fair Value of debt securities in issue is classified under level 2 because it is determined using measurement models based on market parameters (yield curve) other than quotations of the financial instrument. This also refers to bonds that had been issued in the context of the EMTN programme and that are listed on the Luxembourg stock exchange which, according to the rules adopted by the Bank in relation to fair value hierarchy, does not make at least two recent executable prices continuously available with a bid-ask spread under an interval deemed to be consistent.

SECTION 2 – FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 20

2.1 Financial liabilities held for trading: breakdown by type

Type of transaction/Amount	2018					2017				
	NV	FV			FV *	NV	FV			FV *
		Lev.1	Lev.2	Lev.3			Lev.1	Lev.2	Lev.3	
A. Cash liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 structured										
3.1.2 other bonds										
3.2 Other securities										
3.1.1 structured										
3.1.2 others										
Total A										
B. Derivative instruments										
1. Financial derivatives	**29,745**		**202**		**211**	**32,263**		**312**		**324**
1.1 trading			202					312		
1.2 related to fair value option										
1.3 others										
2. Credit derivatives										
2.1 held for trading										
2.2 related to fair value option										
2.3 others										
Total B			**202**		**211**	**32,263**		**312**		**324**
Total (A+B)			**202**		**211**	**32,263**		**312**		**324**

Legend
FV* = fair value calculated without including value changes due to change in creditworthiness of the issuer since the date of issue

The Bank has no derivative contracts in its portfolio with its own underlying liabilities.
During the year, there were no changes in the fair value of derivatives attributable to the change in the Bank's creditworthiness.

Financial cash liabilities held for trading (excluding "uncovered short positions"): annual changes

	Trading derivatives
A. Opening balance	**312**
B. Increases	**-**
B1. Issues	-
B2. Sales	-
B3. Positive changes in fair value	-
B4. Other changes	-
C. Decreases	**110**
C1. Purchases	-
C2. Redemptions	-
C3. Negative changes in fair value	110
C4. Other changes	-
D. Closing balance	**202**

The items "other changes", if present, consist of changes to accruals and deferrals in connection with these derivatives.

SECTION 6 – TAX LIABILITIES – ITEM 60

See section 10 of Assets.

SECTION 8 – OTHER LIABILITIES – ITEM 80

8.1 Other liabilities: breakdown

	2018	2017
Items in processing[1]	1,005	682
Amounts due to suppliers	644	677
Amounts due to third parties[2]	480	442
Withholdings made as tax collection agent	496	437
Commission fees to be paid	312	400
Withholdings on employee compensation	239	239
Accrued liabilities and deferred income	95	70
Other liabilities	15	13
Total	**3,286**	**2,960**

1 In 2018, they relate for €700 thousand to the payable to the subsidiary Paradisidue Srl to cover losses.
2 They relate mostly to the payable for the monetisation of holidays and leave time not used of €191 thousand, to the amount due for the recognition of the extra time of managerial staff of €66 thousand and to the payable for 2018 company bonuses of €195 thousand.

SECTION 9 – PROVISION FOR SEVERANCE INDEMNITIES – ITEM 90

9.1 Provision for severance indemnities: annual changes

	2018	2017
A. Opening balance	**1,398**	**1,470**
B. Increases	**23**	**23**
B.1 Provisions for the period [1]	23	23
B.2 Other changes	-	-
C. Decreases	**60**	**95**
C.1 Indemnities paid	24	90
C.2 Other changes [2]	36	5
D. Closing balance	**1,361**	**1,398**

1 The amount corresponds to the provisions shown in table 9.1 "Payroll: breakdown" of Part C "Information on the income statement" (€23 thousand in both financial years).
2 This item includes the use to cover the substitute tax (€5 thousand in both financial years) and, in 2018 alone, the amount relating to actuarial gains recognised as a contra entry to the specific equity reserve (€31 thousand).

9.2 Other information

Pursuant to IAS 19 paragraphs 64 and 65, the Provision for severance indemnities is calculated utilising the "Projected Unit Credit Cost Method" (also known as accrued benefits valuation method or as benefit method/working years). According to this method, the liability is calculated in proportion to the services already rendered at the Statement of Financial Position date with respect to those which could presumably be rendered in total.
To be more precise, the work of the actuary is structured into the following phases:

- projection on the basis of a series of economic and financial hypotheses of the future amounts that could be disbursed to each employee in the case of retirement, death, disability, resignation, request for early payment, etc. The estimate also includes future revaluations as for art. 2120 of the Italian Civil Code;
- calculation of the average present value of the flows regarding the future payment on the basis of the discount rate adopted and of the probability that each amount has of being disbursed;
- assessment of the pension liabilities by relating the average present value of the flows regarding the future payment to the service already rendered by the employee at the date of valuation;
- identification of the provision valid under IAS – on the basis of the determined liabilities and amounts set aside in the reserve.

According to IAS 19 paragraph 78 the discount rate must be selected so that, at the maturity dates of the amounts that are being calculated, it coincides with the guaranteed rate of return of bonds issued by leading companies and institutions.

SECTION 10 – PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 Provisions for risks and charges: breakdown

Items/amounts	2018	2017
1. Provisions for credit risk related to commitments and financial guarantees issued	13	26
2. Provisions on other commitments and other guarantees issued	-	-
3. Post-retirement benefit obligations	-	-
4. Other provisions for risks and charges	2,433	2,129
4.1 legal disputes	1,814	1,576
4.2 personnel expenses	150	100
4.3 others	469	453
Total	**2,446**	**2,156**

10.2 Provisions for risks and charges: annual changes

The table shows the annual changes in provisions for risks and charges with the exception of those in the item "provisions for credit risk related to commitments and financial guarantees issued", which must be recognised in table A.1.4 of part E, to which reference is made.

	Provisions on other commitments and other guarantees issued	Post-retirement benefit obligations	Other provisions for risks and charges	Total
A. Opening balance	**-**	**-**	**2,129**	**2,129**
B. Increases	**-**	**-**	**1,166**	**1,166**
B.1 Provisions for the period [1]	-	-	1,008	1,008
B.2 Changes over time	-	-	-	-
B.3 Changes due to discount rate adjustments	-	-	-	-
B.4 Other changes [2]	-	-	158	158
C. Decreases	**-**	**-**	**863**	**863**
C.1 Use during the period [3]	-	-	843	843
C.2 Changes due to discount rate adjustments	-	-	-	-
C.3 Other changes [4]	-	**-**	19	19
D. Closing balance	**-**	**-**	**2,433**	**2,433**

1 This amount relates to the provision for legal disputes underway of €858 thousand and to provisions for the personnel incentive scheme of €150 thousand.
2 This amount relates to the portion of the net income for 2017 allocated to the provision as per Article 21 of the By-laws
3 This amount is made up of €143 thousand for donations as per Article 21 of the By-laws and of €100 thousand for the payment of the performance bonus to personnel.
4 The amount relates to the write-back on the provision for legal disputes that were settled in favour of the Bank.

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

	Provisions for credit risk related to commitments and financial guarantees issued			
	Stage 1	Stage 2	Stage 3	Total
Commitments to disburse funds	0	-	-	0
Financial guarantees issued	9	-	4	13
Total	**9**	**-**	**4**	**13**

10.6 Provisions for risks and charges – other provisions

Item "legal disputes" is made up of sums set-aside for uncertain expenses in connection with revocatory actions and other ongoing disputes.

The item "other provisions" covers the total amount of the provision under Article 21 of the By-laws which is at the disposal of the Board of Directors "for supporting initiatives in social-economic, research, study, charitable and promotional fields".
The provision for "personnel expenses" is made up, if present, of amounts set aside to cover the cost of the personnel incentive schemes.

Section 12 – Equity of the company – Items 110, 130, 140, 150, 160, 170 and 180

12.1 "Share capital" and "Treasury shares": breakdown

The fully paid up share capital is €58,484,608.00 represented by 112,470,400 ordinary shares of a nominal €0.52 each.

12.2 Share capital – Number of shares: annual changes

Item/Types	Ordinary	Other
A. Shares in issue at the beginning of the year	112,470,400	-
- fully paid up	112,470,400	-
- not fully paid up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares in issue: opening balance	**112,470,400**	**-**
B. Increases	-	-
B.1 New issues	-	-
- against payment:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants		
- others	-	-
- on a free basis:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- others	-	-
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 companies	-	-
C.4 Other changes	-	-
D. Shares in issue: closing balance	**112,470,400**	**-**
D.1 Treasury shares (+)	-	-
D.2 Shares in issue at the end of the year	112,470,400	-
- fully paid up	112,470,400	-
- not fully paid up	-	-

12.4 PROFIT RESERVES: OTHER INFORMATION

Relating to this section, please see the "Statement of changes in equity"

The following table shows the nature and purpose of each reserve included in the equity, as per paragraph 79 of IAS 1 letter b) and Article 2427, paragraph 7-bis of the Civil Code.

Nature/Description	Amount	Possible use	Available amount	of which distributable portion
Capital reserves:	**29,841**		**29,841**	**29,841**
- Additional paid-in capital [1]	29,841	A-B-C	29,841	29,841
Profit reserves:	**79,935**		**77,984**	**75,329**
- Legal reserve unavailable [2]	11,697	B	-	-
- Available legal reserve	7,554	A-B-C	7,554	7,554
- Statutory reserves	48,839	A-B-C	48,839	48,839
- Reserve under Legislative Decree no. 38/2005	2,655	A-B	2,655	-
- Reserve pursuant to IFRS 9 FTA	(9,746)			
- Unavailable reserve under article 6 Legislative Decree no. 38/2005	-		-	-
- Other reserves	18,936	A-B-C	18,936	18,936
Valuation reserves:	**187**		**4,318**	**-**
- Valuation reserve under Laws 413/91 and 342/2000	4,318	A-B	4,318	-
- Reserve under Legislative Decree no. 38/2005: revaluation of OCI securities	(3,737)			-
- Reserve under Legislative Decree no. 38/2005: pension plans	(394)			-
Total	**109,963**		**112,143**	**105,170**

Legend:
A: for share capital increases
B: to cover losses
C: for distribution to the shareholders

1 According to Article 2431 of the Civil Code the whole amount of this reserve can be distributed only on condition that the legal reserve has reached the limit set forth by Article 2430 of the Civil Code.

2 The use of the legal reserve must comply with the limits set forth by Article 2430 of the Civil Code. The unavailable portion is equal to 20% of share capital.

Proposal for the allocation of the net profit

The net profit for 2018 amounted to €3,171,755.11, entirely distributable.
That said, the Board of Directors proposes the following allocation of net profit:

profit for the year	€	**3,171,755.11**
- non-distributable reserves under article 6, paragraph 2 Legislative Decree no. 38/2005 freed during the year	€	-
- allocation to non-distributable reserves under article 6, paragraph 2 of Legislative Decree no. 38/2005	€	-
- capital gains (losses) on equity securities under the OCI Option	€	(84,888.20)
Amount to be distributed	**€**	**3,086,866.91**
- 5% to the legal reserve	€	154,000.00
- at the disposal of the Board of Directors		
for undertakings as per Article 21 of the By-laws	€	150,000.00
- dividend to distribute to shareholders (€0.014 for the 112,470,400 shares, which correspond to 2.692% of their nominal value)	€	1,574,585.60
- further allocation to the extraordinary reserve	€	1,208,281.31

OTHER INFORMATION

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

Transactions	Notional value on commitments and financial guarantees issued			2018	2017
	Stage 1	Stage 2	Stage 3		
Commitments to disburse funds	**10,152**	**-**	**8**	**10,160**	**10,370**
a) Central Banks	-	-	-	-	
b) Public administrations	-	-	-	-	
c) Banks	-	-	-	-	
d) Other financial corporations	4,056	-	-	4,056	
e) Non-financial corporations	5,646	-	8	5,654	
f) Families	450	-	-	450	
Financial guarantees issued	**5,359**	**-**	**5**	**5,364**	**5,364**
a) Central Banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	1,034	-	-	1,034	1,034
d) Other financial corporations	-	-	-	-	-
e) Non-financial corporations	4,325	-	5	4,330	4,330
f) Families	-	-	-	-	-

3. Assets used to guarantee own liabilities and commitments

Portfolios	2018	2017
1. Financial assets at fair value through profit or loss	-	-
2. Financial assets at fair value through other comprehensive income	41,259	114,060
3. Financial assets at amortised cost	637,429	498,625
4. Property, plant and equipment	-	-
of which: Property, plant and equipment that constitute stocks	-	-

Eurosystem credit operations

Securities not reported in assets in the statement of financial position to guarantee borrowings

Loans and advances to customers to guarantee mortgage borrowings

Full information on the activities recorded and not registered in the accounts pledged as collateral for liabilities and loans (including credit operations with the Eurosystem), is given in the sections "Disclosure on on-balance sheet assets pledged as a guarantee" and "Disclosure on off-balance sheet own assets pledged as a guarantee" (Part E, Sec. 4).

5. Management and intermediation on behalf of third parties

Type of services	2018	2017
1. Execution of orders on behalf of customers	**-**	**-**
a) Purchases	-	-
1. settled	-	-
2. not settled	-	-
b) Sales	-	-
1. settled	-	-
2. not settled	-	-
2. Asset management	-	-
a) individual	-	-
b) collective	-	-
3. Safekeeping and administration of securities	**398,681**	**360,077**
a) third party securities on deposit: connected with performance as custodian bank (excluding asset management)	-	-
1. securities issued by the Bank that prepares the financial statements	-	-
2. other securities	-	-
b) other third-party securities on deposit (excluding portfolio management): other	40,017	44,849
1. securities issued by the Bank that prepares the financial statements	27,800	27,800
2. other securities	12,217	17,049
c) third-party securities on deposit with third parties	10,017	9,849
d) own securities on deposit with third parties [1]	358,664	315,228
4. Other transactions	**639**	**769**
of which Transactions on behalf of the Autonomous Provinces	*264*	*404*
Risk provisions set up by various entities	*260*	*260*
Management of state contributions under Law no. 488/92	*115*	*105*

1 This item includes Senior and Junior securities originating from the securitisation operation and lodged with Montetitoli S.p.A. for the overall amount of €74,293 thousand in 2016 and €82,290 thousand in 2017.

Financial cash assets: annual changes in gross exposures

The following table shows the annual changes in the debt securities, equity securities and investments in UCITS in the Bank's portfolio.

	FVTPL	HTCS		HTC		Total
	Investments in UCITS	Equity securities	Debt securities	Government securities	Other debt securities	
A. Opening balance	**12,587**	**17,100**	**214,084**	**-**	**5,779**	**249,550**
B. Increases	**986**	**2,208**	**59,093**	**204,333**	**3,996**	**270,376**
B1. Purchases	986	2,177	57,052	204,333	3,996	268,544
B2. Positive changes in fair value	-	-	-	-	-	-
B3. Write-backs due to impairment [1]	-	-	77	-	-	77
B4. Gains on sale:		*7*	*1,261*	-	-	1,268
- income statement [2]	-		*1,261*	-	-	1,261
- equity [3]		*7*				7
B5. Transfers from other portfolios	-	-	-	-	-	-
B6. Other changes [4]	-	24	703	-	-	727
C. Decreases	**1,717**	**1,922**	**185,562**	**15,834**	**685**	**205,720**
C1. Sales	-	-	178,480	-	-	178,480
C2. Redemptions	743	57	3,000	15,000	675	19,475
C3. Negative changes in fair value	958	1,836	2,889	-	-	5,683
C4. Adjustments due to impairment[1]	-	-	181	-	-	181
C5. Capital loss on sale:	*15*	*4*	-			*19*
- income statement [5]	*15*		-	-	-	*15*
- equity [6]		*4*				*4*
C5. Transfers to other portfolios	-	-	-	-	-	-
C6. Other changes [7]	-	24	1,012	834	10	1,880
D. Closing balance	**11,856**	**17,386**	**87,615**	**188,499**	**9,090**	**314,446**

1 With regard to the column "HTCS - Debt securities", items B3. and C4. include adjustments/write-backs due to impairment; this amount was recognised as a contra entry to the valuation reserve and is therefore included, with a reverse sign, in items B6. and C6.

2 This item includes the capital gains on government securities realised during the year.

3 This item includes the capital gain arising from the grouping of AEDES SIIQ shares in the second half of the year.

4 This item includes:
- the amount relating to the Aedes SIIQ security assigned free of charge upon demerger of the pre-existing AEDES SIIQ (now Restart SIIQ);
- with regard to HTCS debt securities, in addition to the aforementioned effect of adjustments due to impairment (€181 thousand), the change in amortised cost (€90 thousand) and the reversal of the negative reserve following the sale of government securities (€432 thousand).

5 The item includes the loss arising from the liquidation of the MC2 Impresa fund for the reimbursement of €743 thousand shown under item C2.).

6 The item includes the higher loss arising from the liquidation of the investee Trevefin SpA (€4 thousand) compared to the fair value measurement from the 2017 financial statements (€47 thousand).

7 This item includes:
- with regard to HTCS equity securities, the amount relating to the Aedes SIIQ security (now Restart SIIQ) which was reduced upon demerger against the assignment of the new AEDES SIIQ shares.
- with regard to HTCS debt securities, in addition to the aforementioned effect of write-backs due to impairment (€77 thousand), the change in amortised cost (€935 thousand);
- with regard to HTC debt securities, the change in amortised cost.

PART C

INFORMATION ON THE INCOME STATEMENT

As indicated in the introductory chapter "Transition to IFRS 9", the Bank used the exemption from the obligation to restate the comparative values envisaged in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", based on which the mandatory restatement on a like-for-like basis of the comparative data in the financial statements of first-time adoption of the new standard is not envisaged. As a result, the statement of financial position and income statement balances for the previous year, in that they were prepared in accordance with the former accounting standard IAS 39, are not fully comparable with the new accounting categories and the related measurement criteria introduced by the new standard IFRS 9. For this reason, in addition to the data as at 31 December 2018, the tables contained in this section will report comparative balances only for those items that have a confirmed balance in the financial statements for both the current and the previous period.

SECTION 1 - INTEREST – ITEMS 10 AND 20

1.1 Interest income and similar revenues: breakdown

Items/Technical Forms	Debt securities [1]	Loans	Other transactions	Total 2018	Total 2017
1. Financial assets at fair value through profit or loss:	-	-	-	-	-
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	-	-	-	-	-
2. Financial assets at fair value through other comprehensive income	871	-		872	1,410
3. Financial assets at amortised cost:	1,167	25,769	-	29,936	29,256
3.1 Loans and advances to banks	-	51		51	2
3.2 Loans and advances to customers	1,167	25,718		26,885	29,254
4. Hedging derivatives			-	-	-
5. Other assets			-	-	-
6. Financial liabilities [2]				1,294	1,452
Total	**2,038**	**25,769**	**-**	**29,101**	**32,118**
of which: interest income on impaired assets	23	2,745	-	2,768	

Changes in connection with interest income – with respect to the results of the period of comparison (2017) – are shown in the Report on Operations in the section "Income statement dynamics", to which reference should be made.
We also state that:

1 Interest income on debt securities consist of:
- paid coupons of bonds issued by non-banking concerns (see item "loans and advances to customers") that the Bank purchased for the purpose of financing the issuers and hence classified as credits;
- paid coupons of government bonds and bonds issued by banks (see item "financial assets at fair value through other comprehensive income" and item "loans and advances to customers") purchased by the Bank with the intention of using them as collateral for loans by the European Central Bank as well as for the purpose of financing the issuers.

Their balances are shown on tables 3.1 and 4.2 of Part B – Sections 3 and 4 respectively.

2 Interest on financial liabilities represent amounts accrued on current accounts and demand deposits: their balances are shown on table 1.1 of Part B – Section 1 of liabilities. These also include the accrual on T-LTRO II operations with the ECB.

The line "of which: interest income on impaired assets" includes only interest calculated on the basis of the effective interest rate, including interest due to the passage of time, determined with reference to the interest accrued over the entire year on positions held by customers classified as at 31 December 2018 as impaired loans (doubtful, unlikely to pay, past due loans). For information purposes, note that interest on arrears received during the year on the same transactions amounted to €652 thousand.

1.2 Interest income and similar revenues: other information

1.2.1 Interest income from financial assets denominated in currency

	2018	2017
Interest income from financial assets denominated in currency	12	19

1.2.2 Interest income on finance lease transactions

	2018	2017
Deferred financial income	10,679	10,685
Potential rent recorded as revenues for the period	(329)	(446)

1.3 Interest expense and similar charges: breakdown

Items/Technical Forms	Amounts due	Securities[1]	Other transactions	Total 2018	Total 2017
1. Financial liabilities at amortised cost	5,254	2,482	-	7,736	10,198
1.1 Due to central banks	-			-	-
1.2 Due to banks	4,656			4,656	3,969
1.3 Due to customers	598			598	610
1.4 Debt securities in issue		2,482		2,482	5,619
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions			80	80	-
5. Hedging derivatives			-	-	-
6. Financial assets [2]				2	-
Total	**5,254**	**2,482**	**80**	**7,818**	**10,198**

Changes in connection with interest expense – with respect to the results of the period of comparison (2018) are shown in the Report on Operations in the section "Income statement dynamics", to which reference should be made.
We also state that:

1 Interest expense accrued on securities relates to bonds issued by the Bank and classified under item 10.c of liabilities in the Statement of Financial Position. Interest expense has been calculated – in relation to items recognised at amortised cost – using the effective interest rate method.

2 Interests on financial assets include amounts accrued on active current accounts to banks: their balances are shown on table 6.1 of Part B – Section 4.1 of Assets.

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on liabilities denominated in currency

	2018	2017
Interest expense on liabilities denominated in currency	1	2

SECTION 2 - FEES & COMMISSIONS – ITEMS 40 & 50

2.1 Commission income: breakdown

Type of service/Amounts	2018	2017
a) guarantees issued	36	28
b) credit derivatives		
c) management, brokerage and consultancy services:	22	12
1. trading of financial instruments		
2. dealing in currency		
3. individual portfolio management		
4. safekeeping and administration of securities		
5. custodian bank		
6. placement of securities		
7. orders collection and transmission		
8. consultancy	22	12
8.1 investments		
8.2 structured finance	22	12
9. distribution of third party services		
9.1 portfolio management		
9.1.1. individual		
9.1.2. collective		
9.2 insurance products		
9.3 other products		
d) collection and payment services	1	1
e) securitisation servicing		
f) services for factoring transactions		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts	0	1
j) other services [1]	1,859	1,808
Total	**1,918**	**1,850**

Changes of single items against the data for the accounting period 2017 are illustrated and motivated in the Report on Operations in the section "Income statement dynamics", to which reference should be made.

1 This item is mainly made up of various commissions on loans granted for €1.135m and of commissions for corporate finance activities for €723 thousands.

2.3 Commission expense: breakdown

Services/Amounts	2018	2017
a) guarantees received	110	124
b) credit derivatives		
c) management and brokerage services:	20	17
1. trading of financial instruments		
2. dealing in currency		
3. portfolio management:		
3.1 own portfolio		
3.2 delegated to third parties		
4. safekeeping and administration of securities	20	17
5. placement of financial instruments		
6. door-to-door distribution of financial instruments, products and services		
d) collection and payment services	0	1
e) other services[1]	318	194
Total	**448**	**336**

Changes of single items with respect to the data for the period of comparison (2017) are adequately illustrated and explained in the Report on Operations in the section "Income statement dynamics", to which reference should be made.

1 Of which €109 thousand is for the processing of funding applications and €207 thousand for other banking services.

SECTION 3 – DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

Items/Income	2018		2017	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Financial assets mandatorily measured at fair value [1]	-	250	-	-
C. Financial assets at fair value through other comprehensive income [2]	334	-	244	-
D. Equity investments	-		-	
Total	**334**	**250**	**244**	**-**

1 This amount is related to the distribution of income by the Assietta Private Equity III fund.
2 The amount of €334 thousand consists mainly of dividends received from Enercoop S.r.l. (€74 thousand), Green Hunter Group S.p.A. (€86 thousand), GPI S.p.A. (€39 thousand), La Finanziaria Trentina S.p.A. (€54 thousand), Iniziative Bresciane S.p.A (€34 thousand), Aquafil S.p.A. (€29 thousand) and ISA S.p.A. (€19 thousand).

All dividends and similar income shown in the table refer to investments held at the end of the reporting period.

SECTION 4 – NET TRADING INCOME – ITEM 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A) [1]	Trading Profits (B)	Capital losses (C) [2]	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities					-
1.2 Equity securities					-
1.3 Investments in UCITS					-
1.4 Loans					-
1.5 Others					-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities					-
2.2 Amounts due					-
2.3 Others					
3. Other financial assets and liabilities: exchange differences					**0**
4. Derivative instruments	**133**	**-**	**201**	**-**	**(68)**
4.1 Financial derivatives:	133	-	201	-	(68)
- On debt securities and interest rates	110	-	113	-	(3)
- On equity securities and share indices	23	-	88	-	(65)
- On currencies and gold					
- Other					
4.2 Credit derivatives					
of which: natural hedges related to the fair value option					
Total	**133**	**-**	**201**	**-**	**(68)**

1 The item "Capital gains" includes negative fair value changes as at 31 December 2018 on Cap options sold to customers for €110 thousand and the positive fair value change on the Fine Food Pharmaceuticals warrant for €22 thousand.
2 The item "Capital losses" includes positive fair value changes on Cap options purchased from banks for €114 thousand and negative fair value changes of Aquafil warrants for €33 thousand, Capital for Progress for €23 thousand and Guala Closures for €32 thousand.

SECTION 6 – GAINS (LOSSES) ON DISPOSAL/REPURCHASE – ITEM 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Items/Income components	2018		
	Gains	Losses	Net result
A. Financial assets	1,888	587	1,301
1. Financial assets at amortised cost:	627	587	40
1.1 Loans and advances to banks	-	-	-
1.2 Loans and advances to customers [1]	627	587	40
2. Financial assets at fair value through other comprehensive income	1,261	-	1,261
2.1 Debt securities [2]	1,261	-	1,261
2.2 Loans	-	-	-
Total assets	**1,888**	**587**	**1,301**
B. Financial liabilities at amortised cost	0	-	0
1. Due to banks	-	-	-
2. Due to customers	-	-	-
3. Debt securities in issue	0	-	0
Total liabilities	**0**	**-**	**0**

1 The amounts relate to the capital gain resulting from the sale of doubtful loans.
2 The amounts relate to the capital gains realised on the sale of Government securities.

SECTION 7 - NET CHANGE IN FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 110

7.2 Net change in other financial assets and liabilities at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C) [1]	Trading losses (D) [2]	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**-**	**958**	**15**	**(974)**
1.1 Debt securities	-	-	-	-	-
1.2 Equity securities	-	-	-	-	-
1.3 Investments in UCITS	-	-	958	15	(974)
1.4 Loans	-	-	-	-	-
2. Other financial assets and liabilities: exchange differences					**-**
Total	**-**	**-**	**958**	**15**	**(974)**

1 The amounts refer to the negative change in fair value of the units of the Clesio Fund (€125 thousand), the Finint Fenice Fund (€475 thousand), the Assietta Private Equity III Fund (€319 thousand) and the Assietta Private Equity IV Fund (€38 thousand).
2 The amounts refer to the capital loss arising from the liquidation of the MC2 Impresa Fund.

No write-downs or losses from disposal were recognised during the year due to loan impairment of the debtor/issuer.

SECTION 8 – NET ADJUSTMENTS DUE TO CREDIT RISK – ITEM 130

8.1 Net adjustments due to credit risk relating to financial assets at amortised cost: breakdown

Transactions/Income components	Value adjustments (1)			Write-backs (2)		Total 2018	Total 2017
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
A. Loans and advances to banks				23		23	
- loans				23		23	
- debt securities							
of which: acquired or originated impaired loans							
B. Loans and advances to customers	(271)	(161)	(12,011)	2,095	3,314	(7,033)	(14,178)
- loans		(161)	(11,743)	2,088	3,314	(6,501)	(14,178)
- debt securities	(271)		(268)	7		(532)	-
of which: acquired or originated impaired loans							
Total [1]	**(271)**	**(161)**	**(12,011)**	**2,118**	**3,314**	**(7,010)**	**(14,178)**

1 The total of €7.010m of adjustments coincides with the item "Value adjustments on HTC loans and advances" (€5.043m of adjustments) in the table summarising the valuation of assets in the financial statements shown in the report on operations, net of write-backs due to time-reversal (€1.967m) which are included in item "10. Interest income".

8.2 Net adjustments due to credit risk to financial assets at fair value through other comprehensive income: breakdown

Transactions/Income components	Value adjustments (1)			Write-backs (2)		Total 2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3	
		Write-off	Other			
A. Debt securities	(181)			77		(104)
B. Loans						
- to customers						
- to banks						
of which: acquired or originated impaired loans						
Total [1]	**(181)**			**77**		**(104)**

1 The total of €104 thousand in adjustments coincides with the item "Value adjustments on HTCS loans and advances" in the table summarising the measurement of assets in the financial statements shown in the report on operations.

SECTION 10 – ADMINISTRATIVE COSTS – ITEMS 160

10.1 Payroll: breakdown

Type of expenses/Amounts	Total 2018	Total 2017
1) Employees	6,455	6,427
a) wages and salaries	4,489	4,382
b) social insurance	1,212	1,189
c) severance indemnities [1]	257	253
d) social security contributions	-	-
e) provision for severance indemnities	23	23
f) provision for post-retirement benefits and other obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	155	151
- defined contribution [2]	155	151
- defined benefit	-	-
h) costs deriving from payment agreements based on own capital instruments	-	-
i) other employee benefits	319	429
2) Other personnel currently employed	-	-
3) Directors and Auditors	475	476
4) Retired personnel	-	-
5) Cost recovery in relation to employees seconded to other companies	-	-
6) Cost recovery in relation to third party employees seconded to the company	-	-
Total	**6,930**	**6,903**

1 In accordance with implementing rules issued by the Bank of Italy, this item is made up of amounts of severance indemnities paid out directly to INPS (National Social Security Institute) and to other externally defined contribution funds.
2 This amount includes contributions to the supplementary pension schemes.

10.2 Average number of employees by category[1]

	2018	2017
Employees:	**74**	**75**
a) executives	5	4
b) managerial staff	37	39
c) remaining employees	32	32
Other personnel	-	-

1 The annual average is calculated as the weighted average of employees where the weight is given by the number of months worked in the year.

In order to give a better representation of the Bank's workforce, the table below shows the average number of employees calculated taking into account the actual number of hours for each part-time contract.

	2018	2017
Employees:	**78.3**	**79.7**
a) executives	5.0	4.3
b) managerial staff	38.0	39.5
c) remaining employees	35.3	35.9
Other personnel	-	-

10.4 Other employee benefits

	2018	2017
Insurance policies	142	138
Training	38	88
Lunch vouchers	68	69
Costs for early termination of employment	-	70
Benefits in kind	18	16
Other short-term benefits	53	48
Total	**319**	**429**

10.5 Other administrative costs: breakdown

	2018	2017
1. IT costs	**772**	**739**
- outsourcing costs	473	439
- other EDP (Electronic Data Processing) costs	299	300
2. Property related expenses	**454**	**425**
a) rental expenses	112	104
- property rental expenses	*112*	*104*
b) other expenses	342	321
- office cleaning	*79*	*83*
- building service charges	*39*	*32*
- maintenance and repair costs	*59*	*56*
- electricity, heating, water	*65*	*76*
- motor vehicles maintenance	*100*	*74*
3. Purchase of non-professional goods and services	**301**	**270**
- books, magazines, subscriptions	35	32
- information and cadastral services	80	57
- stationery, printing supplies, storage media	9	8
- surveillance	59	84
- databases and value-added networks	99	63
- post and telephones	19	26
4. Purchase of professional services	**892**	**795**
- legal and procedural costs	570	495
- professional fees	322	300
5. Insurance premiums	**19**	**26**
- other insurance policies	19	26
6. Advertising expenses	**139**	**122**
- advertising and sponsorships	119	102
- entertainment and gifts	20	20
7. Indirect taxes and duties	**176**	**131**
- substitute tax	59	24
- registration tax and dues	39	40
- tax on real estate	45	42
- other taxes and duties (advertising, tosap - tax on occupation of public property - stamp duty)	33	25
8. Other	**1,067**	**774**
- contributions to the banking crisis resolution fund	746	446
- membership fees [1]	199	183
- other expenses	122	145
Total	**3,820**	**3,282**

1 It is mainly due to the subscription to ABI (Italian Bank Association), Consob and to the Federazione Trentina delle Cooperative.

SECTION 11 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 170

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

	Total 2018	Total 2017
Provision for guarantees issued	(4)	(24)
Provision for commitments	279	-
Total	**275**	**(24)**

11.3 Net provisions for risks and charges: breakdown

	Total 2018	Total 2017
Provision for personnel incentive schemes	(150)	(100)
Net provisions for legal disputes underway	(838)	(756)
Total	**(988)**	**(856)**

SECTION 12 – NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT – ITEM 180

12.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Property, plant and equipment	(522)			(522)
A.1 Owned	(522)			(522)
- For operational use	(522)			(522)
- For investments				
- Stocks				
A.2 Assets purchased under finance lease				
- For operational use				
- For investments				
Total	**(522)**			**(522)**

SECTION 13 – NET ADJUSTMENTS TO INTANGIBLE ASSETS – ITEM 190

13.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets	(43)			(43)
A.1 Owned	(43)			(43)
- Generated internally by the company				
- Others	(43)			(43)
A.2 Purchased under finance lease				
Total	**(43)**			**(43)**

SECTION 14 – OTHER OPERATING CHARGES/INCOME – ITEM 200

14.1 Other operating charges: breakdown

	Total 2018	Total 2017
Self-securitisation costs refunded to the SPV	(151)	(208)
SPV ongoing operating expenses [1]	(120)	(189)
Sundry operating expenses	(36)	(56)
Total	**(307)**	**(453)**

1 In 2017, this item also included costs relating to the retranching of the BCC SME Finance 1 securitisation.

14.2 Other operating income: breakdown

	Total 2018	Total 2017
Recovery of procedural expenses	663	531
Servicer commission income in relation to self-securitisation	151	208
Tax refund/recovery	127	80
Sundry operating income	128	123
Total	**1,069**	**942**

Section 15 – Profit (loss) from equity investments – item 220

15.1 Profit (loss) from equity investments: breakdown

Income items/Amounts	2018	2017
A. Income	**-**	**332**
1. Revaluations	-	-
2. Gains on disposal	-	332
3. Write-backs	-	-
4. Other income	-	-
B. Charges	**(550)**	**(99)**
1. Write-downs[1]	(550)	(99)
2. Adjustments due to impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net result	**(550)**	**233**

1 Charges deriving from the application of the equity method to the valuation of equity investments refer to the subsidiary Paradisidue S.r.l.

Section 18 – Gains (losses) on disposal of investments – Item 250

18.1 Gains (losses) on disposal of investments: breakdown

Income items/Amounts	2018	2017
A. Buildings	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
B. Other assets	8	6
- Gains on disposal [1]	8	7
- Losses on disposal	(0)	(1)
Net result	**8**	**6**

1 This item relates to gains on the sale of fully depreciated property, plant and equipment of €8 thousand in 2018 and €7 thousand in 2017.

Section 19 – Income taxes on current operations – Item 270

19.1 Income taxes on current operations: breakdown

Items/Amounts	Total 2018	Total 2017
1. Current taxes (-)	(440)	(56)
2. Change in current taxes of previous periods (+/-)		
3. Decrease in current taxes of the period (+)		
3.bis Decrease in current taxes in the year for tax credits pursuant to Law no. 214/2011 (+)	-	+134
4. Change in deferred tax assets (+/-) 1	-1,503	-1,239
5. Change in deferred tax liabilities (+/-) 2	+440	+847
6. Income taxes for the period (-) (-1+/-2+3+3*bis*+/-4+/-5)	**(1,503)**	**(314)**

1 The amount shown under the item "change in deferred tax assets" (-€1,503 thousand) differs from what was shown in table 10.3 "Change in deferred tax assets (with contra-entry to the income statement)" as the balance of items "2. Increases" (€5,609 thousand) and "3. Decreases" (€1,810 thousand) amounting to €5,302 thousand. This amount is due to:

- €5,172 thousand represented in item 2.1.b due to the taxes recorded on FTA following the recalculation of the balances in the financial statements in compliance with the new accounting standard IFRS 9;
- €130 thousand represented in item 2.3 due to deferred tax assets on financial assets that were reclassified on FTA from financial assets at fair value through other comprehensive income to financial assets at fair value through profit or loss.

2 The amount shown under the item "change in deferred tax liabilities" (+€440 thousand) differs from what was shown in table 10.4 "Change in deferred tax liabilities (with contra-entry to the income statement)" for the amount of €278 thousand represented in item 2.3 due to deferred tax liabilities on financial assets that were reclassified on FTA from financial assets at fair value through other comprehensive income to financial assets at fair value through profit or loss".

19.2 Reconciliation between theoretical tax charge and actual tax charge

Items/Amounts		Taxable	Tax	Rates
Profit on current operations before taxes (item 250 IS)		**4,674**		
Corporate income tax (IRES) – theoretical values:		**-**	**(1,285)**	**27.50%**
IRES variation due to decreases in the taxable income		(3,754)	1,032	27.50%
IRES variation due to increases in the taxable income		3,202	(880)	27.50%
Tax profit - 2018		**4,122**	**-**	
Use of 2015 loss by 80%		(3,298)		27.50%
IRES taxable income for the year 2018		**824**	**(227)**	**27.50%**
Other components			32	27.50%
Decrease in current taxes in the year for tax credits pursuant to Law 214/2011			-	
A. Actual tax charge – current corporate income tax (IRES)			**(196)**	
Increases in deferred tax assets			295	27.50%
Decreases in deferred tax assets			(1,704)	27.50%
Increases in deferred tax liabilities			-	
Decreases in deferred tax liabilities			412	27.50%
B. Total effect of deferred corporate income tax (IRES)			**(997)**	
C. Total actual IRES charge (A+B)			**(1,193)**	**25.52%**
Regional tax on industrial activities IRAP – application of nominal tax rate **(difference between net interest and other banking income and deductible expenses)**		**10,733**	**(598)**	**5.57%**
IRAP variation due to a decrease in production value		(7,744)	431	5.57%
IRAP variation due to an increase in production value		1,444	(80)	5.57%
Net value of production - 2018		**4,433**	**(247)**	**5.57%**
Other components			3	5.57%
Decrease in current taxes in the year for tax credits pursuant to Law 214/2011				
D. Actual tax charge – Current regional tax on industrial activities (IRAP)			**(244)**	
Increases in deferred tax assets			13	5.57%
Decreases in deferred tax assets			(106)	5.57%
Increases in deferred tax liabilities			-	
Decreases in deferred tax liabilities			28	5.57%
E. Total effect of deferred regional tax on industrial activities (IRAP)			**(65)**	
F. Total actual IRAP charge	**(D+E)**		**(309)**	**6.63%**
Total current taxes IRES/IRAP (item 260 IS)	**(A+D)**		**(440)**	**3.53%**
Total actual tax charges IRES/IRAP (item 260 IS)	**(C+F)**		**(1,503)**	**32.15%**

SECTION 20 – PROFIT (LOSS) FROM DISCONTINUED OPERATIONS AFTER TAX – ITEM 290

20.1 Profit (loss) from discontinued operations after tax: breakdown

Income items/Amounts	2018	2017
1. Income	-	-
2. Charges	-	-
3. Result of measurements of group of assets and of associated liabilities	-	-
4. Capital gains/losses	-	1,856
5. Taxes	-	(614)
Net profit (loss)	**-**	**1,242**

The values shown in the table for 2017 refer to the sale of the secondary office of Bolzano that as at 31 December 2016 was reclassified as assets held for sale in that the Bank – through preliminary deed of 25 June 2014 – undertook the commitment to sell the secondary office not earlier than three years and in any case before a time period of four years for €3m.

20.2 Breakdown of income taxes relating to discontinued operations

Income items/Amounts	2018	2017
1. Current taxes (-)	-	(614)
2. Change in deferred tax assets (+/-)	-	-
3. Change in deferred tax liabilities (-/+)	-	-
4. Income taxes for the year (-1+/-2 +/-3)	**-**	**(614)**

The current taxes shown in the table for 2017 are calculated by applying the current IRES and IRAP rates (27.5% for €510 thousand and 5.57% for €104 thousand, respectively).

SECTION 21 – OTHER INFORMATION

Parent company: exemption from the requirement of drawing up the consolidated financial statements

The Bank, in compliance with the legislation in force (Legislative Decree No. 356/1990) and with the regulations of the Supervisory Authority, is the parent company of "Gruppo Bancario Mediocredito Trentino–Alto Adige S.p.A.", duly registered with the Banking Group Register. The real estate company Paradisidue S.r.l., 100% controlled, is also part of the Group.
The Bank does not prepare consolidated financial statements as the consolidation of the subsidiary Paradisidue S.r.l. (assets as at 31 December 2018 of €8.3m) is not deemed significant to the improvement of the disclosures provided (IAS 8 and paragraphs 26, 29, 30 and 44 of the "Systematic Framework for the Preparation and Presentation of Financial Statements", known as Framework). The subsidiary owns a building whose value, appropriately estimated, corresponds to market values and the equity investment is booked in the financial statements of the Bank at equity.
Additionally, since the volume of business of its subsidiary is below the set threshold Mediocredito is not required to submit to the Bank of Italy consolidated statistical reports under the existing supervisory regulations.

SECTION 22 – EARNINGS PER SHARE

22.1 Average number of ordinary shares on the dilution of share capital

During the year 2018, there was no dilution of Mediocredito's share capital as neither the number of its shares nor their nominal value changed. The average number of shares is therefore 112,470,400, equal to the exact value.

22.2 Other information

Taking into consideration the profit for the year of €3.172m, the profit per share is €0.0282.

	2018	2017
Earnings (loss) per share	0.0282	0.0282
Diluted earnings (loss) per share	0.0282	0.0282

PART D - COMPREHENSIVE INCOME

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

	Items	2018
10.	**Net income (loss) for the year**	**3,172**
	Other income components without reversal to income statement	**(1,724)**
20.	Equity securities designated at fair value through other comprehensive income:	(1,834)
	a) Fair value change	(1,834)
	b) Transfers to other shareholders' equity components	-
30.	Financial liabilities designated at fair value through profit or loss (change in the Bank's creditworthiness):	-
	a) fair value change	-
	b) transfers to other shareholders' equity components	-
40.	Coverage of equity securities designated at fair value through other comprehensive income:	-
	a) fair value change (hedged instrument)	-
	b) fair value change (hedging instrument)	-
50.	Property, plant and equipment	-
60.	Intangible assets	-
70.	Defined benefit plans	+31
80.	Non-current assets and groups of assets held for sale	-
90.	Portion of valuation reserves from equity investments measured at equity	-
100.	Income taxes relating to other income components without reversal to income statement	+79
	Other income components with reversal to income statement	**(1,592)**
110.	Hedges of foreign investments:	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
120.	Exchange differences:	-
	a) changes in value	-
	b) reversal to income statement	-
	c) other changes	-
130.	Cash flow hedges:	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
	of which: result of net positions	-
140.	Hedging instruments (elements not designated):	-
	a) changes in value	-
	b) reversal to income statement	-
	c) other changes	-
150.	Financial assets (other than equity securities) at fair value through other comprehensive income:	(2,353)
	a) fair value changes	(2,889)
	b) reversal to income statement	+536
	- net adjustments to credit risk	+104
	- capital gains/losses	+432
	c) other changes	-
160.	Non-current assets and groups of assets held for sale:	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
170.	Portion of valuation reserves from equity investments measured at equity:	-
	a) fair value changes	-
	b) reversal to income statement	-
	- adjustments due to impairment	-
	- capital gains/losses	-
	c) other changes	-
180.	Income taxes relating to other income components with reversal to income statement	**+761**
190.	**Total other income components**	**(3,315)**
200.	**Comprehensive income (10+190)**	**(144)**

PART E

INFORMATION ON RISKS AND RELATED HEDGING POLICIES

INTRODUCTION

As mentioned earlier, given its size and its business model that is primarily focused on medium to long-term credit, the Bank's risks are generally related to credit risk and liquidity risk. Market risk - concentrated in the banking portfolio - is largely attributable to the portfolio of Italian government securities, most of which were deposited with the Bank of Italy to guarantee refinancing operations. Operational risks are less impactful. For a more thorough examination of the system of controls and risk management, please refer to the following sections as well as the sections of the report on operations dedicated to these issues.
In 2018, the Bank maintained its system of controls, planning and management of risks to comply with the innovations included in Bank of Italy Circular no. 285/2013. The management is committed to include objectives linked to the promulgation of risk culture, as part of the company policies and staff training and evaluation.

SECTION 1 – CREDIT RISK

QUALITATIVE INFORMATION

1. GENERAL ASPECTS

The credit risk to which the Bank is exposed derives mainly from the typical activity of granting medium to long term loans to businesses, in different technical forms and largely secured by the necessary suitable guarantees.
However, we point out that at the date of this annual report the Bank was not exposed either directly or indirectly to the credit products of the ABS (Asset Backed Securities) and CDO (Collateralised Debt Obligation) type linked to sub-prime and Alt-A loans or to financial products that the market perceives as risky.

2. CREDIT RISK MANAGEMENT POLICY

2.1 Organisational aspects

Credit risk is defined as the risk of facing an unexpected loss/impairment of value/earnings because of the failure of the debtor, in other words the "Risk arising out of a credit exposure as a result of an unforeseen change in the creditworthiness of the borrower that involves a change in the value of the exposure itself". At Mediocredito, it also includes the counterparty risk, i.e. the risk that the counterparty could default before the final settlement of all the cash flows linked to the operation.

In the light of the provisions contained in Part One, Title IV, Chapter 3 of the Bank of Italy Circular 285/2013 regarding internal controls and the significance attached to the efficiency and effectiveness of the credit process and associated control system, the Bank has set up a dedicated organisational structure to achieve the objectives of credit risk management and control, indicated by the above prudential regulations.

The whole process of credit management and control is governed by internal regulations that:

- identify the proxies and the signing powers concerning credit disbursement;
- define the criteria for the assessment of creditworthiness;
- define the methods for the renewal of credit;
- define the methods of performance monitoring and credit risk measurement and the types of actions to be taken in case of detection of anomalies.

These rules define internal control activities, management and mitigation for credit risk by developing a structured system that involves different organisational functions whose activities are within the complex global risk control and management system adopted by the Bank.
The credit risk organisational process management is based on the principle of separation between its own investigation process activities and those of credit management. This principle has been implemented through the establishment of separate organisational structures.

With regard to the operating methods that characterise the lending activities of the Bank, credit management is split into the following macro areas:

- credit planning: carried out in accordance with the development and risk/reward policies as defined by the Board of Directors as part of the Risk Appetite Statement;
- granting and review: this phase covers the whole credit granting process from the request for funding (or the review of existing credit lines granted) to the application assessment and the decision by the competent body. The rules governing such stages are contained in the company procedures (mapped into the filing system) and in the internal regulations;
- monitoring: includes all activities necessary for the timely detection and subsequent management of risky phenomena that may occur during the credit process. The monitoring is managed by the Credit Services - Monitoring and Restructuring

Office. The body, dedicated to constantly checking credit quality, reports every two months to the Credit Risk Management Committee and manages the restructuring of impaired loans;
- dispute management: refers to all the activities carried out following the classification of a position under doubtful loans and other impaired loans as identified by the Credit Risk Management Committee to safeguard the interests of the Bank. The various phases of the process are entrusted to the Legal Department, which proactively manages the recovery initiatives.

The process of assumption and control of credit risk, incorporated in an internal policy, is monitored by the Credit Service which supervises the processes of credit granting, disbursement, management and monitoring and defines rules, instruments and criteria for assessing creditworthiness, besides assisting the Market Service units in preliminary risk evaluation.
The Bank grants credit on the basis of a detailed monographic analysis of the company seeking financing which takes into account not only its economic-financial situation but also its position on the market, productive structure, management, forecast business plan and guarantees; with a special reference to industrial and commercial companies, the preliminary analysis is supplemented by the assignment of an internal scoring/rating that allows customers to be classified according to risk categories and the pricing policy to be applied in a more calibrated manner.
The loan portfolio is monitored by the Monitoring and Restructuring Department and the most impaired loans in the portfolio by the Legal Department. The Risk Management Office cooperates with the Management, also as part of the Credit Risk Management Committee, to define and monitor risk policies and for the assessment of lending.

2.2 Management, measurement and control systems

Policies aimed at maintaining portfolio integrity are implemented through an intense and systematic monitoring action, above all with regards to exposures most at risk (performed by the Monitoring and Restructuring Department) through direct relations with customers and/or the acquisition and assessment of financial statements, accounts or other documents, sometimes also jointly with Regional Units. These policies are summarised at the frequent meetings of the Credit Risk Management Committee, a body responsible for defining the relevant guidelines and examining the outcome of specific operations carried out by the Offices in charge.
Operational methods, already introduced to the monitoring process a few years ago, designed to increase the speed of identification and efficiency of managing loans characterised by a deteriorated risk profile, allow the advance submission of positions that are believed could deteriorate in the future (despite regular repayments) to the attention of the Credit Risk Management Committee.
reporting to the Credit Risk Management Committee is structured into:
- loan control and monitoring activities;
- verification of risk concentrations;
- analysis of past due loans and/or characterised by forbearance measures (forborne);
- analysis and control of possibly problematic performing loans;
- collection of adjusted doubtful loans.

Within the context of loan control and monitoring activities, the following are also shown:
- the yearly outcome of the appraisal by the Monitoring and Restructuring Department (generated with the help of an automated process) with regards to compliance with financial covenants that had accompanied the granting of the loan;
- the yearly outcome of the appraisal by the Monitoring and Restructuring Department, targeted at examining signs that could indicate a possible worsening of the risk profile of the debtor, aimed at performing loans that fall within a marked perimeter, focused primarily on the analysis of data of the Centrale Rischi (central credit register) and the main company accounting data from the latest approved financial statements and/or consolidated financial statements.
  With regard to this action, note that - during the last quarter of 2019 - an experimental model for monitoring the performing portfolio was developed, in which performance variables were adopted on indicators of customer financial statements and on the level of risk reported within the IFRS 9 classification and impairment model: following the necessary testing and proceduralisation activities, the model will systematically enter into the operational process of controlling the quality of assets.

In addition to the functions mentioned above, the activities of the Planning and Control Department and Risk Management Department fall within the scope of credit risk monitoring. In particular, the aforementioned functions conduct quarterly and half-yearly analyses on the evolution and trend in credit risk, periodically reporting to the top management and the Board of Directors.
For the purpose of determining the internal capital against the credit risk, the Bank uses the standardised approach adopted for the determination of capital requirements in respect of credit risk. During the interim review of the Internal Capital Adequacy Assessment Process (ICAAP) and of the monitoring of the actual risk profile as part of the Risk Appetite Statement (RAS), the internal capital absorbed to cover the credit risk is determined on a quarterly basis, also by carrying out stress testing.

Use of internal scoring/rating systems in the disbursement activity

The Bank uses an internal scoring/rating system to support the lending activity of corporate customers.
Scoring is used in the pre-analysis business phases to evaluate the companies associated with the requesting company or any consolidated financial statements, while Rating - which completes the scoring with quantitative elements - is used for all the companies for which a request for funding is proposed in the resolution.
The expected rating level is related to the duration of the transaction and the respective LTV level.
The rating is assigned to all companies applying for funding, with the exception of:
- holding companies;
- finance companies;
- real estate companies;
- start-ups;
- Land – Building transactions;
- Project Finance transactions;
- the hotel industry;
- the cableway industry;
- sole proprietorships;
- companies with an annual turnover of less than €1m.

The score resulting from the application of the model is made on a scale from "AAA - Excellent" to "D - Not solvent" similar to the scales adopted by the main rating agencies.
To date, these scoring/ratings are not used to monitor credit risk.

2.3 Methods for measuring expected losses

Collective valuation

The calculation of collective impairment pursuant to IFRS 9 is carried out using the CSD/CRIF calculation model adopted in accordance with the management software provider of the Cassa Centrale Banca Credito Cooperativo Italiano banking group.
The model assigns to each relation the values of PD, LGD and EAD by analysing the counterparty rating, the guarantees securing the relation and the amortisation plan of the relation, respectively. The values of each parameter are calculated on the basis of statistical analyses carried out on a sample of all banks participating in the CSD system and on the basis of expected macroeconomic scenarios (forward looking approach).

Staging assessment

The model performs, as a first step, the staging assessment phase of each transaction, i.e. the allocation of financial instruments in the stages provided for by the accounting principle through the calculation of the rating (on a scale from 1 - best rating - to 13 - worst rating) and the analysis of its variation with respect to the initial rating. This stage is particularly important because it guides the way in which the provision for credit risk is determined.
Originally, each transaction is classified in stage 1; at the next assessment stage is classified in stage 1 or 2 according to the following transition matrices, differentiated according to whether less than or more than 12 months have passed since the date on which the transaction started.
The objective assumptions for classifying a stage-2 transaction are as follows:

- presence of arrears for more than 30 days;
- forborne performing classification.

Moreover, for the purposes of staging assessment, the model adopted the Low Credit Risk Exemption, envisaged by the accounting standard, which requires that on FTA or subsequent measurement, a transaction can be classified as stage 1 if it meets the following requirements:

- absence of lifetime PD at the disbursement date;
- rating class less than or equal to 4 and no "30 days past due" event in the 36 months prior to the measurement date.

Rating assignment

In order to determine the rating, which is useful both for the staging and for the assignment of the PD, the CSD model uses a modular approach that, for each risk segment (counterparty type), envisages a rating model based on different sources (internal performance, central risk, financial statements, social and demographic analysis).

PD calculation

Following the assignment of the rating and the stage classification, each transaction is assigned a PD representing the probability that a counterparty goes into default in the period of time considered (12 months for stage 1; life-time for stage 2). The PD is estimated on the basis of the sample by including the effect of forward-looking scenarios in the calculation.

LGD calculation

The LGD represents the loss incurred in the event of default and is estimated by adding up for all the transactions belonging to the sample all the recovery flows discounted at the time of default, net of the direct costs incurred for recovery; in particular, the estimate of the LGD component under IFRS 9 is divided into two components:

1. LGS (or "LGD - Doubtful loan"), i.e. the percentage of the exposure recognised as a loss as a result of the classification as doubtful loans;
2. Danger Rate, i.e. the probability of classification as doubtful loans for the counterparties belonging to the default stages (past due, impaired or unlikely to pay exposures), on which the LGS is calibrated.

EAD Calculation

The EAD represents the expected credit exposure at the time of insolvency and is estimated on the basis of the contractually envisaged repayment flows, including the application of prepayment parameters.

Analytical valuation

Financial assets classified as impaired in accordance with supervisory regulations are classified as stage 3 and therefore subject to analytical valuation:

- doubtful;
- unlikely to pay;
- impaired past due.

For each position, the Bank considers by default the scenario of direct recovery from the debtor/guarantor or from bankruptcy proceedings; moreover, it takes into account a transfer scenario if it considers that it is more efficient to manage certain positions from this point of view and that at least one interested counterparty is identified for them and that it has provided a preliminary estimate of the possible transfer values. The Bank will assign to the transfer scenario a probability of occurrence proportionate to the actual will/possibility of completing the transaction.

2.4 Credit risk mitigation techniques

In accordance with the Bank's specific fields of operation, Credit Risk Mitigation techniques consist mainly of "Exposures secured by real estate".
The relative process of the policies for the eligibility of guarantees and the mapping of business processes related to the management of real estate as collateral for loans has been defined, and approved by the Board of Directors.
Regarding the size of guarantees securing the loan portfolio – which is classified on the basis of the incidence of guarantee coverage in terms of Loan to Value - most of the risk portfolio is secured by guarantees so that the risk is either reduced (e.g. delegations of payment for operations in favour of public bodies in the Region, full bank guarantees, guarantees of institutional funds on first demand with LTV below certain thresholds) or normal (higher LTV and within certain thresholds); these guarantees are often supplemented by other endorsement guarantees.
In the period under examination, disbursements in relation to less guaranteed operations (defined, on the basis of an internal classification, as "full risk", but often secured by guarantees, at least partial, or by covenants) amounted to €109.4m (€98.7m in 2017). As at 31 December 2018, this type of transaction accounted for 23.23% of loans due to expire, within the tolerance limits set for the year (22.0%+4.0%), showing a migration to customers with higher rating classes.
Operations within the construction sector remained very low. In the whole of 2018, disbursements came to just €0.2m (€1.8m in 2017) equal to 2.9% of total loans at 31 December (down compared to 3.9% in December 2017 - excluding doubtful loans) and below the set limits for the 2017 financial year (6%).
In addition to the building sector, which is still the most problematic sector in terms of impaired exposures, the higher concentration of the portfolio is represented by operations in the energy sector. The composition of the energy portfolio in terms of type and location of the financed production infrastructures shows that 71% of loans are located in northern Italy (in particular, in Trentino-South Tyrol, Emilia Romagna, Lombardy and Veneto) and only 10% in the south; that the main types are hydroelectric (39%) and photovoltaic (33%) plants, followed by 20% biomass, while cogeneration (5%) and wind farms (4%) are still marginal. The total by debtor's residence clearly shows that more than 90% of the loans are to customers located in the areas chosen by the Bank, in particular in Trentino - South Tyrol (57%) and Lombardy.

Looking again at the overall portfolio of outstanding loans, a breakdown by geographical area of the initiatives shows that the concentration profile of the activities in the target areas remains substantially unchanged: the loan portfolio is concentrated for 44.7% in Trentino-South Tyrol, 23.4% in Veneto, 11.7% in Emilia Romagna, 12.6% in Lombardy and 7.5% in other areas.
In relation to "significant risks", three loans are reported as at 31 December 2018: one of which with central governments (Italian government securities), and the other two with supervised credit intermediaries.

3. Impaired credit exposures

3.1 Management strategies and policies

Objectives and strategies

In 2018, the Bank approved the "Multi-annual plan for the management of NPLs" for the 2018-2021 time horizon: the plan was drawn up on the basis of the projection of loans, taking account of the objectives in terms of disbursements, the reduction due to amortisation and early repayment in line with those of 2018.
Assumptions have also been adopted regarding the impairment rates from performing to NPL and between NPL statuses based on statistics of the last 3 years' trends, write-offs as well as disposals and proceeds on the basis of projections made during impairment.
The value adjustments were estimated with a view to obtaining coverage that is progressively closer to that used in the stress tests envisaged for the Asset Quality Review carried out by the ECB on "systemic" banks.
The following table summarises the main objectives of the plan for 2018 compared with the final results:

Operational objectives	2018 Target	Situation as at 31.12.2018	Gap
Impaired credit exposures (gross values)	136,946	136,875	0.1%
Impaired credit exposures (net values)	71,017	70,777	0.3%
Gross NPL ratio	12.1%	11.8%	0.3%
Net NPL ratio	6.7%	6.5%	0.2%
Total coverage ratio of impaired loans	48.1%	48.3%	0.2%
Coverage ratio of doubtful loans	58.1%	56.2%	1.9%
Coverage ratio of unlikely to pay loans	27.0%	31.1%	4.1%
Coverage ratio of past due loans	10.0%	5.7%	4.3%

Technical and organisational procedures and methods used

The situations that present some level of anomaly are initially monitored by the Credit Service – aided by the local commercial units - which implements all timely management actions with the aim of achieving a return to normality.
In the event of a particular deterioration in the relationship, the position is transferred to the Legal Department, which manages the re-entry phase, if necessary through the launch of enforcement proceedings. Therefore, the Legal Department presides over a part of unlikely to pay loans and all doubtful loans.
The detailed analysis of significant positions is bought to the attention of the Credit Risk Management Committee, which meets at least every two months, evaluates the actions to be taken and decides whether to alter the status of the impaired loans.
Reporting to the Credit Risk Management Committee relating to the analysis of the situation of past due loans is broken down by risk severity and duration into:

- Past due Status "Past due by less than 90 days";
- Past due Status "Past due 90";
- Past due Status "Past due 180";
- Past due Status "Unlikely to pay".

Every six months, the organisational units of the Credit Risk Management Committee, in coordination with the General Management, carry out an evaluation on the positions in question, to verify the existence of objective evidence of possible impairment losses (impairment test). The evaluation process makes provision for an analytical examination of impaired positions by applying the methodologies and criteria set out in Part A – Accounting Policies. In compliance with the amendments introduced by the "Guidance on the management of non performing loans for Italy's Less significant institutions" (issued by Bank of Italy in January 2018) and in order to comply with the entry into force of the IFRS 9 accounting standard for the calculation of impairment, the Bank has an appropriate policy for the classification, measurement and management of impaired loans; it requires, in particular, the determination of recovery forecasts to be formalised in detail for each position analysed to allow the evaluation and calculation process to be traced and reconstructed.

Verification of the correct monitoring of the individual exposures and the assessment of the consistency of the classifications, the congruence of the provisions and the adequacy of the recovery process is carried out by the risk control function which, verifies, among the other tasks, the work of the operating and credit recovery units, ensuring the correct classification of the impaired exposures and the adequacy of the related degree of non-recoverability.

As regards the risk indicator of the portfolio developed by the Bank of Italy it is reported that when analysing the historical performance of the most significant aggregate for our operations (non-financial corporations in North-eastern Italy), the Bank's average value is below the result of the System. The virtuous downward trend in the loan portfolio risk continued and, in fact, it was below the pre-crisis average levels, reaching 0.7% at the end of the year compared to 1.3% of the system.

3.2 Write-off

Write-off policies

The Bank writes off exposures only when it no longer has reasonable expectations of recovering the financial asset and for the amount deemed irrecoverable; it is assumed that this situation occurs (unless there is a reason to the contrary) for positions that have been classified as doubtful loans for at least 10 years or doubtful loans with a drawdown of less than €50 thousand. Write-offs are adopted by the Credit Risk Management Committee and reported to the Board of Directors on a quarterly basis.

Financial assets which, although written off during the year, are still subject to execution

During the year, the Bank wrote off financial assets still subject to execution for a total of €10.7m.

Financial assets which, although entirely written down during the year, are still subject to execution

As at 31 December 2018, the Bank held €1.932m of doubtful loans, written down entirely, broken down by seniority as follows:

Year of classification as doubtful loan	No. of customers	Amount (millions of Euro)
2009	1	0.945
2012	1	0.070
2014	3	0.908
2017	1	0.009

3.3 Acquired or originated impaired financial assets

The Bank does not hold impaired or acquired financial assets in its portfolio.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND EXPOSURES SUBJECT TO FORBEARANCE MEASURES

Policies for commercial renegotiation and forbearance of financial assets

The forbearance measures are granted by the Bank on the basis of a procedure that:

- assesses the financial situation of the debtor with a special reference to total debt and its ability to service the debt. An analysis/evaluation of historical data must be carried out to reconstruct the timing and reasons for the debtor's financial difficulty and to obtain an indication of the economic sustainability of the business model and an analysis of the sustainability of the business plan and cash flows;
- applies, as far as possible, standardised conditions within a predefined range of possibilities;
- monitors the effectiveness of the applied measures.

The identification of the customers receiving forbearance measures is based on a series of indicators, considered as a whole, aimed at verifying the existence of the minimum conditions of continuity, the presence of a positive historical financial relationship and the cooperative attitude of the debtor.

Indicators are also tested, using the management system, to verify the "financial difficulty" of the applicant, which take into account both internal performance data and system data extrapolated from the Centrale Rischi (central credit register).

The absence of "financial difficulty" does not bar the forbearance measures but leads to the position not being classified as "forborne" (commercial renegotiation).

Short-term forbearance measures are defined as temporary restructured repayment conditions designed to deal with short-term financial difficulties but which do not tackle the settlement of existing payment delays unless combined with appropriate long-term measures. They should generally not exceed 2 years, which drop to 1 in the case of project finance and the construction of commercial real estate. These forbearance measures must be taken into account:

- when the debtor has been affected by an identifiable event that has led to temporary liquidity risks, which will be overcome in the short term due to improved profit margins;
- in the bank's opinion, a long-term forbearance measure is not applicable due to a general or specific temporary financial uncertainty of the debtor.

In most cases, these measures combine with medium/long-term measures.
The standardised forbearance measures normally adopted are summarised in the table below.

Time horizon	Forbearance measure
Short term	Suspension of payments for a limited period of time
	Partial payments (interest rate and reduced principal; interest rate only)
	Capitalisation of arrears/interest
Medium/Long term	Permanent decrease in interest rates
	Extending maturities
	Restructuring of payments (balloon or bullet payments; payments increasing over time)
	New Borrowings
	Amendments/Waiver of contractual covenants
	Debt rescheduling
	Partial or total debt cancellation

As already seen, the presence of forbearance measures is an objective presumption for the classification of a relation in stage 2 for the purpose of assessing the expected losses.

Information on credit quality of exposures subject to forbearance measures and on the effectiveness of the granted forbearance measures

Gross forborne loans existing by year of forbearance (in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Tot.
Forborne performing	-	-	-	-	-	1,770	7,108	5,922	8,292	6,814	**29,906**
Forborne non performing	61	-	-	128	14,129	4,299	7,482	14,437	4,570	3,752	**48,858**
Total	**61**	**-**	**-**	**128**	**14,129**	**6,069**	**14,590**	**20,359**	**12,862**	**10,566**	**78,764**

Gross forborne loans by number of forbearance (in thousands)

	1 forbearance measure	more than one forbearance measure
Forborne performing	22,151	7,755
Forborne non performing	23,360	25,498
Total	**45,511**	**33,253**

Effectiveness of the forbearance measures (in thousands)

	2017	2018
Flow analysis		
Forborne performing classified as forborne non performing	592	1,812
Forborne performing classified as performing non forborne	9,712	5,592
Forborne non performing classified as forborne performing	741	-
Stock analysis		
Forborne performing without arrears / total forborne performing	93%	94%
Forborne non performing without arrears / total forborne non performing	41%	32%

For further qualitative and statistical information on the loans subject to forbearance measures (geographical distribution, by business area of the counterparty, by type of forbearance measure), refer to the Report on Operations in the paragraphs "Performing loans subject to forbearance measures - Forborne" and "Impaired loans subject to forbearance measures - Forborne".

QUANTITATIVE INFORMATION

As indicated in the introductory chapter "Transition to IFRS 9", the Bank used the exemption from the obligation to restate the comparative values envisaged in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", based on which the mandatory restatement on a like-for-like basis of the comparative data in the financial statements of first-time adoption of the new standard is not envisaged. As a result, the statement of financial position and income statement balances for the previous year, in that they were prepared in accordance with the former accounting standard IAS 39, are not fully comparable with the new accounting categories and the related measurement criteria introduced by the new standard IFRS 9.
For this reason, in addition to the data as at 31 December 2018, the tables contained in this section will report comparative balances only for those items that have a confirmed balance in the financial statements for both the current and the previous period.

A. CREDIT QUALITY

For the purposes of quantitative information on credit quality, equity securities and investments in UCITS are excluded.

A.1 Impaired and performing credit exposures: amounts, value adjustments, trend and economic distribution

A.1.1 Distribution of credit exposures by relevant portfolio and credit quality (book values)

Portfolio/quality	Doubtful loans	Unlikely to pay	Impaired past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets at amortised cost	41,503	28,299	975	13,377	1,217,874	**1,302,028**
2. Financial assets at fair value through other comprehensive income					87,615	**87,615**
3. Financial assets designated at fair value						
4. Other financial assets mandatorily measured at fair value					11,440	**11,440**
5. Financial assets to be sold						
Total 2018	**41,503**	**28,299**	**975**	**13,377**	**1,316,928**	**1,401,082**
Total 2017	**64,071**	**32,683**	**2,264**	**19,827**	**1,346,269**	**1,465,114**

Details of financial assets at amortised cost subject to forbearance measures (forborne)

Portfolio/quality	Doubtful loans	Unlikely to pay	Impaired past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets at amortised cost (forborne)	13,721	15,285	3	2,130	25,057	**56,196**

A.1.2 Distribution of credit exposures by relevant portfolio and credit quality (gross and net values)

	Impaired				Performing			
	Gross exposure	Specific adjustments	Net exposure	Total partial write-offs	Gross exposure	Portfolio adjustments	Net exposure	Total (net exposure)
1. Financial assets at amortised cost	136,875	66,098	70,777	-	1,237,420	6,169	1,231,251	**1,302,028**
2. Financial assets at fair value through other comprehensive income	-	-	-	-	87,615	-	87,615	**87,615**
3. Financial assets designated at fair value	-	-	-	-			-	**-**
4. Other financial assets mandatorily measured at fair value	-	-	-	-			11,440	**11,440**
5. Financial assets to be sold	-	-	-	-	-	-	-	**-**
Total 2018	**136,875**	**66,098**	**70,777**	**-**	**1,325,034**	**6,169**	**1,318,865**	**1,401,082**
Total 2017	**167,802**	**68,784**	**99,018**	**-**	**1,374,416**	**8,320**	**1,366,096**	**1,465,114**

	Assets of clearly low credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	274
2. Hedging derivatives	-	-	-
Total 2018	**-**	**-**	**274**
Total 2017	**-**	**-**	**452**

A.1.3 Breakdown of financial assets by past due brackets (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	From 1 to 30 days	From over 30 to 90 days	Over 90 days	Up to 30 days	From over 30 to 90 days	Over 90 days	Up to 30 days	From over 30 to 90 days	Over 90 days
1. Financial assets at amortised cost	3,529	-	-	350	5,443	4,054	148	4,218	46,640
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
TOTAL 2018	**3,529**	**-**	**-**	**350.**	**5,443**	**4,054**	**148**	**4,218**	**46,640**

of which past due:

TOTAL 2018	431	-	-	0	169	14

A.1.4 Financial Assets, commitments to disburse funds and financial guarantees issued: trend in total value adjustments and in total provisions

Reasons/risk stages	Total value adjustments													Total provisions on commitments to disburse funds and financial guarantees issued			Total
	Assets included in stage 1				Assets included in stage 2				Assets included in stage 3				Of which: acquired or originated impaired financial assets				
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs		Stage 1	Stage 2	Stage 3	
Opening balance	7,172	-		7,172	1,148			1,148	68,784		68,784			26	-	0	77,130
Increases from acquired or originated financial assets				-				-									
Derecognitions other than write-offs				-				-	(12,519)		(12,519)						(12,519)
Net adjustments to credit risk (+/-)	(8)	84		76	(1,843)	20		(1,823)	6,235		6,235	(0)		(78)	(0)	(201)	4,209
Amendments to contracts without derecogntions				-				-									-
Changes in the estimation method	(4,854)	125		(4,730)	4,554	3		4,557	16,296		16,296	0		62	0	205	16,389
Write-off				-				-	(12,698)		(12,698)						(12,698)
Other changes				-				-									-
Closing balance	2,310	209	-	2,519	(3,859)	23	-	3,881	66,098	-	66,098	0	-	9	-	4	72,511
Recoveries from collections on financial assets subject to write-off				-				-	(128)								(128)
Write-offs recognised directly in the income statement				-				-	161								161

For assets at amortised cost other than stage 1 and 2 securities, value adjustments are determined collectively using software provided by the company CSD, which uses a calculation model developed together with CRIF, also adopted by the newly formed national banking Group Cassa Centrale Banca. The model assigns to each relation the values of PD, LGD and EAD by analysing the counterparty rating, the guarantees securing the relation and the amortisation plan of the relation, respectively. The values of each parameter are calculated on the basis of statistical analyses carried out on a sample of all banks participating in the CSD system and on the basis of expected macroeconomic scenarios (forward looking approach). The same model is also adopted for determining value adjustments on commitments to disburse funds and financial guarantees issued under stage 1, 2 and 3.
For securities, both those classified under financial assets at amortised cost and those classified under financial assets at fair value through other comprehensive income, the PD and LGD data is provided by the info-provider Cassa Centrale Banca SpA that, in turn, uses an ad hoc instrument managed by Prometeia.

For assets at amortised cost under stage 3, the value adjustment is determined analytically by discounting the expected recovery at the end of the reporting period. The valuation process considers the recovery scenario through discharging events (the "management" scenario) and through the assignment of loan to third parties (the "assignment" scenario), assigning to each scenario a probability of occurrence between 0% and 100%.

Disclosure pursuant to IFRS 7, paragraph 35H, letter b), (iii)

The Bank has not adopted the possibility, envisaged by paragraph 5.5.15 letter b) of IFRS 9, of assessing the provision to cover losses on receivables implicit in lease contracts deriving from operations falling within the scope of application of IAS 17 at an amount equal to the expected losses over the entire lifetime of the loan.

Disclosure pursuant to IFRS 7, paragraph B8D

The change in value adjustments for financial assets included in all three stages was primarily impacted by the first-time adoption of IFRS 9 (see line "Changes in the estimation method"); for an analysis of these effects, refer to the Report on Operations, paragraph "Transition to IFRS 9".
As regards the write-backs recorded on the assets at amortised cost falling under stage 2 (€1.843m), note that these are due mainly to a volume effect that, as illustrated in table A.1.5 below, involved net transfers from stage 2 to stage 1 of €6.3m and from stage 2 to stage 3 of €3.7m.
With regard to assets at amortised cost falling under stage 3, the adjustment provisions decreased following the substantial collections and disposals made in the year, only partially offset by adjustments to new impaired loans and higher adjustments to impaired loans already in the portfolio.

A.1.5 Financial Assets, commitments to disburse funds and financial guarantees issued: transfers between different stages of credit risk (gross and nominal values)

Portfolios/risk stages	Gross values / nominal value					
	Transfers from stage 1 to stage 2		Transfers from stage 2 to stage 3		Transfers from stage 1 to stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets at amortised cost	19,575	(25,858)	3,917	(167)	10,312	-
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued	-	(1)	-	-	-	-
TOTAL	**19,575**	**(25,860)**	**3,917**	**(167)**	**10,312**	**-**

Transfers "*to stage 3*" and "*from stage 3*", amounting to €14.229m and €0.167m, respectively, do not coincide with the "transfers from performing loans" and "transfers to performing exposures" shown in table A.1.9 of this section, amounting to €14.217m and €298m, respectively, in that this table is valued at gross value recorded at the end of the reporting period, while table A.1.9 is valued at the gross value recorded at the date of transition to the non-performing status.

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

Type of exposure/Amounts	Gross exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs
	Impaired assets	Performing assets			
A. BALANCE SHEET EXPOSURES					
a) Doubtful loans	-		-	-	-
- of which exposures subject to forbearance measures	-		-	-	-
b) Unlikely to pay	-		-	-	-
- of which exposures subject to forbearance measures	-		-	-	-
c) Impaired past due exposures	-		-	-	-
- of which exposures subject to forbearance measures	-		-	-	-
d) Performing past due exposures		-	-	-	-
- of which exposures subject to forbearance measures		-	-	-	-
e) Other performing exposures [1]		88,952	51	88,901	-
- of which exposures subject to forbearance measures		-	-	-	-
TOTAL A	**-**	**88,952**	**51**	**88,901**	**-**
B. OFF-BALANCE SHEET EXPOSURES					
a) Impaired	-		-	-	-
b) Performing		1,245	2	1,243	-
of which Derivatives		*211*	*-*	*211*	*-*
Commitments		*-*	*-*	*-*	*-*
Guarantees issued		*1,034*	*2*	*1,033*	*-*
TOTAL B	**-**	**1,245**	**2**	**1,243**	**-**
TOTAL A+B	**-**	**90,197**	**52**	**90,145**	**-**

1 Other performing exposures include €47.5m in bank bonds that satisfy the requirements for eligibility for ECB refinancing and €410 thousand in bank bonds purchased to finance the counterparty, classified under "Financial assets at fair value through other comprehensive income". For more information, please refer to the report on operations chapter "The securities portfolio".

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

Type of exposure/Amounts	Gross exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs
	Impaired assets	Performing assets			
A. BALANCE SHEET EXPOSURES					
a) Doubtful loans	94,747		53,244	41,503	-
- of which exposures subject to forbearance measures	26,625		12,905	13,721	-
b) Unlikely to pay	41,094		12,795	28,299	-
- of which exposures subject to forbearance measures	22,230		6,945	15,285	-
c) Impaired past due exposures	1,034		59	975	-
- of which exposures subject to forbearance measures	3		0	3	-
d) Performing past due exposures		14,218	842	13,377	-
- of which exposures subject to forbearance measures		2,334	204	2,130	-
e) Other performing exposures [1]		1,233,303	5,276	1,228,027	-
- of which exposures subject to forbearance measures		27,572	2,514	25,057	-
TOTAL A	**136,875**	**1,247,522**	**72,215**	**1,312,181**	**-**
B. OFF-BALANCE SHEET EXPOSURES					
a) Impaired	13		4	10	-
of which Guarantees	5		4	1	-
Commitments	8		-	8	-
b) Performing		10,697	8	10,689	-
of which Derivatives		*63*	*-*	*63*	*-*
Commitments		*6,309*	*0*	*6,309*	*-*
Guarantees issued		*4,325*	*7*	*4,318*	*-*
TOTAL B	**13**	**10,697**	**12**	**10,699**	**-**
TOTAL A+B	**136,888**	**1,258,218**	**72,227**	**1,322,880**	**-**

1 The amount includes €39.7m of securities issued by the Italian government eligible for ECB refinancing, classified under "Financial assets at fair value through other comprehensive income" (for details see the report on operations in the chapter "The securities portfolio") and €11.4m of receivables for cash reserves relating to self-securitisations that did not pass the SPPI test.

A.1.9 Balance sheet credit exposures to customers: trend in gross impaired exposures

Reasons/Categories		Doubtful loans	Unlikely to pay	Impaired past due exposures
A.	**Opening balance**	**120,994**	**44,285**	**2,524**
	- of which: exposures sold and not derecognised	-	-	-
B. Increases		**14,976**	**16,026**	**1,425**
B.1	transfers from performing loans	160	13,473	1,302
B.2	transfers from acquired or originated impaired financial assets	-	-	-
B.3	transfers from other categories of impaired exposures	13,358	1,802	-
B.4	amendments to contracts without derecogntions	-	-	-
B.5	other increases [1]	1,458	751	123
C.	**Decreases**	**41,223**	**19,217**	**2,914**
C.1	transfers to performing exposures	-	-	298
C.2	write-off	12,859	-	-
C.3	collections [1]	12,409	4,884	233
C.4	sale proceeds	3,339	1,050	-
C.5	losses on disposal	12,615	491	-
C.6	transfers to other categories of impaired exposures	-	12,777	2,382
C.7	amendments to contracts without derecogntions	-	-	-
C.7	other decreases	0	15	1
D.	**Closing balance**	**94,747**	**41,094**	**1,034**
	- of which: exposures sold and not derecognised	-	-	-

1 The column doubtful loans also includes €128 thousand related to collections of doubtful loans completed in the previous years as per the instructions of the Bank of Italy (Circular 262/2005).

A.1.9*bis* Balance sheet credit exposures to customers: trend in gross exposures subject to forbearance measures broken down by credit quality

Reasons/Categories		Exposures subject to forbearance measures: impaired	Other exposures subject to forbearance measures
A.	**Opening balance**	**52,768**	**33,518**
	- of which: exposures sold and not derecognised		
B. Increases		**7,141**	**7,022**
B.1	transfers from performing loans not subject to forbearance measures	987	6,814
B.2	transfers from performing loans subject to forbearance measures	1,812	
B.3	transfers from impaired loans subject to forbearance measures		-
B.4	other increases [1]	4,342	208
C.	**Decreases**	**11,051**	**10,635**
C.1	transfers to performing loans not subject to forbearance measures		5,592
C.2.	transfers to performing loans subject to forbearance measures	-	
C.3	transfers to impaired loans subject to forbearance measures		1,812
C.4	write-off	357	-
C.5	collections	7,213	3,230
C.6	sale proceeds	1,338	-
C.7	losses on disposal	2,128	-
C.8	other decreases	15	-
D.	**Closing balance**	**48,858**	**29,906**
	- of which: exposures sold and not derecognised	-	-

1 The column "Exposures subject to forbearance measures: impaired" includes the amount of €3.5m related to the transfers from impaired loans not subject to forbearance measures.

A.1.11 Balance sheet impaired credit exposures to customers: trend in total value adjustments

	Reasons/Categories	Doubtful loans		Unlikely to pay		Past due exposures		Performing credit exposures	
		Total	Of which: exposures subject to forbearance measures	Total	Of which: exposures subject to forbearance measures	Total	Of which: exposures subject to forbearance measures		
A.	**Overall opening adjustments**	**56,922**	**8,496**	**11,602**	**4,768**	**260**	**143**	**8,320**	
	- of which: exposures sold and not derecognised	-	-	-	-	-	-	-	
B.	**Increases**	**26,500**	**8,008**	**9,646**	**4,420**	**59**	**0**	**298**	
B.1	value adjustments from acquired or originated impaired financial assets	-		-		-		-	
B.2	other value adjustments	7,229	2,316	4,889	1,943	59	0	267	
B.3	losses on disposal	355	83	232	232	-	-	-	
B.4	transfers from other categories of impaired exposures	6,811	823	207	142	-	-	-	
B.5	amendments to contracts without derecogntions	-		-		-		-	
B.6	other increases [1 2]	12,105	4,785[5]	4,319	2,103[5]	0	31	31	
C.	**Decreases**	**30,179**	**3,599**	**8,453**	**2,243**	**260**	**143**	**2,501**	
C.1	write-backs from valuation	3,600	1,585	999	777	22	0	2,095	
C.2	write-backs from collection [1]	477	1	182	152	2	-	-	
C.3	gains on disposal	627	19	-	-	-	-	-	
C.4	write-off	12,859	357	-	-	-	-	-	
C.5	transfers to other categories of impaired exposures	-	-	6,782	823	236	142	-	
C.6	amendments to contracts without derecogntions	-		-		-			
C.7	other decreases	12,615[3]	1,637	491[4]	491	-	-	405	
D.	**Overall closing adjustments**	**53,244**	**12,905**	**12,795**	**6,945**	**59**	**0**	**6,118**	
	Losses due to below market rates	-	-	-		-		-	
	Total net credit adjustments	**3,152**		**3,708**		**35**		**(1,828)**	**5,067**[6]
	Net loss on disposal	**(272)**		**232**		**-**		**-**	**40**[7]

1 The column doubtful loans also includes €128 thousand related to collections of doubtful loans completed in the previous years as per the instructions of the Bank of Italy (Circular 262/2005).

2 In the columns doubtful loans and unlikely to pay, the amount includes the effect of the IFRS 9 FTA on loans of €11.977m and €4.319m, respectively. In the column Performing loans, the amount includes the effect of the IFRS 9 FTA on HTC securities of €31 thousand.

3 The column doubtful loans includes the amount of €12.615m relating to losses on the disposal, of which €12.261m are covered by the allowance for doubtful accounts and €0.355m are not covered by allowance for doubtful accounts (see item B.3), accordingly with indication by the Bank of Italy Circular no. 262/2005.

4 The column Unlikely to pay includes the amount of €0.491m relating to losses on the disposal, of which €0.259m are covered by the allowance for doubtful accounts and €0.232m are not covered by allowance for doubtful accounts (see item B.3), accordingly with indication by the Bank of Italy Circular no. 262/2005.

5 The amount refers to value adjustments as at 31 December 2017 relating to unlikely to pay that benefited from forbearance measures during 2018.

6 The amount corresponds to that shown in table 8.1 part C item "Total B – Loans and advances to customers" (€7.033m) net of write-backs due to time-reversal allocated in item 10. Interest income (€1.967m)

7 The amount resulting from the sum of B.2 and C.3 corresponds to the amount in table 6.1 Part C item "Loans and advances to customers – Net result"

Sale transactions

During the financial year, the Bank participated as the "transferor" to a sale without recourse, under Law 130/99, of non-performing loan portfolios promoted and managed by Finanziaria Internazionale Investments SGR S.p.A. and having as its counterpart, as the "transferee", the company Sole SPV S.r.l. The transaction does not involve the Bank as servicer nor as an underwriter of the securities issued by the transferee to finance the purchase; as the Bank does not provide warranty of any kind, the requirements for the derecognition of the loans transferred from the Bank's assets are met.
The sale involved a non-performing loan portfolio with a gross book value of €2.5m at the time of the sale, already impaired as at 31 December 2017 to a value of €2.0m. Given these values, the transferee paid to the Bank an amount of €0.5m that led the Bank to a gross loss of €2.0m. Net of existing allowance for doubtful accounts, the operation has weighed on the income statement of the Bank for net €11 thousand, the result of losses on disposal of €44 thousand and gains on disposal of €33 thousand.
During the financial year, the Bank also participated as the "transferor" to a sale without recourse, under Law 130/99, of non-performing loan portfolios promoted and managed by Cassa Centrale Banca S.p.A. and having as its counterparty, as the "transferee", the company Sole SPV S.r.l. The transaction does not involve the Bank as servicer nor as an underwriter of the securities issued by

the transferee to finance the purchase; as the Bank does not provide warranty of any kind, the requirements for the derecognition of the loans transferred from the Bank's assets are met.
The sale involved a non-performing loan portfolio with a gross book value of €10.3m at the time of the sale, already impaired as at 31 December 2017 to a value of €8.8m. Given these values, the transferee paid to the Bank an amount of €1.6m that led the Bank to a gross loss of €8.7m. Net of existing allowance for doubtful accounts, the operation led to the recording of a net profit on disposal of €131 thousand, the result of losses on disposal of €125 thousand and gains on disposal of €257 thousand.
During the year, four sales were made of individual non-performing loans with a gross book value of €4.8m at the time of the sale, already impaired as at 31 December 2017 by €2.4m. Given these values, the transferees paid to the Bank an amount of €2.4m that led the Bank to a gross loss of €2.5m. Net of existing allowance for doubtful accounts, these operations weighed on the income statement of the Bank for net €80 thousand, the result of losses on disposal of €417 thousand and gains on disposal of €337 thousand.
The effects described above are shown in the tables "A.1.9 Balance sheet credit exposures to customers: trend in gross impaired exposures", under items "C.4 Sale proceeds" and "C.5 Losses on disposal", and "A.1.11 Balance sheet impaired credit exposures to customers: trend in total value adjustments", under items "B.3 Losses on disposal", "C.3 Gains on disposal" and "C.7 Other decreases".

A.2 Classification of financial assets, commitments to disburse funds and financial guarantees issued based on internal and external ratings

A.2.1 Breakdown of financial assets, commitments to disburse funds and financial guarantees issued: by external rating class (gross values)

Exposures	External rating class						No rating	Total
	AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+/ BB-	B+/B-	Lower than B-		
A. Financial assets at amortised cost	**-**	**-**	**188,499**	**-**	**-**	**-**	**1,185,795**	**1,374,295**
Stage 1			188,499				975,273	1,163,771
Stage 2							73,649	73,649
Stage 3							136,875	136,875
B. Financial assets at fair value through other comprehensive income	**-**	**-**	**87,204**	**-**	**-**	**-**	**410**	**87,615**
Stage 1			87,204				-	87,204
Stage 2							410	410
Stage 3								
TOTAL (A+B)	**-**	**-**	**275,703**	**-**	**-**	**-**	**1,186,206**	**1,461,909**
of which: acquired or originated impaired financial assets								
C. Commitments to disburse funds and financial guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**11,681**	**11,681**
Stage 1							11,668	11,668
Stage 2							-	-
Stage 3							13	13
TOTAL C	**-**	**-**	**-**	**-**	**-**	**-**	**11,681**	**11,681**
TOTAL (A+B+C)	**-**	**-**	**275,703**	**-**	**-**	**-**	**1,197,888**	**1,473,591**

Reconciliation between the "External rating classes" and the ratings of the main agencies

Rating class	Standard & Poor's	Moody's	Fitch
AAA/AA-	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
A+/A-	A+	A1	A+
	A	A2	A
	A-	A3	A-
BBB+/BBB-	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
BB+/BB-	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-
B+/B-	B+	B1	B+
	B	B2	B
	B-	B3	B-
Lower than B-	from CCC+ to D	form Caa1 to C	from CC+ to D

The balance sheet exposures with counterparties with a rating relate entirely to Government or Bank bonds classified in the available for sale portfolio. With regard to the loan portfolio of the Bank, mainly made up of loans to small and medium sized enterprises, the amount of exposures attributed an external rating are rather negligible, for which the entire exposure is presented under the column "no rating". With regard to financial derivatives the overall notional amount is €32.3m and is distributed as follows: €31.9m with counterparties rated Baa2 and €0.4m with counterparties rated Baa3.

A.2.2 Breakdown of financial assets, commitments to disburse funds and financial guarantees issued: by internal rating class (gross values)

The Bank has only recently begun to use an internal customer rating model, but to date it only marginally covers its loan portfolio, which is only assigned at the initial stage of the credit line and to new industrial and commercial customers; therefore, it is not yet sufficiently representative of the overall portfolio. However, it should be noted that following the introduction of the models functional to the application of the new accounting standard IFRS 9, the Bank has additional elements to assign a rating class to the entire loan portfolio together with the traditional in-depth monographic analysis of the economic, financial and sector situation of each customer to whom it grants credit; however, this data is not yet used in credit risk management.

A.3 Breakdown of secured credit exposures by type of guarantee

A.3.2 Secured balance sheet and off-balance sheet credit exposures to customers

			Collaterals (1)				Personal guarantees (2)										
							Credit derivatives					Endorsement loans					
								Other derivatives									
	Gross exposure	Net exposure	Properties - mortgages	Properties – finance lease	Securities	Other collaterals	Credit linked notes	Government & central banks	Other public entities	Banks	Others	Government & central banks	Other public entities	Banks	Others	Total (1)+(2)
1. Secured balance sheet credit exposures	*845,211*	*780,265*	*356,072*	*71,433*	*6,575*	*5,722*							*6,070*	*130,399*	*71,155*	647,424
1.1 fully secured	534,532	490,273	325,042	71,433	3,071	2,556							4,221	21,872	62,078	490,273
- of which impaired	96,793	56,805	51,356	3,258	155	548							36	457	995	56,805
1.2 partially secured	310,679	289,992	31,030		3,504	3,166							1,849	108,527	9,075	157,151
- of which impaired	32,293	12,563	10,530										268	140	4	10,942
2. Secured off-balance sheet credit exposures	*5,994*	*5,983*	*1,434*		*87*								*400*		*654*	2,575
2.1 fully secured	574	574	20												554	574
- of which impaired																
2.2 partially secured	5,420	5,409	1,414		87								400		100	2,001
- of which impaired																

B. Distribution and concentration of credit exposures

B.1 Breakdown of balance-sheet and off-balance-sheet credit exposures to customers by main business sector

Exposures/Counterparties	Public administrations		Financial corporations		Financial corporations (of which: insurance companies)		Non-financial corporations		Families	
	Net exposures	Net exposures	Total value adjustments	Total value adjustments	Total value adjustments	Total value adjustments	Total value adjustments	Total value adjustments	Total value adjustments	Total value adjustments
A. Balance sheet exposures										
A.1 Doubtful loans			1,241	1,469			36,771	50,007	3,491	1,768
of which exposures subject to forbearance measures							12,044	12,176	1,677	729
A.2 Unlikely to pay			9,601	2,156			17,058	10,397	1,641	242
of which exposures subject to forbearance measures			1,325	905			12,884	5,958	1,075	82
A.3 Impaired past due exposures							779	34	196	25
of which exposures subject to forbearance measures							3	0		
A.4 Performing loans	307,280	409	60,093	27			826,895	5,330	47,135	352
of which exposures subject to forbearance measures			4,356	6			21,794	2,626	1,038	86
Total A	**307,280**	**409**	**70,935**	**3,652**			**881,503**	**65,768**	**52,463**	**2,387**
B. Off-balance sheet exposures										
B.1 Impaired loans							10	4		
B.2 Performing loans			216	0			10,023	8	450	
Total B			**216**	**0**			**10,033**	**12**	**450**	
Total (A+B) (2018)	**307,280**	**409**	**71,151**	**3,652**			**891,503**	**65,780**	**52,913**	**2,387**

B.2 Breakdown of balance-sheet and off-balance-sheet credit exposures to customers by area[35]

Exposures/Geographic areas	Italy		*of which North-East*		*of which other areas*		Other European Countries	
	Net exposures	Total value adjustments	*Net exposures*	*Total value adjustments*	*Net exposures*	*Total value adjustments*	Net exposures	Total value adjustments
A. Balance sheet exposures								
A.1 Doubtful loans	41,503	53,244	*30,387*	*40,452*	*11,116*	*12,792*		
A.2 Unlikely to pay	28,299	12,795	*15,155*	*8,685*	*13,144*	*4,110*		
A.3 Impaired past due exposures	975	59	*939*	*53*	*36*	*6*		
A.4 Performing loans	1,241,404	6,118	*824,833*	*4,871*	*416,571*	*1,247*		
Total A	**1,312,181**	**72,215**	***871,314***	***54,060***	***440,867***	***18,155***	**-**	**-**
B. Off-balance sheet exposures								
B.1 Impaired loans	10	4	*10*	*4*				
B.2 Performing loans	10,689	8	*10,126*	*8*	*563*	-		
Total B	**10,689**	**12**	***10,136***	***12***	***563***			
Total (A+B) 2018	**1,322,880**	**72,227**	***881,450***	***54,072***	***441,430***	***18,155***		

B.3 Breakdown of balance-sheet and off-balance-sheet credit exposures to banks by area

	Italy		Other European Countries		America		Asia		Rest of the world	
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. Balance sheet exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing loans	88,901	51	-	-	-	-	-	-	-	-
Total A	**88,901**	**51**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Impaired loans										
B.2 Performing loans	1,243	2								
Total B	**1,243**	**2**							**-**	**-**
Total (A+B) 2018	**90,145**	**52**							**-**	**-**

B.4 Significant exposures

	2018	2017
a) Amount (book value)	283,563	307,965
b) Amount (weighted value)	55,657	146,297
c) Number	3	3

35 The data represented here is slightly different from the data in the breakdown by geographical area in the Report on Operations. This is due to the fact that the Bank of Italy's criteria used in the notes to the financial statements requires the geographical breakdown to be based on the counterparty's area of residence, while the method used in the Report on Operations uses the destination of the investment as its area.

C. SECURITISATION TRANSACTIONS

QUALITATIVE INFORMATION

In order to increase the liquidity of its assets, the Bank took part in the multi-originator securitisation transaction that was arranged and managed by Cassa Centrale Banca S.p.A. pursuant to Law 130/99 called "Cassa Centrale Finance 3" as well as "BCC SME Finance 1" started in 2009 and 2012, respectively. The sole purpose of the transaction is to enable financial assets to be eligible for refinancing operations with the European Central Bank.
Both transactions involved the repurchase by the Bank of all the Senior and Junior securities issued by the SPV. As a result, they are considered "self-securitisations" and, in compliance with the Bank of Italy's regulations, such transactions cannot be recorded in the tables of the Notes to the financial statements of part E, section C "securitisation transactions and sales of assets".
A description of this transaction is provided in the section dealing with liquidity risk.

SECTION 2 – MARKET RISK

2.1 INTEREST RATE RISK AND PRICE RISK – REGULATORY TRADING PORTFOLIO

The Bank owns a limited number of financial instruments classified in the regulatory trading portfolio, with regard to both numbers and amount: these relate, in particular, to 42 cap options on interest rates, of which 21 contracts with ordinary customers and 21 corresponding contracts with banking counterparties and three listed warrants acquired on a free basis as part of transactions that led to the purchase of shares (classified as financial assets at fair value through other comprehensive income). The measurement of the interest rate risk of these operations is carried out in the context of the Asset & Liability Management process of the overall portfolio.
It is highlighted that in keeping with its risk profile the Bank was not exposed either directly or indirectly to the credit products of the ABS (Asset Backed Securities) and CDO (Collateralised Debt Obligation) type linked to sub-prime and Alt-A loans or to financial products that the market perceives as risky. Price risk is not measured because the Bank does not own any financial instrument sensitive to price risk (equity securities or UCITS) that are classified in the regulatory trading portfolio.

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING PORTFOLIO

Qualitative information

A. General aspects, management processes and methods of measuring interest rate risk and price risk

The interest risk incurred by the Bank in relation to its banking portfolio largely ensues from the main service (loans and securities) it performs as an intermediary, active in the process of maturity transformation and is mainly due to the imbalance between asset and liability items in terms of the amortisation plan with regard to amount and maturity, financial duration and type of interest rate.
In accordance with the instructions of the Board of Directors, set out in the risk profiles adopted parallel to the annual operational budget, the "Planning and control" function is the organisational structure charged with monitoring and controlling the interest rate risk to which the banking portfolio is exposed. The interest rate risk is measured and controlled using the processes and methods set forth by the Asset & Liability Management procedure: we refer in particular to Duration Gap Analysis (which measures the sensitivity of the market value of shareholders' equity to changes in interest rate i.e. it examines the sensitivity of future economic results), to Maturity Gap Analysis (which measures the sensitivity of the maturing net interest income and in particular highlights "base risk" exposure) and to Simulation Analysis (which measures changes to cash flows and to the economic results for the period in scenarios characterised by diversified forward interest rates). The management of this financial risk in question is carried out monthly or quarterly and at least every quarter meetings of the ALCO Committee (Asset/Liability Committee) are convened; a periodic report is submitted to the Board of Directors.

Quantitative information

Banking portfolio: internal models and other sensitivity analysis methods

As we have already mentioned, the Bank uses asset liability management techniques to measure the impact ("sensitivity") that changes in the interest rates structure could have on the expected financial margin and on the market value of equity in relation to the overall portfolio of the Bank.
The Asset/Liability Management System estimates the change over a year (within the context of the maturity gap model) that a shift in the interest rate yield curve would have on the financial margin. The model groups all the assets and liabilities into a series of time intervals (initially shorter and then increasingly longer intervals) according to the repricing timescales. The algebraic sum of the items of each "time bucket" of one year is the basis for simulating the effect on the interest margin of a rate shock (specifically given an instantaneous, unique and parallel shift in general market rates of plus/minus 100 basis points). With regard to the market value of the assets, the duration gap methodology measures the sensitivity of the present value of the portfolio net of all active and passive operations.
The following table shows the effects (calculated with the maturity gap model) on the interest margin and on the net income.

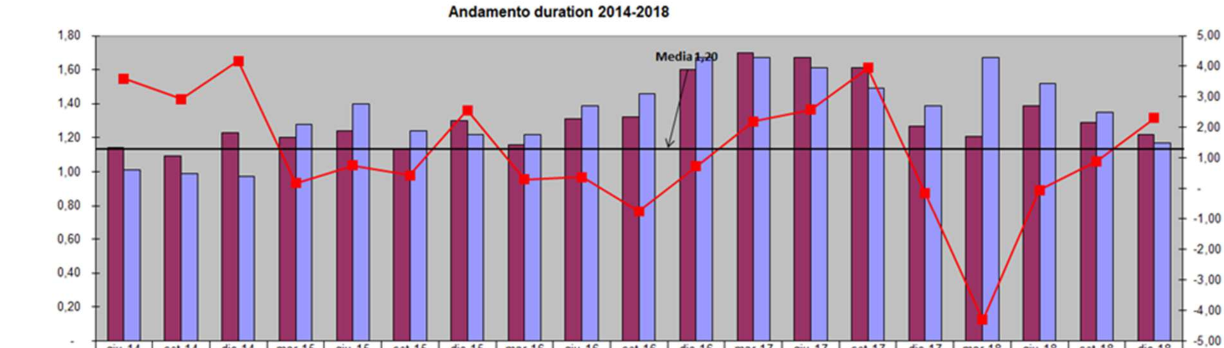
Volatility of the net interest income and of net income calculated using the Gap model (thousands of Euro)

Instantaneous and parallel shift in the interest rate yield curve	+100 bp	-100 bp
Net interest income change	+3,227	-3,227
Net income change	+2,194	-2,194

The analysis of the effect on the margin shows a volatility similar to that of the previous year (+/- €3,224 thousand in 2017), the result of the volumes of assets subject to repricing over the year higher than the volumes of liabilities over the reference time horizon. The main cause of this mismatching is the use of largely fixed-rate forms of funding, not accompanied by as many fixed-rate loans. It should also be remembered that the maturities of liabilities are characterised by maturities rarely exceeding 24 months and therefore the turnover, and the relevant repricing, is close when compared with that of fixed rate mortgages. Considering that the new funding tends to have an average duration of around 15 months and at fixed rate and that about two-thirds of the new lending operations are at variable rates (repricing within 6 months) and one-third at fixed rates on average durations of around 4 years, the current imbalance situation is destined to remain substantially stable as the room for manoeuvre, especially on the liabilities side, is limited. However, in a scenario of rising interest rates, it is largely favourable to the bank.
Note that the existing funding has an average duration of approximately one third of that of assets (1.3 years compared to 3.8 years for assets).

With regard to the market value of the assets, the duration gap methodology measures the sensitivity of the present value of the portfolio net of all active and passive operations.

The main sensitivity data relative to the financial years from 2014 to 2018 are shown below:



	giu-14	set-14	dic-14	mar-15	giu-15	set-15	dic-15	mar-16	giu-16	set-16	dic-16	mar-17	giu-17	set-17	dic-17	mar-18	giu-18	set-18	dic-18
Attivo	1,14	1,09	1,23	1,20	1,24	1,13	1,30	1,16	1,31	1,32	1,60	1,70	1,67	1,61	1,27	1,21	1,39	1,29	1,22
Passivo	1,01	0,99	0,97	1,28	1,40	1,24	1,22	1,22	1,39	1,46	1,67	1,67	1,61	1,49	1,39	1,67	1,52	1,35	1,17
Portafoglio	3,60	2,93	4,17	0,18	0,76	0,44	2,57	0,30	0,38	-0,74	0,73	2,21	2,58	3,94	-0,16	-4,31	-0,05	0,90	2,30

The processing of the Duration Gap model as at 31 December 2018 recorded a marked increase in the synthetic volatility indicator, which stood at a level of 2.20 above the five-year average (1.2) and clearly above the data of 31 December 2017 (-0.16). As expected, the indicator shows a progressive realignment to levels considered physiological for the type of operations of the bank. During the year, the total duration of the liabilities segment gradually shortened, going from a peak of 1.67 years recorded in March 2018 (corresponding to the significant funding tranches of the first quarter of 2018) to 1.17 in December 2018 (about 0.5 years less in 9 months). The shortening of the duration of liabilities, in the presence of transactions mainly at a fixed rate with an average duration similar to that of the duration, is essentially due to the passage of time (known as "duration drift"), only partly offset by new tranches of funding in the following months, which were smaller (about €110m in total compared to about €300m in the first quarter) and with an average duration of less than one year. There are also increasing corporate deposits payable on demand, which are insensitive to interest rate changes and further contribute to reducing the duration of liabilities. On the other hand, the duration of the assets remained relatively stable and the combined effect led to an increase in the overall indicator.

The stress test of +/-100 b.p shows a clear reduction in the effect on equity, which fell from -/+ €0.2m in December 2017 to -/+ €1.2m in December 2018, therefore representing a higher sensitivity of equity to a change in interest rates.

Volatility of the market value of equity (thousands of Euro)

Instantaneous and parallel shift in the interest rate yield curve	+100 bp	-100 bp
Change in the value of equity	-1,226	+1,226

Price risk – Banking portfolio

In keeping with its risk profile the Bank did not engage in purely speculative transactions and therefore exposure of its securities portfolio to price risk is deemed to be still limited for the evaluation of the Bank's situation.
With regard to Merchant Banking, the Bank is engaged in Equity Investment activities in relation to the purchase of minority shareholdings, mostly in industrial companies. The role of the Bank in these investee companies is that of strategic shareholder and the selection and assessment of initiatives is carried out, based on internal procedures, by specialised organisational units created on an ad-hoc basis and subject to review by the Investment Committee. Lastly, investment transactions are resolved by the Board of Directors after ascertaining that they comply with the prudential limitations set forth by the Supervisory Authority.
Every six months, just like for other financial statement items, an in-depth valuation process is conducted, subject to validation by the Investment Committee and adequately documented, aimed at verifying the existence of objective evidence of impairment (impairment test). This portfolio does not exceed 2% of total financial statement assets.
Specific procedures are implemented for managing the price risk of debt securities classified mainly in the portfolio of assets available for sale. The Bank purchased Government and bank bonds that are eligible for refinancing with the European Central Bank. For the evaluation of such assets, the Bank has internal policies that define the criteria and methodologies for determining the current fair value and the operational and size limits of the portfolio in question.

The 10-day parametric VaR analysis carried out on the debt securities portfolio revealed the following amounts:

	Value at risk (millions of Euro)
Actual data as at 31/12/2018	5.201
Minimum (25/05/2018)	3.858
Maximum (31/05/2018)	20.332
Average	8.896
10-day VaR 99% (in percentage)	1.9%

The figures in the table show that the risk in the securities portfolio increased during the first half of the year, coinciding with the uncertainty related to the Italian political situation; in the second half of the year, the risk level gradually decreased, presenting at the end of the year a value lower than the annual average (5.2m against 8.9m).
The VaR expressed as a percentage of the total portfolio was 1.9%, significantly higher than the 0.6% recorded as at 31 December 2017.

2.3 EXCHANGE RISK

Qualitative information

Foreign currency lending transactions pertain to the Bank's main non-trading activity and are marginal items with respect to the overall portfolio: they are financed with short-term foreign currency deposits with correspondent banks essentially for the same amounts as the exposure to customers, thus covering the exchange rate risk.
The management of exchange rate risks involves extremely limited exposures in terms of amount and number in the main currencies: only Swiss francs for 2018.

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

Items	Currency					
	US Dollar	Sterling	Yen	Canadian Dollar	Swiss Franc	Other currencies
A. Financial assets					**777**	
A.1 Debt securities						
A.2 Equity securities						
A.3 Loans and advances to banks						
A.4 Loans and advances to customers					777	
A.5 Other financial assets						
B. Other assets						
C. Financial liabilities					**777**	
C.1 Amounts due to banks					777	
C.2 Amounts 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					**777**	
Total liabilities					**777**	
Difference (+/-)					**-**	

SECTION 3 - DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

3.1 TRADING DERIVATIVE INSTRUMENTS

A. Financial derivatives

A.1 Financial trading derivatives: notional values at the end of period

Underlying assets/Types of derivative	2018				2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Clearing House	Without Clearing House			Clearing House	Without Clearing House		
		With offset agreements	Without offset agreements			With offset agreements	Without offset agreements	
1. Debt securities and interest rates			**59,489**				**64,525**	
a) Options[1]			59,489				64,525	
b) Swaps								
c) Forwards								
d) Futures								
e) Others								
2. Equity securities and share indices								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Others								
3. Currencies and gold								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Others								
4. Commodities								
5. Other								
Total								

1 These relate to cap options sold to ordinary customers and the associated counter-hedges purchased from bank counterparties.

A.2 Financial trading derivatives: gross positive and negative fair value – breakdown by product

Underlying assets/Types of derivative	2018				2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Clearing House	Without Clearing House			Clearing House	Without Clearing House		
		With offset agreements	Without offset agreements			With offset agreements	Without offset agreements	
1. Positive Fair value			211	63			196	128
a) Options[1]			211	63			196	128
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards								
f) Futures								
g) Others								
Total			**211**	**63**			**196**	**128**
1. Negative fair value			202				312	
a) Options[2]			202				312	
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards								
f) Futures								
g) Others								
Total			**202**				**312**	

1 These relate for €211 thousand to OTC cap options purchased from bank counterparties to counter-hedge corresponding options sold to ordinary customers and for €63 thousand to listed warrants.
2 These are cap options sold to ordinary customers.

A.3 OTC financial derivatives: notional values, gross positive and negative fair value by counterparty

Underlying assets	Government & central banks	Banks	Other financial corporations	Others
Contracts not included in offset agreements				
1) Debt securities and interest rates				
- notional values		29,745		29,745
- positive fair value		211		
- negative fair value				202
2) Equity securities and share indices				
- notional values				
- positive fair value				
- negative fair value				
3) Currencies and gold				
- notional values				
- positive fair value				
- negative fair value				
4) Commodities				
- notional values				
- positive fair value				
- negative fair value				
5) Others				
- notional values				
- positive fair value				
- negative fair value				
Contracts not included in offset agreements				
1) Debt securities and interest rates				
- notional values				
- positive fair value				
- negative fair value				
2) Equity securities and share indices				
- notional values				
- positive fair value				
- negative fair value				
3) Currencies and gold				
- notional values				
- positive fair value				
- negative fair value				
4) Commodities				
- notional values				
- positive fair value				
- negative fair value				
5) Others				
- notional values				
- positive fair value				
- negative fair value				

A.4 OTC financial derivatives – residual life: notional values

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates	5,451	32,124	21,914	59,489
A.2 Financial derivative contracts on equity securities and share indices				
A.3 Financial derivative contracts on exchange rates and gold				
A.4 Financial derivative contracts on commodities				
A.5 Financial derivative contracts on other values				
Total 2018	**5,451**	**32,124**	**21,914**	**59,489**
Total 2017	**5,035**	**31,959**	**27,531**	**64,525**

SECTION 4 – LIQUIDITY RISK

Qualitative information

A. General aspects, management processes and methods of measuring liquidity risk

The liquidity risk originates from the time mismatch between positive and negative cash flows in relation to both the short and a medium-long period. This could cause the Bank to fail to meet its payment obligations due to the inability to raise new funds and / or sell its assets on the market or to be forced to incur very high costs to meet these commitments. The sources of liquidity risk to which the Bank is exposed are represented mainly by the processes of Financing/Funding and Loans.
The measurement and management of the Liquidity risk is carried out by means of financial planning tools (in particular Liquidity Gap Analysis in the context of the ALM system that through simulations generates a maturity ladder of all the cash flow generated, with or without the effect of the new volumes) which choose the most suitable funding policies in the medium-long term.
The Bank continues to pay special attention in order to keep a substantial equilibrium between the duration of borrowing and lending, and to diversify the sources and types of funds it raises to mitigate non-systemic liquidity risks.

The liquidity risk management policy includes, essentially:
- tasks for governing bodies with particular focus on the role of the ALCO Committee (Assets & Liabilities Committee);
- a liquidity risk tolerance threshold in the short term and for structural liquidity, obtained by identifying measurement indicators, attention indicators and operating limits (maturity ladder, cover ratio LCR, NSFR (Net Stable Funding Ratio), maturity transformation indicator);
- risk mitigation tools;
- contingency funding plans: stress testing and contingency plan to deal with adverse situations in raising funds;
- formalisation of the existing management system of internal funds transfer pricing;
- reporting between the corporate structures and bodies.

The rules for managing liquidity risk are based on two principles:
- short-term liquidity management, aiming to ensure the ability to meet its foreseen and unforeseen payment obligations by maintaining a sustainable balance between incoming and outgoing cash flows in the short-term (1 year). Short-term liquidity management is an essential condition for the normal operational continuity of the bank. Typical actions taken for this purpose are:
    - to manage access to the Market for Interbank Deposits, to the collection on demand or short-term constraint collection, to the European Central Bank;
    - to manage cash disbursements to be made and to monitor the consistency and degree of utilisation of cash reserves.
- **management of structural liquidity**, aiming to maintain an appropriate balance between passivity and activity in the medium / long term (over 1 year) in order to avoid pressures on sources, current and future in the short-term. Typical actions taken for this purpose are related to:
  management of maturity transformations;
  increase of stable funding sources;
  diversification of liquidity sources and optimisation of funding costs.

In particular the monitoring of the Bank's liquidity position is achieved by checking both the interval mismatches (interval gap) and the cumulative mismatches (cumulative gap) on different time frames of the maturity ladder (7 days, 1 month and 3 months for the short-term and beyond 1 year for the structural liquidity) by reports produced by the Planning and Control function.

The liquidity report is dynamic i.e. it summarises the liquidity needs and the associated ability to cover them in monthly periods, quantified using stress scenarios based on liquidity profiles. The Bank is aware that the validity of the stress tests should be considered within the (particularly adverse) working context (by testing the resistance); therefore, the Bank has decided to emphasise stress tests, in light of current market scenarios.
The preliminary analysis activities for the definition of the scenarios were carried out by evaluating the following factors:
- objectives for the 2018 budget;
- the current economic climate and possible changes in the time frame of reference;
- difficult access to stable forms of financing in the medium/long term;
- level of rating with related costs of funding;
- changes in the shareholding structure and/or shareholders' agreements;
- situation of unpaid amounts and default positions.

We also evaluated other factors not exclusively related to liquidity risk, in particular those considered as a trigger for liquidity risk in the short-term and also the possible impact of organisational/operational malfunctions that do not allow the use of short-term forms of funding such as MID.
Operationally speaking, we therefore prepared a Maturity Ladder with a highly stressed scenario in which all flows of liabilities falling due are considered non-renewable and simultaneously we assume a freeze on new volumes of assets (with the exception of commitments). We also conservatively consider 10% of expected cash flows on loans are unpaid. Regarding the transformation of maturities, the Bank follows a careful policy of mismatching monitoring with the primary objective of keeping cash inflows and outflows under control and the transformation of maturities within sustainable areas. This objective is achieved by correlating the average duration of funding with that of loans.
The results of the analyses are periodically examined in the ALCO Committee that submits the tolerance thresholds and risk indicators to adopt and the amount of cash reserves to maintain to the Board of Directors on an annual basis.
The financial requirements were covered by the renewal of a bond loan of €170.3m maturing in January, by refinancing operations (€218m), mostly coming from the system of Cooperative Credit Banks, withdrawals from Cassa Depositi e Prestiti under the new Sabatini Law (€10.7m) and corporate deposits of €15m.
The total exposure to the ECB as at 31 December 2018 amounted to €279m and consisted entirely of TLTRO II. The use of MID funding, solely on Overnight expiries, made it possible to optimise the treasury, benefiting from negative rates for the entire year.
To cover liquidity risk, throughout 2018, the Bank maintained sufficient margins of residual available liquidity, averaging around €150m. As at 31 December 2018, the total eligible collateral amounted to €490m, up (+27%) compared to 31 December 2017 (€386m)

following both the purchase of new government and bank securities and the increase in collateralised assets (ABACO), which rose from €174m at the end of 2017 to €222m (+28%). At the end of 2018, the residual available liquidity from the ECB amounted to approximately €148m. The availability of collaterals envisaged for 2019, assuming that deriving from collateralised banking assets (ABACO) is stable and assuming the renewal of €35m BTPs maturing at the end of 2019, will be reduced only as a result of the natural decalage of the two self-securitisations for values that are now residual compared to the total.
With respect to the liquidity requirement (LCR) pursuant to EU Delegated Regulation 2015/61, as at 31 December 2018, the Bank recorded a ratio of 196%, well above the minimum requirement (100%).
The 2019 financial requirement will be covered mainly by resorting to the interbank deposit market, by EIB financing (expected to be €50m) and CDP, corporate deposits and, as the driving force capable of absorbing both moments of sudden need and peaks of liquidity, ECB refinancing.
Most of the funding expiring in 2019 (about €400m) comes from cooperative credit. It is therefore important to define a refinancing plan in collaboration with the shareholders in order to secure the Bank against liquidity risk. In this regard, note that the Bank is currently preparing to draw on other sources of funding, with a view to diversifying funding and reducing concentration risk. In particular, the web platform for the management of On-Line Deposit Accounts is at an advanced stage of development, and will become operational during the first half of 2019, and the collaboration with Fintech for the activation of deposits on the foreign market continues.
In 2018 as well, the report of the internal liquidity adequacy assessment process (ILAAP) was prepared: it is particularly important as part of the broader supervisory review and evaluation process (SREP) that CRD IV requires supervisory authorities to carry out and represents the bank's self-assessment of liquidity risks and the capacity to cover these risks in terms of processes and adequate resources. In fact, article 86 of the CRD IV requires "competent authorities to ensure that entities have robust strategies, policies, processes and systems in place to identify, measure, manage and monitor the liquidity risk over an appropriate set of time horizons, including on a daily basis, so as to ensure that entities maintain adequate levels of liquidity reserves".
Taking these factors into account and considering the business model, the level of complexity of the financial-statement structure and liquidity profile as well as the actual strategic link with the industrial partner Credito Cooperativo, the Bank has deemed the liquidity process, its controls and the ability of static and dynamic indicators to provide informed guidance on decisions concerning the preparation of operating and economic budgets and funding plans to be adequate.
Indicators related to liquidity risk are also included in the Recovery Plan, which envisages appropriate tolerance levels and triggers for the activation of early intervention and adjustment measures.

Securitisation transactions

In order to increase the liquidity of its assets, the Bank has taken part in the multi-originator securitisation transactions that were arranged and managed by Cassa Centrale Banca S.p.A., pursuant to Law 130/99 and were called "Cassa Centrale Finance 3" and "BCC SME Finance 1". The sole purpose of the transactions is to create financial assets eligible for refinancing with the European Central Bank for Mediocredito and for Casse Rurali – Co-operative credit banks.

Cassa Centrale Finance 3

The transaction was finalised in the last quarter of 2009 and entailed the transfer by the Bank of a portfolio of performing loans, characterised by a historically low level of risk, to a Special Purpose Vehicle: the loan portfolio mainly consisted of agricultural loans secured by first mortgages and subsidies from the Autonomous Province of Trento plus a portion of some commercial loans to primary resident counterparties and secured just the same.
The Special Purpose Vehicle in its turn issued listed and rated Senior notes and Junior notes. Both types of notes were purchased pro rata by the Bank that will use the class Senior notes to guarantee its funding at the ECB through refinancing operations.
The Bank acts as a servicer in this operation in the collection of securitised loans.
According to IAS 39 paragraphs 15-23 and AG 34-52, this operation is not of a "non-recourse" nature for accounting purposes (no derecognition), with the Bank maintaining all risks and rewards of the securitised portfolio. The securitised loans therefore remain in the Bank's financial statements and until this condition is met, all corresponding capital and income relations of the operation are netted off from an accounting point of view, including derivative contracts stipulated between the Bank and the SPV.
The operation in question involved, as mentioned, the repurchase by the Bank of all the Senior and Junior notes issued by the SPV, the operation takes the form of "self-securitisation".
The overall gross nominal value of the assigned loans is equal to €425.3m out of which €116.6m refer to the Bank; in correspondence with such loans, Senior notes in the amount of €368.5m and Junior notes in the amount of €56.8m were issued (€93.3m and €23.3m respectively in relation to the Bank). The table below sums up the main features of the notes.

Notes	Classes	Rating	ISIN Code	Dates of issue	Payment Dates	Maturity Dates	Interest date
Class A	Senior	Aa2/AA+	IT0004561632	22.12.2009	29/04 – 29/10	31/10/2049	6ME+14
Class B	Junior	No rating	IT0004561665	22.12.2009	29/04 – 29/10	31/10/2049	Chg.

The Class A notes were issued in a dematerialised form and were wholly and exclusively deposited with Monte Titoli S.p.A., listed on the Irish Stock Exchange. The Class B notes were divided into tranches, each tranche for an amount proportional to the amount of the loans that were respectively transferred by each individual bank. The transferring banks have fully underwritten the Class A and Class B notes thus nullifying any flow of cash between the Bank and the SPV.
The two different types of notes have a different degree of subordination in relation to priority of payments, both with regard to principal and interest.
Repayment of the notes will occur in a pass through form i.e. in relation to each collection period for each flow of funds to the SPV, and will be used to keep up with disbursements (both with regard to principal and interest) that will have to be made on the date of the following payment.
Class B notes (Junior issue) are not rated and are subordinated to Class A notes in relation to repayments. These types of notes do not feature a fixed coupon and are remunerated only if there are residual funds after covering all period costs (cost and interest for Class A Senior).

The repayment of the principal of Class B notes is last in the hierarchy of payments both in the case of prepayment and of payment on the regular redemption dates of the notes.
This transaction is also secured by liquidity line of €25.7m, of which €10.4m relating to the Bank. To cover interest rate risk the SPV signed a Basis Swap contract with J.P. Morgan Securities LTD to hedge the portfolio with indexed rate and signed an Interest Rate Swap with Mediocredito Trentino Alto Adige S.p.A. to hedge the fixed rate portfolio.

In relation to the internal systems for measuring and controlling securitisation risk, the following applies:
- the Bank acts as servicer with regard to the loan portfolio it transferred according to the criteria specified in the servicing contract; specifically it handles the management, administration and collection of advances and also credit recovery; the Bank performs this role (for which it receives a commission) following a procedure that allows the coordinating all related activities and availing itself of its competent company structures;
- according to the Servicing Contract, each securitisation portfolio is constantly monitored based on the monthly, quarterly and half-yearly reports prepared for the SPV company and the counterparties of the transaction, showing the status of the loans and the trend in collections;
- in relation to its disclosures to the SPV company, the Bank has published an assignment notice on the Insertion Sheet of the Official Gazette no. 144 of 15 December 2009;
- in relation to the privacy law, the Bank has informed the individual assigned debtors with a specific notification.

The following subjects were involved in their respective roles:
- Arranger: Cassa Centrale Banca - Credito Cooperativo del Nord Est Spa.
- Vehicle company: Cassa Centrale Finance 3 S.r.l., a company incorporated under Law no. 130/99, with its registered office in Rome - Largo Chigi 5; the company is registered with the Business Register of Rome (registration number 05652970962) and enrolled in the general register pursuant to art. 106 of the Consolidated Banking Act at no. 39334, ABI code 33370. We confirm that the Bank does not hold any interest nor do its employees hold any corporate positions in the SPV Cassa Centrale Finance 3 S.r.l. whose shares are entirely held by the Dutch foundation "Stichting Babele" – Amsterdam (Netherlands) Claude Debussylaan 24.
- Back up Servicer: Cassa Centrale Banca, Credito Cooperativo del Nord Est Spa
- Account Bank: Cassa Centrale Banca, Credito Cooperativo del Nord Est Spa
- Agent Bank: Deutsche Bank Milan
- Corporate Servicer Provider: FIS Spa, Rome
- Rating Agencies: Moody's Investors Service and DBRS Rating
- Law Firm: Orrick, Herrington & Sutcliffe – Rome
- Portfolio Auditors: Reconta - Ernst & Young Spa.
- SPV's Auditors: Deloitte and Touche Spa

BCC SME Finance 1

The transaction was finalised in August 2012 and required the Bank to transfer to a Special Purpose Vehicle a portfolio of performing loans secured by a first mortgage.
The Special Purpose Vehicle in its turn issued listed and rated Senior notes and Junior notes. Both types of notes were purchased pro rata by the Bank that will use the class Senior notes to guarantee its funding at the ECB through refinancing operations.
The Bank acts as a servicer in this operation in the collection of securitised loans.
According to IAS 39 paragraphs 15-23 and AG 34-52, this operation is not of a "non-recourse" nature for accounting purposes (no derecognition), with the Bank maintaining all risks and rewards of the securitised portfolio. The securitised loans therefore remain in the Bank's financial statements and until this condition is met, all corresponding capital and income relations of the operation are netted off from an accounting point of view.
The operation in question involved, as mentioned, the repurchase by the Bank of all the Senior and Junior notes issued by the SPV, the operation takes the form of "self-securitisation".
The overall gross nominal value of the assigned loans is equal to €2,189.7m out of which €150.3m refer to the Bank; in correspondence with such loans, Senior notes in the amount of €1,533.0m and Junior notes in the amount of €656.7m were issued (€105.2m and €45.1m respectively in relation to the Bank).
In December 2017, the SPV carried out a retranching of the junior security (class B), which was reduced to €205.8m (of which €10.6m relating to the Bank) against the issue of a class A2 security for a total of €449.9m (of which €24.8m relating to the Bank).

The table below sums up the main features of the notes.

Notes	Classes	Rating	ISIN Code	Dates of issue	Payment Dates	Maturity Dates	Interest date
Class A1	Senior	Aa2/AA	IT0004846116	10.08.2012	29/05 – 29/11	29/05/2060	6ME+20
Class A2	Senior	Aa2	IT0005315004	06.12.2017	29/05 – 29/11	29/05/2060	6ME+00
Class B	Junior	No rating	IT0004846058	10.08.2012	29/09 – 29/11	29/05/2060	Chg.

The Class A notes were issued in a dematerialised form and were wholly and exclusively deposited with Monte Titoli S.p.A., listed on the Irish Stock Exchange. The Class B notes were divided into tranches, each tranche for an amount proportional to the amount of the loans that were respectively transferred by each individual bank. The transferring banks have fully underwritten the Class A and Class B notes thus nullifying any flow of cash between the Bank and the SPV.
The two different types of notes have a different degree of subordination in relation to priority of payments, both with regard to principal and interest.
Repayment of the notes will occur in a pass through form i.e. in relation to each collection period for each flow of funds to the SPV, and will be used to keep up with disbursements (both with regard to principal and interest) that will have to be made on the date of the following payment.

Class B notes (Junior issue) are not rated and are subordinated to Class A notes in relation to repayments. These types of notes do not feature a fixed coupon and are remunerated only if there are residual funds after covering all period costs (cost and interest for Class A Senior).
The repayment of the principal of Class B notes is last in the hierarchy of payments both in the case of prepayment and of payment on the regular redemption dates of the notes.
This transaction is also secured by liquidity line of €20.7m, of which €1.1m relating to the Bank (€65.9m before retranching, €4.5m of which related to the Bank). To cover interest rate risk, the SPV signed a Basis Swap contract with J.P. Morgan Securities LTD to hedge the portfolio with indexed rate.

In relation to the internal systems for measuring and controlling securitisation risk, the following applies:
- the Bank acts as servicer with regard to the loan portfolio it transferred according to the criteria specified in the servicing contract; specifically it handles the management, administration and collection of advances and also credit recovery; the Bank performs this role (for which it receives a commission) following a procedure that allows the coordinating all related activities and availing itself of its competent company structures;
- according to the Servicing Contract, each securitisation portfolio is constantly monitored based on the monthly, quarterly and half-yearly reports prepared for the SPV company and the counterparties of the transaction, showing the status of the loans and the trend in collections;
- in relation to its disclosures to the SPV company, the Bank has published an assignment notice on the Insertion Sheet of the Official Gazette no. 93 of 09 August 2012;
- in relation to the privacy law, the Bank has informed the individual assigned debtors with a specific notification.

The following subjects were involved in their respective roles:
- Arranger: Cassa Centrale Banca - Credito Cooperativo del Nord Est Spa.
- Vehicle company: BCC SME Finance 1 S.r.l., a company incorporated under Law no. 130/99 on Securitisations, with its registered office in Rome - Largo Chigi 5; the company is registered with the Business Register of Rome (registration number 06646750965) and enrolled in the general register of securitisation SPVs, ABI code 35037. We confirm that the Bank does not hold any interest nor do its employees hold any corporate positions in the SPV BCC SME Finance 1 S.r.l., whose shares are fully held by the Dutch foundation "Stichting Babele" – Amsterdam (Netherlands) Claude Debussylaan 24.
- Back up Servicer: Cassa Centrale Banca, Credito Cooperativo del Nord Est Spa
- Account Bank: Cassa Centrale Banca, Credito Cooperativo del Nord Est Spa
- Agent Bank: Deutsche Bank AG, London Branch
- Corporate Servicer Provider: FIS Spa, Rome
- Rating Agencies: Moody's Investors Service and DBRS Rating
- Law Firm: Orrick, Herrington & Sutcliffe – Rome
- Portfolio Auditors: Reconta - Ernst & Young Spa.
- SPV's Auditors: Crowe Horwath AS S.r.l.

Quantitative information

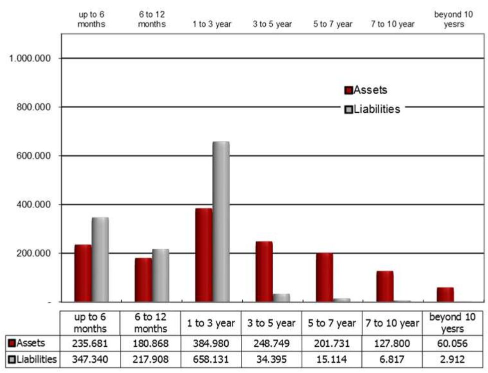
1. Time distribution by residual contractual duration of financial assets and liabilities [36]

Items/Maturities	on demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Beyond 5 years	Undetermined duration
Cash assets	**77,087**	**11,256**	**12,442**	**2,845**	**42,601**	**89,451**	**180,868**	**633,729**	**388,764**	**823**
A.1 Government securities	-	-	43	-	169	634	35,845	60,000	130,000	-
A.2 Other debt securities	-	-	205	17	7,447	2,079	5,954	40,436	1,071	-
A.3 Investments in UCITS	11,856	-	-	-	-	-	-	-	-	-
A.4 Loans	65,231	11,256	12,194	2,828	34,986	86,738	139,068	533,293	257,693	823
- banks	40,187	-	-	-	-	-	-	-	-	823
- customers	25,043	11,256	12,194	2,828	34,986	86,738	139,068	533,293	257,693	-
Cash liabilities	**65,991**	**51,064**	**10,000**	**30,967**	**37,570**	**151,748**	**217,908**	**692,526**	**24,844**	**-**
B.1 Deposits and current accounts	65,882	51,064	10,000	-	690	-	64,968	10,450	-	-
- banks	63	28,998	10,000	-	690	-	59,957	-	-	-
- customers	65,819	22,066	-	-	-	-	5,012	10,450	-	-
B.2 Debt securities	30	-	-	937	-	21,131	937	170,300	-	-
B.3 Other liabilities	78	-	-	30,030	36,880	130,617	152,002	511,777	24,844	-
Off-balance sheet transactions	**9,472**	**-**	**-**	**-**	**377**	**500**	**1,234**	**2,069**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	5	128	-
- short positions	-	-	-	-	-	-	-	5	128	-
C.3 Deposit and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-4,480	-	-	-	377	500	1,234	2,069	-	-
- long positions	2,129	-	-	-	377	500	1,234	2,069	-	-
- short positions	6,609	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	1,034	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

For a better representation of flows generated by the Bank's operations, prevalently medium/long-term ones and with an amortisation plan, and of the related maturity transformation, we show in a graphical form the time distribution of cash assets and liabilities, adopting the number and scope of the most significant bands.

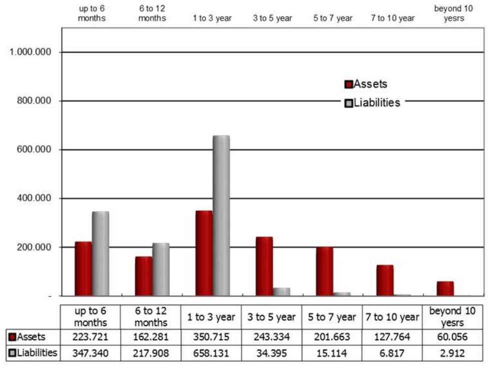
In particular, we highlight the following points in the graph below:

- a negative gap of €112m in the short-term band (up to 6 months), due to a higher concentration of maturing funding;
- a negative gap of about €37m in the "up to 1 year" band;



36 The data are presented solely in Euro given that the overall weight of assets, liabilities and "off-balance sheet" transactions denominated in foreign currencies (Swiss Francs) is irrelevant with respect to the total of the Bank's assets, liabilities and "off-balance sheet".

- a negative gap in the "1 to 3 year" band of about €273m (€307m net of estimated flows of NPLs) characterised by the maturity of bonds issued for €170m and the presence of expiring TLTRO-II operations of €279m;
- a positive gap in the "3 to 5 year" band of €214m (€219m net of estimate flows of NPLs);
- the other bands show positive gaps also net of flows of doubtful loans, due to the scarcity of maturities for long-term funding.



Disclosure on balance sheet assets pledged as a guarantee[37]

Technical forms	Pledged		Not Pledged		Total 2018	Total 2017
	Book value	Fair value	Book value	Fair value		
1. Cash and cash equivalents			4		4	2
2. Debt securities	162,663	156,654	121,977	118,132	284,640	219,863
3. Equity securities	-	-	17,386	17,386	17,386	17,126
4. Loans[1]	531,530		573,472		1,105,002	1,245,251
5. Other financial assets	-		23,569		23,569	13,040
6. Non-financial assets	-		8,442		8,442	8,666
Total 2018	**694,193**	**156,654**	**744,852**	**135,518**	**1,439,044**	
Total 2017	**627,624**	**114,060**	**876,324**	**123,124**		**1,503,948**

1 In addition to the loans pledged as guarantees for liabilities, loans also include assets sold to the SPV and not derecognised of €15.5m (€14.9m in 2017).

Disclosure on off-balance sheet own assets pledged as a guarantee

Technical forms	Pledged	Not Pledged	Total 2018	Total 2017
1. Financial assets	33,613	33,928	67,541	82,289
- Securities	33,613	33,928	67,451	82,289
- Others	-	-	-	-
2. Non-financial assets	-	-	-	-
Total 2018	**33,613**	**33,928**	**67,451**	
Total 2017	**23,611**	**58,678**		**82,289**

Eurosystem credit operations

The Bank has entered into four liability-funding operations with ECB for a face value of €279.1m[38], guaranteed by securities classified as financial assets available for sale (Table 2. Item 2.), in addition to other securities not reported under assets as specified below, of which:

- €50.0m for a transaction concluded on 29/06/2016 (expiry 24/06/2020);
- €60.0m for a transaction concluded on 28/09/2015 (expiry 30/09/2020);
- €120.0m for a transaction concluded on 21/12/2016 (expiry 16/12/2020);
- €49.1m for a transaction concluded on 29/03/2017 (expiry 24/03/2021).

According to the requirements of IFRS 7 paragraph 14, we state that:

a) with the above-mentioned contracts, the Bank has transferred the securities used as a guarantee to the ownership of the counterparty, to guarantee the full right, with their full value and related appurtenances, their exposure, and any other credit or other right due to the counterparty arising from the financing operation, although not liquid or payable, including arising before or after disbursement of the financing;

b) the value of the guarantee deposit is determined by deducting from the market value, the haircut defined by the European Central Bank for the specific activities, as well as an additional haircut defined by Cassa Centrale Banca for the loan brokered.

Securities not reported in assets in the statement of financial position to guarantee borrowings

At year-end, the Bank deposited a nominal €33.6m in securities at the Bank of Italy that are not reported in the statement of financial position assets. Such securities serve in part as a guarantee for the €279.1m financing (see paragraph "Eurosystem credit operations" for details).

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37 Assets are split into "pledged" and "not pledged" based on the provisions of the legislation in force for the reporting of "Restricted assets on an individual basis" (known as Asset Encumbrance – AEI information base)

38 These transactions are those of the targeted refinancing operations (TLTRO-II).

Loans and advances to customers to guarantee borrowings

At year-end, the Bank tied with the Bank of Italy, through the ABACO procedure, a loan portfolio with a book value of €459.7m, as part guarantee for the €279.1m financing (see paragraph "Eurosystem credit operations" for details).

Loans and advances to customers to guarantee mortgage borrowings

The Bank has, as assets pledged to guarantee its own liabilities and commitments, entered into loan assignment contracts relating to public works financing in favour of the EIB with two loans signed on 28 November 2005 and 9 December 2008, respectively.
According to the requirements of IFRS 7 paragraph 14, we state that:

a. the book value of the financial assets pledged as collateral amounts to €15.3m in relation to the contract signed on 28 November 2005 and to €32.8m in relation to the contract signed on 9 December 2008;
b. by signing the above-mentioned contracts the Bank irrevocably assigned with recourse to the EIB amounts it is owed by the municipalities as a guarantee of the full and punctual fulfilment of all the pecuniary obligations assumed by the Bank based on the loan agreement with the EIB. The credit assignments amount to at least 110% of the loan liabilities to the EIB, from time to time remaining as the result of principal payments madeby the Bank under the loan contract itself;
    1. according to the contract signed on 28 November 2005, the assignment of loans would take effect only in the case of the Bank's non-fulfilment of its obligations to the EIB arising from the said loan contract (which is recorded under the Bank's liabilities); the loan assignment contracts are therefore "subject to conditions precedent";
    2. according to the contract signed on 9 December 2008 the assignment of the loans, for the sole purpose of guarantee, takes effect immediately and remains valid until the guaranteed obligations are completely fulfilled. The EIB has also granted the Bank a mandate for the management of the assigned receivables. The credit risk remains with the Bank and, unless the Bank defaults, the credits will be automatically transferred back to the Bank ownership at the time of their collection.

In November 2012, the Bank obtained a new credit facility of €50m by the EIB, against which a first contract for €16m has been signed and fully utilised. Such a contract will be guaranteed by the recourse transfer of receivables due to Mediocredito from the final beneficiaries.
According to the requirements of IFRS 7 paragraph 14, we state that:

a. the book value of the financial assets pledged as guarantee amounted to €19.2m;
b. with the contract referred to above, the Bank transferred irrevocably with recourse to the European Investment Bank, the receivables of any nature due from the final beneficiaries, to guarantee the full and punctual fulfillment of all the obligations of a pecuniary nature assumed by the Bank under the loan agreement with the EIB. The credit assignments amount to at least 100% of the loan liabilities to the EIB, from time to time remaining as the result of principal payments madeby the Bank under the loan contract itself;
   The contract provides that (for the exclusive purpose of guarantee) the effectiveness of the supply of credit is immediate and remains valid until the full and complete fulfillment of the obligations guaranteed. The EIB has also granted the Bank a mandate for the management of the assigned receivables. The credit risk remains with the Bank and, unless the Bank defaults, the credits will be automatically transferred back to the Bank ownership at the time of their collection.

In July 2013, a second contract for the remaining €34m was signed, secured by a surety from the Autonomous Region of Trentino-South-Tyrol. The contract has been utilised entirely. The surety from the Autonomous Region of Trentino-South Tyrol is counter-secured by the sale with recourse of the receivables due to Mediocredito from the final beneficiaries.
According to the requirements of IFRS 7 paragraph 14, we state that:

a. the book value of the financial assets pledged as guarantee amounted to €27.5m;
b. through the aforesaid guarantee contract the Bank transferred with recourse to the Autonomous Region of Trentino-South Tyrol the receivables of any nature, including reimbursement or repayment, due from the final beneficiaries on the basis of the loan agreement that benefits from the EIB resources and of the related guarantee by the Region.
   In accordance with the agreement, the effectiveness of the assignment of the loan is dependent on the actual disbursement by the Region of a payment in favour of EIB.

In March 2013, the Bank signed an agreement with Cassa Depositi e Prestiti for the granting of one or more loans on a ceiling amount to be used for granting loans to SMEs. Loans for a residual amount of €42.3m had been granted as at 31 December 2018.
These loans will be guaranteed by the transfer with recourse of receivables due to Mediocredito from the final beneficiaries.
According to the requirements of IFRS 7 paragraph 14, we state that:

a. the book value of the financial assets pledged as guarantee amounted to €42.9m;
b. by signing the above-mentioned contract, the Bank transferred with recourse to Cassa Depositi e Prestiti its future credit rights, of any nature, and any other advantageous legal position in relation to these credit rights towards Assigned Debtors and Guarantors in relation to all receivables.
   The contract provides that (for the exclusive purpose of guarantee) the effectiveness of the supply of credit is immediate and remains valid until the full and complete fulfillment of the obligations guaranteed. The CDP has also granted the Bank a revocable mandate for the management of the assigned receivables. The credit risk remains with the Bank and, unless the Bank defaults, the credits will be automatically transferred back to the Bank ownership at the time of their collection.

SECTION 5 – OPERATIONAL RISKS

Qualitative information

A. General aspects, management processes and methods of measuring operational risk

The current capital accord (Basel III) adds operational risks amongst the Pillar I risks – risks for which one is under the obligation to set aside a part of own funds. The operational risk is defined as the risk of loss resulting from inadequate or dysfunctional internal processes, human resources and systems or from external events. This definition includes legal risk (in terms of exposure to fines, or penalties stemming from measures taken by the bank Supervisory Authority) but excludes strategic and reputation risk.
The Basel Committee acknowledges that "operational risk" is a term that may have different meanings to different banks. Still, a clear appreciation and understanding by banks of what is meant by operational risk is critical to the effective management and control of this risk category.
The Basel Committee has identified the following types of operational risk events as having the potential to result in substantial losses: fraud (internal and external), violation of employee health and safety rules, violation of rules regulating the client-bank relationship, damage to property, plant and equipment, business disruption and system failure and finally operational and/or procedural non-compliance.
After evaluating the opportunities and systems for managing operational risk - paying attention to the impact of installation and maintenance costs and to organisational costs and considering the limited exposure to this type of risk - the Bank chose to adopt the basic model. In the future, it might adopt an advanced internal model only after the business model has significantly evolved and diversified.
The Bank, within the scope of internal control systems, developed and continues to develop activities and initiatives on the theme of monitoring and management of operational risk. In particular, the following is worth noting:

- the adoption of the non-compliance risk management model focusing on periodic reports by the responsible department (reports, audit reports, opinions, etc.) to the governing bodies, the General Management and the control structures or functions of the Bank and targeted not only at risk monitoring but at spreading a corporate ethos based on the principles of honesty, fairness and compliance with the rules;
- the composition and activity of the Control Committee: in addition to the corporate control functions, the General Manager and the manager responsible for preparing the financial documents of the Bank also take part in the Committee; the Committee constantly monitors sensitive phenomena with respect to the system of internal control assessing their overall effectiveness in relation to the objectives and limits included in the RAF, coordinates the programmes of activity of the risk control functions and reviews the annual ICAAP and ILAAP reports;
- the focus on the administrative responsibility of the company (Legislative Decree no. 231/2001), whose monitoring is entrusted to the Board of Statutory Auditors in cooperation with the internal structures;
- the creation of the anti-money laundering function dedicated to overseeing regulations under Legislative Decree no. 231/07;
- the continuation of the traditional assessment of the risk profiles, also on the themes of organisation and IT technologies, as part of the preparation and revision of the Risk Appetite Framework;
- the outsourcing of IT auditing to the "Federazione Trentina della Cooperazione" which has the specific tools and skills for the task that are regularly updated;
- the ongoing updating, in accordance with the "New regulations for the prudential supervision of banks" (Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments), of a Regulation for the Flow of Information, in order to promote structured forms of communication and exchange of complete, timely and accurate information inside the corporate bodies, between different organs and the governing bodies;
- agreement between the compliance and internal audit functions to enhance the interaction between the two structures and make the functioning of internal controls more efficient, providing forms of cooperation for the conduct of audits; in particular, in this context, it should be noted that the interventions are shared during the drafting of the relative annual plans of the activities and that some audit activities are carried out jointly - each for its own areas of competence;
- the separation of the internal control (compliance, risk management and internal audit) from the operational structures of the Bank, reporting directly to the Board of Directors (the body with strategic supervision and management functions) in order to ensure maximum autonomy of action, hierarchical independence and freedom of access to all information sources of the Bank;
- the continuous process of updating and upgrading of the Internal Control System, with particular reference to maintaining the mapping of business activities and the definition / expansion of the internal second level controls, both for compliance and risk-management;
- the constant updating of the operational processes of the Bank (also through the introduction of automated systems for operational support and control), with particular reference to the related regulations on transparency and anti-money laundering;
- the introduction of an internal system for reporting violations - Whistle-blowing (computer system for reporting violations that guarantees the confidentiality of the reporter) and the adoption of a specific regulation.

The above-mentioned organisational and operational activities are functional to the constant adjustment of the compliance process with the supervisory regulations, which will see gradual improvement with the support of operational and coordination initiatives to make it possible to gradually apply the best practices on the subject of operational risk management more effectively.

Legal risks

The risks associated with litigation that involves the Bank are constantly monitored by the Legal Department.
Where a legal and accounting analysis shows the possibility of a negative outcome with a probable outflow of financial resources, the Bank shall put aside sufficient allocations to the provisions for risks and charges as a precaution, based on an estimate as reliable as possible, as well as implement settlement policies, if possible.
In particular it is noted that:

- in 2017, the Bank had adjusted the allocation to cover the revocatory action brought by the extraordinary administration of Giacomelli Sport, following the recent judgement of the Court of Appeal, which declared further payments totalling €11.6m to the company to be ineffective, bringing it to 75% of the amount at risk. During 2018, Mediocredito, enforcing the judgement, returned

€1.359m for which, despite the appeal pending before the Court of Cassation against this judgement and in any case the objection that, following the judgement of the Court of Cassation, may be raised against the loan syndicate leader in the negative case, the provision for legal risks was prudentially adjusted to 100% of the amount reimbursed, thus setting aside a further amount of €478,273.17;

- in 2014, the existence of a contingent liability related to the claim for damages by the plaintiff on the Carolina Srl position for a total of €3.6m was the subject of evaluation; to date, there is no concrete evidence that would support the acceptance of the claims of bankruptcy. For this reason, the Bank does not consider the creation of a special provision dedicated to litigation risks justifiable at the current state of play;
- in 2018, the Bank carried out a bulk sale of a portfolio of impaired loans for a gross amount of €10.298m, adjusted by €8.778m, at a total net price of €1.631m; following the completion of the deeds of sale, the transferee Futura SPV Srl (Guber Banca SpA) raised some exceptions regarding the completeness of the information communicated during due diligence with a consequent request for compensation of €554 thousand. Since the dispute is underway and in view of a possible settlement agreement, the Bank has set aside an amount of €250 thousand.

PART F

INFORMATION ON EQUITY

As indicated in the introductory chapter "Transition to IFRS 9", the Bank used the exemption from the obligation to restate the comparative values envisaged in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", based on which the mandatory restatement on a like-for-like basis of the comparative data in the financial statements of first-time adoption of the new standard is not envisaged. As a result, the statement of financial position and income statement balances for the previous year, in that they were prepared in accordance with the former accounting standard IAS 39, are not fully comparable with the new accounting categories and the related measurement criteria introduced by the new standard IFRS 9.
For this reason, in addition to the data as at 31 December 2018, the tables contained in this section will report comparative balances only for those items that have a confirmed balance in the financial statements for both the current and the previous period.

SECTION 1 - EQUITY

A. QUALITATIVE INFORMATION

The equity is composed of share capital (ordinary shares) and additional paid-in capital and reserves. The reserves are the aggregate of the legal reserve, the extraordinary reserve, and the reserves created in application of IAS/IFRS. The valuation reserves are the aggregate of fair value reserves related to financial assets at fair value through other comprehensive income, reserves from actuarial gains/losses related to defined benefit plans (severance indemnities) and those reserves that originate from the monetary revaluation of real estate. The adequacy of the equity is also monitored in relation to the minimum capital requirements specified by the supervisory regulations.

B. QUANTITATIVE INFORMATION

B.1 Equity: breakdown

Items/amounts	2018
1. Share capital	58,485
2. Additional paid-in capital	29,841
3. Reserves	79,934
- profits	79,934
a) legal	19,251
b) statutory	48,839
c) treasury shares	-
d) others	11,845
- others	-
4. Equity instruments	-
5. (Treasury shares)	-
6. Valuation reserves	187
- Equity securities designated at fair value through other comprehensive income	(2,331)
- Coverage of equity securities designated at fair value through other comprehensive income	-
- Financial assets (other than equity securities) at fair value through other comprehensive income	(1,406)
- Property, plant and equipment	-
- Intangible assets	-
- Hedges of foreign investments	-
- Cash flow hedges	-
- Hedging instruments (elements not designated)	-
- Exchange differences	-
- Non-current assets and groups of assets held for sale	-
- Financial liabilities designated at fair value through profit or loss (change in the Bank's creditworthiness)	-
- Actuarial gains (losses) on defined benefit plans	(394)
- Valuation reserves from investments accounted for using the equity method	-
- Special revaluation laws	4,318
7. Net income (loss) for the year	3,172
Total	**171,619**

B.2 Valuation reserves for financial assets at fair value through other comprehensive income: breakdown

Assets/Amount	2018	
	Positive reserve	Negative reserve
1. Debt securities	70	1,476
2. Equity securities	311	2,642
3. Loans	-	-
Total	**381**	**4,118**

B.3 Valuation reserves for financial assets at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance	**186**	**(585)**	**-**
2. Positive changes	**415**	**7**	**-**
2.1 Fair value increases	-	7	-
2.2 Net adjustments to credit risk	122		-
2.3 Reclassification through profit or loss of negative reserves following disposal	293		-
2.4 Transfers to other shareholders' equity components (equity securities)	-	-	-
2.5 Other changes	-	-	-
3. Negative changes	**2,007**	**1,753**	**-**
3.1 Fair value decreases	1,939	1,753	-
3.2 Write-backs for credit risk	52		-
3.3 Reclassification through profit or loss of positive reserves following disposal	16		-
3.4 Transfers to other shareholders' equity components (equity securities)	-	-	-
3.5 Other changes	-	-	-
4. Closing balance	**(1,406)**	**(2,331)**	**-**

B.4 Valuation reserves relating to defined benefit plans: annual changes

	2018
A. Opening balance	**(417)**
B. Increases	**-**
B.1 Actuarial losses	-
C. Decreases	**23**
C.1 Actuarial gains	23
D. Closing balance	**(394)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

For a review of Own Funds and capital ratios, refer to the information on own funds and capital adequacy contained in the public disclosure ("Third Pillar"), as well as to the paragraph "Equity and the state of affairs of the Company" in the Report on Operations.

PART H

RELATED PARTY TRANSACTIONS

1. INFORMATION ON REMUNERATION OF MANAGERS WITH STRATEGIC RESPONSIBILITIES

The remuneration shown refers to the Directors and Managers with strategic responsibilities who held these positions in 2018, as per IAS 24 paragraph 17.
The remuneration paid to members of the Board of Directors and to the Board of Statutory Auditors is established in the appropriate Shareholders' Meeting resolution.

	Emoluments and social security contributions	Bonuses and other short-term benefits	Severance indemnities and pension fund
Directors and General Manager	629	4	28
Statutory Auditors	124		

2. RELATED PARTY TRANSACTION DISCLOSURE

The following tables were prepared according to IAS 24 and in particular, the breakdown of transactions performed with related parties was carried out in accordance with the instructions outlined in paragraphs 18 and 19 of the same standard.

Receivables and payables

Related parties	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Other assets	Financial liabilities at amortised cost	Derivatives (notional)	Sundry payables
Entities that have joint control and significant influence over the Company	-	30,181	1,972	233,464	335	5
Subsidiary companies	-	8,658	-	-	-	-
Affiliated companies	-	-	-	-	-	-
Joint ventures	-	-	-	-	-	-
Managers with strategic responsibilities	-	-	-	-	-	-
Other related parties	-	-	-	-	-	-
Total	**-**	**38,839**	**1,972**	**233,464**	**335**	**5**

Financial assets at amortised cost

With regard to the amounts shown in the "Entities that have joint control and significant influence over the Company", these are made up for €24.1m of cash on current accounts and for €6.1m of loans and advances granted to the two Autonomous Provinces.
Under the heading "Subsidiary companies", the value refers to a credit facility granted by the Bank to the subsidiary Paradisidue S.r.l. (based in Trento - Via Paradisi 2, Tax Code 01856850225), for the acquisition and renovation of properties in the context of bankruptcy proceedings. The loan was granted for €10.0m with revocable maturity, with remuneration at the 1-month Euribor.

Other assets

These relate mostly to illiquid assets in a bank account with Cassa Centrale Banca of €2.0m.

Financial liabilities at amortised cost

These are made up made up for €0.7m of currency deposits, for €60.0m of deposits with counterparty Cassa Centrale Banca, for €30.2m of deposits from a functional company in the Autonomous Province of Trento and for €34.9m of the funds of the two Autonomous Provinces under administration.

Derivatives

These relate to cap options booked to the financial statements for a positive fair value of €200.

Costs and revenues

Related parties	Interest income	Fee and commission income	Dividends/ other revenues	Interest expense	Fee and commission expenses	Other expenses
Entities that have joint control and significant influence over the Company	170	2	-	1,142	110	45
Subsidiary companies	11	-	-	-	-	-
Affiliated companies	-	-	-	-	-	-
Joint ventures	-	-	-	-	-	-
Managers with strategic responsibilities	-	-	-	-	-	-
Other related parties	-	-	-	-	-	-
Total	**181**	**2**	**-**	**1,142**	**110**	**45**

Transactions with entities that have joint control and significant influence over the Company refer to relations with those shareholders who have joint control over the Bank, also due to agreements between the parties. Transactions with these shareholders were carried out under equivalent conditions to those that prevail in arm's length transactions.
In addition, the Autonomous Provinces of Trento and Bolzano provide a surety ship for us to the EIB to the amount of €0.253m; the Bank pays a commission every six months to both Provinces equal to 0.08% per year.
The Autonomous Region of Trentino-South Tyrol provides further surety on behalf of the Bank to the EIB for €25.8m; the Bank pays a commission of 0.4% per annum to the Region.

PART L
SEGMENT REPORTING

In spite of the essential single sector character of the Bank's business operations and the associated geographic concentration of activities predominantly in North-eastern Italy, segment disclosures are provided, as the Bank belongs to the category of listed issuers pursuant to transparency regulations.
The present disclosure was prepared according to the requirements of IFRS 8, based on internal reports for the management and the Board of Directors: it makes reference primarily to the classification of activities originated from commercial regional units and, secondarily, the breakdown of business by product. Consequently, the primary reporting basis is by geographical segments and the secondary reporting basis is by economic sector. Less significant data are also reported to observe the management approach to reporting.
Income statement/statement of financial position results are determined on the basis of the following principles:

- the net interest income is obtained by applying the internal transfer rates consistent with the financial characteristics of the products;
- net commissions are punctually attributed to the customer/area/product who/which has generated them;
- direct costs and manufacturing costs have been respectively charged in a punctual manner and on the basis of criteria of reversal of actual costs and only for the primary reporting basis, in keeping with internal management data processed;
- central services costs (Management, Auditing, Planning and Control, Compliance, Risk Management, Administration, ...) have been charged to Head Office;
- statement of financial position components relate to volumes administered by the respective organisational units and are expressed in terms of interest-bearing balances at the end of the period.

SEGMENT REPORTING (notes)

The tables that are provided, prepared on the basis of internal management reports and applying the above-mentioned criteria, show a homogeneous distribution of margins among the main regional units.
The Veneto area recorded a greater incidence of costs, characterised by a larger loan portfolio than the other areas. In relation to the cost of risk, Trentino and Veneto show the highest absolute values; all areas show decreases in this cost component, especially the South Tyrol area. From a sector perspective, the cost of risk is concentrated mostly in the real estate sector; on the other hand, the construction sector is recovering value while in leasing, although of limited amount, this component reduces the entire intermediation margin.
The increase in the contribution to the results of the "Head Office" (primary segment reporting basis) and "other assets" (secondary segment reporting basis) is mainly due to the increase in net interest income due to the aforementioned reduction in the cost of borrowing.

PRIMARY SEGMENT REPORTING BASIS

A.1 Distribution by geographical area of activity: income statement data in 2018

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/ Head office	Overall amount
Net interest income	**1,847**	**2,769**	**2,370**	**1,016**	**911**	**10,403**	**19,316**
Net commissions	259	237	144	243	59	529	**1,470**
Dividends and other trading and hedging gains	-	-	-	-	-	803	***803***
Net interest and other banking income	**2,105**	**3,006**	**2,514**	**1,259**	**970**	**11,735**	**21,589**
Write-backs/Adjustments to fin. assets	(1,147)	2	(2,228)	(970)	(822)	(1,055)	**(6,220)**
Net income from financial activities	**959**	**3,008**	**286**	**289**	**148**	**10,679**	**15,369**
Total operating costs	(955)	(775)	(1,409)	(654)	(685)	(6,216)	**(10,695)**
Profit before income taxes	**4**	**2,233**	**(1,123)**	**(365)**	**(537)**	**4,463**	**4,674**

A.1 Distribution by geographical area of activity: income statement data in 2017

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/ Head office	Overall amount
Net interest income	**2,557**	**2,837**	**2,593**	**1,251**	**871**	**8,925**	**19,035**
Net commissions	225	59	142	121	1	967	**1,514**
Dividends and other trading and hedging gains						3,982	***3,982***
Net interest and other banking income	**2,782**	**2,896**	**2,735**	**1,372**	**872**	**13,874**	**24,531**
Write-backs/Adjustments to fin. assets	(3,325)	(988)	(3,414)	(1,610)	(2,414)	(189)	(11,939)
Net income from financial activities	**(543)**	**1,908**	**(679)**	**(238)**	**(1,542)**	**13,685**	**12,591**
Total operating costs	(937)	(806)	(1,322)	(677)	(566)	(6,043)	**(10,352)**
Gains on the sale of buildings						1,856	**1,856**
Profit before income taxes	**(1,480)**	**1,102**	**(2,001)**	**(915)**	**(2,108)**	**9,498**	**4,096**

A.2 Distribution by geographical area of activity: statement of financial position as at Dec. 2018

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/Head office	Overall amount
Lending operations	239,154	282,266	223,673	124,263	108,215	396,459	**1,374,030**
Borrowing operations						1,278,262	**1,278,262**

A.2 Distribution by geographical area of activity: statement of financial position data as at Dec. 2017

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/Head office	Overall amount
Lending operations	264,512	296,864	239,476	129,806	98,419	531,415	**1,560,493**
Borrowing operations						1,333,213	**1,333,213**

SECONDARY SEGMENT REPORTING BASIS

B.1 Distribution by economic sector: income statement data in 2018

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other assets	Total
Net interest income	**8,166**	**398**	**781**	**956**	**9,015**	**19,316**
Net commissions	*1,052*	*105*	*59*	*75*	*179*	***1,470***
Dividends and similar income					803	**803**
Net interest and other banking income	**9,218**	**503**	**840**	**1,030**	**9,997**	**21,589**
Write-backs/Adjustments to fin. assets	(4,714)	706	75	(561)	(1,726)	**(6,220)**
Net income from financial activities	**4,504**	**1,209**	**915**	**470**	**8,271**	**15,369**

B.1 Distribution by economic sector: income statement data in 2017

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other assets	Total
Net interest income	**9,270**	**599**	**613**	**1,322**	**7,231**	**19,035**
Net commissions	*1,114*	*41*	*(26)*	*24*	*361*	***1,514***
Dividends and similar income					3,982	**3,982**
Net interest and other banking income	**10,384**	**640**	**587**	**1,346**	**11,574**	**24,531**
Write-backs/Adjustments to fin. assets	(6,261)	(4,330)	(557)	(116)	(676)	**(11,939)**
Net income from financial activities	**4,123**	**(3,690)**	**30**	**1,230**	**10,898**	**12,591**

B.2 Distribution by economic sector: statement of financial position data as at Dec. 2018

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other assets	Total
Lending operations	834,572	44,591	86,467	144,442	263,958	**1,374,030**
Borrowing operations						**1,278,262**

B.2 Distribution by economic sector: statement of financial position data as at Dec. 2017

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other assets	Total
Lending operations	855,878	65,604	72,791	167,436	398,783	**1,560,493**
Borrowing operations						**1,333,213**

ANNEXES

ANNEXE 1
COUNTRY BY COUNTRY REPORTING

(in accordance with art. 89 of Directive 2013/36/EU ("CRD IV")

Reference date for information	31 December 2018
Country of establishment	Italy
Companies established	Mediocredito Trentino-Alto Adige S.p.A.
Nature of activity	Financial services to businesses Trading and sales Commercial banking services Retail banking services
Turnover (net interest and other banking income)	€23,596,786
Number of employees (full-time equivalent)	78.3
Profit before taxes	€4,674,445
Taxes on profit	€(1,502,690)
Public contributions received	//

ANNEXE 2
FINANCIAL STATEMENTS OF THE SUBSIDIARY COMPANY PARADISIDUE S.R.L.

(prepared in abridged form under Article 2435 bis of the Civil Code)

Single-member private limited liability company
Registered office at Via Paradisi, 1 – Trento
Fully paid-up capital € 10,000.00
Registered with the Trento Register of Companies under no. 01856850225
Member company of "Gruppo Bancario Mediocredito Trentino – Alto Adige"
Under the first paragraph of Article 2497-bis, par. 1 of the Civil Code the Company is subject to the management and coordination of Mediocredito Trentino-Alto Adige S.p.A. with registered office in Trento – Via Paradisi, 1 – Tax code and Trento Register of Companies no. 00108470220 – Bank register no. 4764

- ASSETS
- EQUITY AND LIABILITIES
- GUARANTEES AND COMMITMENTS
- INCOME STATEMENT

STATEMENT OF FINANCIAL POSITION

(in Euro)

ASSETS	31/12/2018	31/12/2017
A. SUBSCRIBED UNPAID CAPITAL		
B. FIXED ASSETS		
I. Intangible assets	**-**	**-**
a) cost	*4,000*	*4,000*
b) accumulated amortisation	*4,000*	*4,000*
II. Property, plant and equipment	**4,621**	**5,042**
a) cost	5,824	5,824
b) accumulated depreciation	-1,203	-782
III. Financial assets	**-**	**-**
C. CURRENT ASSETS	**8,315,014**	**9,095,821**
I. Stocks	7,410,777	8,209,939
- properties - closing stocks	7,332,548	8,131,095
- advance payments to suppliers	78,228	78,844
II. Receivables payable within one year	898,381	884,390
- loans and advances to customers	5,378	3,948
- VAT credit and tax prepayment	885,638	880,119
- security deposits	7,365	323
III. Financial assets - current assets	-	-
IV. Cash and cash equivalents	5,856	1,492
- Unicredit Bank c/a 40066549	5,856	1,492
D. ACCRUED INCOME AND PREPAYMENTS	**15,809**	**19,219**
TOTAL ASSETS	**8,335,444**	**9,120,082**

EQUITY AND LIABILITIES	31/12/2018	31/12/2017
A. EQUITY	**(505,269)**	**25,700**
I. Share capital	10,000	10,000
II. Additional paid-in capital	-	-
III. Valuation reserve	-	-
IV. Legal reserve	1,547	1,547
V. Reserve for treasury shares	-	-
VI. Statutory reserves	-	-
VII. Other reserves	14,153	112,822
VIII. Losses carried forward	-	-
IX. Income (Loss) for the year	(530,969)	(98,669)
B. PROVISIONS FOR RISKS AND CHARGES	**-**	**-**
C. PROVISION FOR SEVERANCE INDEMNITIES	**-**	**2,116**
D. PAYABLES	**8,840,713**	**9,092,266**
Payables due within one year	**8,783,185**	**9,044,403**
- prepayments received	-	-
- sundry payables		30,684
- suppliers and incoming invoices	92,660	96,484
- due to Parent Company	8,657,610	8,914,160
- tax payables due within one year	2,514	878
- INPS payables due within one year	2,034	2,197
Payables due after one year	**57,528**	**47,863**
- security deposits from customers	11,205	8,685
- prepayments from customers	46,323	39,178
E. ACCRUED LIABILITIES AND DEFERRED INCOME	**-**	**-**
TOTAL EQUITY AND LIABILITIES	**8,335,444**	**9,120,082**

GUARANTEES AND COMMITMENTS

(in Euro)

GUARANTEES AND COMMITMENTS	31/12/2018	31/12/2017
Personal guarantees issued/received	-	-
TOTAL GUARANTEES AND COMMITMENTS	**-**	**-**

INCOME STATEMENT

(in Euro)

INCOME STATEMENT	31/12/2018	31/12/2017
A. PRODUCTION VALUE	**468,420**	**130,198**
1) Revenues from sales and services	461,727	29,687
2) Variation in stocks of finished goods and in work in progress	-	0
3) Variation in stocks of contract work in progress	-	-
4) Increases in own work capitalised	-	-
5) Other revenues and income	6,693	100,511
B. PRODUCTION COSTS	**988,343**	**215,448**
6) Raw materials, subsidiary materials, consumables and goods	23,680	(787)
7) Services	83,421	80,491
8) Use of third parties' assets	-	-
9) Staff costs	21,124	25,359
10) Amortisation, depreciations and write-downs	420	85,769
a) amortisation of intangible fixed assets	-	-
b) depreciation of property, plant and equipment	*420*	*420*
c) write-down of receivables included under current assets and cash and cash equivalents	-	*85,349*
11) Variation in stocks of raw materials, subsidiary materials, consumable and goods	798,546	813
12) Provision for risks	-	-
13) Other provisions	-	-
14) Other operating charges	61,152	23,805
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	*(519,923)*	*(85,251)*
C. FINANCIAL INCOME AND CHARGES	**(11,467)**	**(11,360)**
15) Income from equity investments	-	-
16) Other financial income	-	-
17) Interest and other financial charges	11,467	11,360
D. VALUE ADJUSTMENTS TO FINANCIAL ASSETS		
18) Revaluations	-	-
19) Write-downs	-	-
E. EXTRAORDINARY INCOME AND CHARGES		
20) Extraordinary income	-	-
21) Extraordinary charges	-	-
RESULT BEFORE TAXES	*(531,390)*	*(96,610)*
INCOME TAXES	(421)	2,059
NET INCOME (LOSS) FOR THE YEAR	**(530,969)**	**(98,669)**

ANNEXE 3
GLOSSARY OF RATIOS

COST TO INCOME RATIO

$$\frac{\textit{operating costs}}{\textit{net interest and other banking income}}$$

The amount of operating costs that are used in the calculation of the ratio shown in the Report on Operations and precisely in the section "Income statement dynamics" (€10.695m) corresponds to the amount shown in item 210. of the income statement (€11.266m), augmented by the net gains on the sale of investments for €8 thousand (see item 250. of the income statement) and provisions for legal risks relating to disputes on loans of €838 thousand.
Net interest and other banking income was calculated at €21.589m, equal to the value reported in the financial statements (€23.597m) net of capital gains from the sale of loans (€40 thousand) and time reversal write-backs on NPLs (€1.967m).

TOTAL CAPITAL RATIO

$$\frac{\textit{own funds}}{\textit{risk-weighted assets}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the paragraph "Equity and the state of affairs of the Company" (€167.924m and €904,556m, respectively)

GROSS DOUBTFUL LOANS TO GROSS LOANS TO CUSTOMERS

$$\frac{\textit{gross doubtful loans}}{\textit{gross loans}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the chapter on Lending operations, under section "Impaired loans" and come to €94.747m and €1,156.225m, respectively.

NET DOUBTFUL LOANS TO NET LOANS TO CUSTOMERS

$$\frac{\textit{net doubtful loans}}{\textit{net loans}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the chapter on Lending operations, under section "Impaired loans" and come to €41.503m and €1,084.575m, respectively.

GROSS DOUBTFUL LOANS TO OWN FUNDS

$$\frac{\textit{gross doubtful loans}}{\textit{own funds}}$$

The amount of gross doubtful loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €94.747m. The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations in the paragraph "Equity and the state of affairs of the Company" and comes to €167.924m.

NET DOUBTFUL LOANS TO OWN FUNDS

$$\frac{\textit{net doubtful loans}}{\textit{own funds}}$$

The amount of net doubtful loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €41.503m. The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations in the paragraph "Equity and the state of affairs of the Company" and comes to €167.924m.

GROSS IMPAIRED LOANS TO GROSS LOANS TO CUSTOMERS

$$\frac{\textit{gross impaired loans}}{\textit{gross loans}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the chapter on Lending operations, under section "Impaired loans" and come to €136,875m and €1,156,225m, respectively.

NET IMPAIRED LOANS TO NET LOANS TO CUSTOMERS

$$\frac{\textit{net impaired loans}}{\textit{net loans}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the chapter on Lending operations, under section "Impaired loans" and come to €70,777m and €1,084.575m, respectively.

GROSS IMPAIRED LOANS TO OWN FUNDS

$$\frac{\textit{gross impaired loans}}{\textit{own funds}}$$

The amount of gross impaired loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €136.875m. The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations in the paragraph "Equity and the state of affairs of the Company" and comes to €167.924m.

NET IMPAIRED LOANS TO OWN FUNDS

$$\frac{\textit{net impaired loans}}{\textit{own funds}}$$

The amount of net impaired loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in the paragraph "Impaired loans" and comes to €70.777m. The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations in the paragraph "Equity and the state of affairs of the Company" and comes to €167.924m.

TEXAS RATIO

$$\frac{\textit{gross impaired loans + buildings}}{\textit{own funds+allowance for doubtful accounts (impaired loans)}}$$

The amount of gross impaired loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €136.875m. The amount relating to buildings is shown in the Notes to the Financial Statements, Part B, table 8.1, items 1.a (€1.950m) and 1.b (€5.328m) and table 8.2, item 1.a (€0.116m).
The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations in the paragraph "Equity and the state of affairs of the Company" and comes to €167.924m.
The amount of allowance for doubtful accounts (impaired loans) used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €66.098m.

PAYROLL TO NET INTEREST AND OTHER BANKING INCOME

$$\frac{\textit{payroll}}{\textit{net interest and other banking income}}$$

The amounts of payroll (€6.930m) used for the calculation of the ratio shown in the Report on Operations in section "Income statement dynamics" correspond to the amounts shown in the Income statement in item 160.a.
Net interest and other banking income was calculated at €21.589m, equal to the value reported in the financial statements (€23.597m) net of capital gains from the sale of loans (€40 thousand) and time reversal write-backs on NPLs (€1.967m).

AVERAGE COST PER EMPLOYEE

$$\frac{\textit{payroll}}{\textit{average number of employees}}$$

The payroll cost, used for the calculation of the ratio shown in the Report on Operations in section "Income statement dynamics", amounted to €6.455m and is found in Table 10.1 of part "C - Information on the Income Statement" in item 1) of the notes to the financial statements.
The average number of employees (78.3) is shown in the Notes to the financial statements, part "C – Information on the Income statement", in the additional table at the end of table 10.2., and it is calculated as a weighted average taking into consideration the effective number of hours for the part-time contracts.

NET INTEREST AND OTHER BANKING INCOME TO NUMBER OF EMPLOYEES

$$\frac{\textit{net interest and other banking income}}{\textit{average number of employees}}$$

Net interest and other banking income was calculated at €21.589m, equal to the value reported in the financial statements (€23.597m) net of capital gains from the sale of loans (€40 thousand) and time reversal write-backs on NPLs (€1.967m). The average number of employees (78.3) is shown in the Notes to the financial statements, part "C – Information on the Income statement", in the additional table at the end of table 10.2., and it is calculated as a weighted average taking into consideration the effective number of hours for the part-time contracts.

TOTAL ASSETS/ AVERAGE NUMBER OF EMPLOYEES

$$\frac{\textit{total assets}}{\textit{average number of employees}}$$

The amount of total assets that was used for the calculation of the ratio shown in the Report on Operations in section "Income statement dynamics" comes to €1,462.601m, as shown in the financial statements.
The average number of employees (78.3) is shown in the Notes to the financial statements, part "C – Information on the Income statement", in the additional table at the end of table 10.2., and it is calculated as a weighted average taking into consideration the effective number of hours for the part-time contracts.

ROE – RETURN ON EQUITY

$$\frac{\textit{net income for the year}}{\textit{equity (excluding net income for the year)}}$$

The amount of net income for the year that was used for the calculation of the ratio is shown in the Report on operations in section "Income statement dynamics" and comes to €3.172m, as shown in item 290. of the Income Statement. Equity (excluding net income for the year) amounts to €168.447m and is the sum of items 130. "Valuation reserves", 160. "Reserves", 170. "Additional paid-in capital" and 180. "Share capital" of Statement of Financial Position liabilities.

RESOLUTION OF THE SHAREHOLDERS' MEETING

With the presence of 111,074,400 shares of 112,470,400 shares that make up the Company's share capital, the ordinary Shareholders' Meeting of 18 April 2019 unanimously

approved

- the report on operations presented by the Board of Directors for the year ended as at 31 December 2018;
- the financial statements for the year ended as at 31 December 2018 (statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the financial statements);
- the allocation of net income as proposed by the Board of Directors.